CMS Oral History Project

The CMS Oral History Project provides information about the history of our programs and their impact upon the nation from the perspective of many key participants. It has been undertaken in several phases over the past decade. The interviews provide personal insights and eyewitness accounts of the evolution of CMS programs. The first series of oral history interviews by Ed Berkowitz, Professor of History at George Washington University and his graduate students, was conducted in 1995–1996. These interviews focus on the early years of the Medicare and Medicaid programs and the creation of the Health Care Financing Administration (HCFA) in 1977.

A second series of interviews, conducted by Dr. Berkowitz, began in 2002. It includes two recent Department of Health and Human Services (HHS) Secretaries and two recent HCFA Administrators. It also includes a number of individuals who participated in Congressional action surrounding the enactment and subsequent repeal of the Medicare Catastrophic Coverage Act of 1988. In 2004, Dr. Berkowitz conducted a third series of interviews with former Members of Congress regarding Congressional consideration of legislation affecting Medicare and Medicaid and some senior HCFA retirees.

When reading the oral histories, keep in mind that each is the memory of a single individual. Read in context with other sources of information. They can add color and context, unavailable elsewhere, to important events. However, the full picture can only be seen when the perspectives of many individuals are combined into a meaningful whole.

Interviews of former HHS Secretaries, former HCFA/CMS Administrators and other former Health Education and Welfare/Health and Human Services (HEW/HHS) officials are first, followed by interviews around specific topics. Within those categories, interviews are arranged by date of public service (in the case of former Secretaries and Administrators) or alphabetical order (in the case of other Department officials, participants in Medicare Catastrophic Coverage Act deliberations, former Members of Congress, and senior HCFA retirees).

Disclaimer: The opinions expressed in the interviews are those of the interviewee. No inference is implied nor should be inferred that they are the opinions of the Centers for Medicare & Medicaid Services or the Department of Health and Human Services. Interviews are made available to the public with the express consent of the interviewee.

Former HEW / HHS Secretaries (Arranged by date of service)		
Interviews	**Date of Interview**	**Topics**
Joe Califano HEW Secretary, Carter Administration.	August 31, 1995	HEW reorganization; rationale for creating HCFA included efficient program administration and leveraging the health programs; Carter's health reform proposal; and activities after Washington.
Louis Sullivan, MD HHS Secretary, George HW Bush Administration.	September 16, 2002	Segregation and his medical education; Medicare Catastrophic Coverage Act repeal; advancing minorities in public service; relationship with President and Mrs. Bush; Veterans' Administration VA/HHS demo; and banning smoking in federal facilities.
Donna Shalala HHS Secretary, Clinton Administration.	August 15, 2002	Clinton health reform proposal; relationship with Mrs. Clinton and Members of Congress; selection of HCFA Administrators; Social Security Administration (SSA) independence from HHS; and challenges facing HCFA.

Former HCFA/CMS Administrators (Arranged by date of public service)		
Interviews	**Date of Interview**	**Topics**
Bob Derzon First Administrator of Health Care Financing Administration, 1977–1978, Carter Administration.	December 11, 1995	Reorganization of HEW that created HHS and HCFA; the merging of Medicare and Medicaid into one agency; and early attempts at cost containment.
Leonard Schaeffer Administrator, 1970–1980, Carter Administration.	August 17, 1995	Value based purchasing and hospital cost containment; the integration of Medicare and Medicaid; the decision to cover End Stage Renal Disease (ESRD); moving the HCFA to Baltimore; President Carter's health care reform; HCFA's research/ demonstration authority; DRGs (diagnosis related groups); and the HCFA mission statement.
Howard Newman Administrator, 1980–1981, Carter Administration.	August 2, 1996	His White House Fellowship experience; community health centers; Medicaid; EPSDT (early and periodic screening, diagnosis and treatment), and managed care.
Carolyne Davis Administrator, 1981–1985, Reagan Administration.	November 8, 1995	Early career in nursing, hospital administration, and University Administration; graduate medical education; development and implementation of hospital prospective payment.

Interviews	Date of Interview	Topics
William Roper, MD Administrator, 1986–1989, Reagan Administration.	August 29, 1995	Experience in County and State Health Departments; White House Fellow; comprehensive health care reform; implementation of DRGs; HIV/AIDS; privatizing Medicare; Resource Based Relative Value Scale (RBRVS).
Gail Wilensky Administrator, 1990–1992, George H.W. Bush Administration.	July 2, 1996	Implementation of regulations regarding physician payment, hospital capital, and clinical laboratories; early career as a health economist; data analysis and survey research on the uninsured.
Bruce Vladeck Administrator, 1992–1997, Clinton Administration.	August 7, 2002	Experiences at the New Jersey State Health Department, Robert Wood Johnson Foundation, and as a member of PROPAC; hospital reimbursement systems; nursing home quality; HCFA moving into a new building, the reorganization of HCFA; and President Clinton's health reform proposal.
Nancy Ann Min DeParle, Administrator, 1997–2000, Clinton Administration.	August 22, 2002	Experience in Tennessee state government; President Clinton's health reform proposal; the Office of Management and Budget; the reorganization of HCFA; implementation of the Balanced Budget Act of 1997 including the Medicare education program and the State Children's Health Insurance Program; and Y2K.

HEW / HHS Officials and Others Involved in the Early Years of the Programs and the Agencies (Arranged in alphabetical order)		
Interviews	**Date of Interview**	**Topics**
Fred Bohen Executive Secretary to Secretary Joseph Califano (1977–1979), Assistant Secretary for Management and Budget (1979–1981), Department of Health, Education & Welfare, Carter Administration.	September 13, 1996	President Johnson's Great Society; government organization and management; The Heineman Commission; running for Congress in 1970s; working in the Office of the Secretary (HEW) on managerial issues, the creation of HCFA.
Hale Champion Undersecretary, Department of Health, Education and Welfare (1977–1979), Chairman of the National Commission for Health Insurance, Carter Administration.	August 9, 1995	Social Security Administration; Medicare and Medicaid; the creation of HCFA; Professional Standards Review Organizations (PSRO); health care reform / national health insurance initiatives.
Jay Constantine Congressional Staff, 1962–1981.	August 24, 1995	Senate health committees on Medicare and Medicaid issues in the 1960s and 1970s; the creation of HCFA; Senate Finance committee efforts on hospital cost containment.
Rick Cotton Deputy Executive Secretary to Fred Bohen, Department of Health, Education & Welfare, Carter Administration.	October 4, 1996	The reorganization of HEW and creation of HCFA; Carter's national health care plan.

Interviews	Date of Interview	Topics
Karen Davis Deputy Assistant Secretary for Planning and Evaluation, Department of Health, Education and Welfare, (1977–1980). Administrator of the Health Resources Administration (1980).	September 7, 1995	Federal (health care) budget; major legislative proposals developed by the office of the Assistant Secretary of Policy Evaluation on hospital cost containment, national health insurance and the Medicaid expansion to pregnant women and children; diagnosis related groups (DRGs).
William Fullerton First Deputy Administrator of Health Care Financing Administration, Carter Administration.	October 20, 1995	Enactment and early years of Medicare program from SSA and Congressional perspectives; and broader health and welfare reform debates in 1970s.
Clifton Gaus Administrator of the Agency for Health Care Policy and Research, Clinton Administration. Served in the Department of Health Education, and Welfare, Carter Administration.	September 10, 1996	This interview has not been released for public use.
Paul Ginsberg Served in the Department of Health, Welfare and Education in the late 1960s.	August 22, 1995	A health economist, this interview covers a wide range of topics, including: the Price Commission/Economic Stabilization program; experience working in the Congressional Budget Office; hospital cost containment; the Physician Payment Review Commission; and physician payment reform.

Interviews	Date of Interview	Topics
Louis Hays Acting Administrator (3/1989–2/1990); Head of the Child Support Program (1975–1981).	September 5, 1995	Creation of HCFA; the Office of Child Support; managing Medicare contractors, PROs, survey and certification, and HCFA regional offices; and nursing home regulations.
Benjamin Heineman Executive Assistant to Secretary Califano.	October 24, 1995	Creation of HCFA; being part of the HEW teams on welfare reform and cost containment.
Arthur Hess Deputy Commissioner and Acting Commissioner of the Social Security Administration under Secretary Weinberger.	July 8, 1996	The early days of Social Security, the Bureau of Old Age and Survivors' Insurance; Disability; the decision to use carriers and fiscal intermediaries to pay claims; and the Civil Rights Act.
William Hsiao Acting Chief Actuary for Medical Programs at the Social Security Administration, Nixon Administration.	August 23, 1995	Expert on national health insurance; principal investigator on resource-based relative value scale (RBRVS) payment system.
Philip Lee, MD Assistant Secretary for Health, in the Department of Health, Education, and Welfare, Johnson Administration and Clinton Administration.	November 27, 1995	Advocating for enactment of Medicare as a physician; the role of the Public Health Service in integrating Southern hospitals; developing a reproductive health policy in HEW; pre-paid capitation in California; medical education and manpower issues; national health insurance; and chairing the Physician Payment Review Commission.

Interviews	Date of Interview	Topics
Thomas McFee Assistant Secretary for Management, Planning, and Technology, Carter Administration.	September 14, 1995	Reorganization of the Department of Health, Education and Welfare, creation of the Department of Health and Human Services and HCFA; National Health Insurance.
Joseph N. Onek Chief health person on the domestic policy staff for the first two years of Carter Administration.	August 10, 1995	Hospital cost containment legislation and welfare reform.
Paul Rettig Staff Director, Health Subcommittee, Ways and Means committee, 1976–1985.	August 14, 1995	Experience at SSA and HEW; Social Security disability; before and during the early days of the Medicare program; home care; disability and ESRD under Medicare; national health insurance; creation of HCFA; hospital cost containment, and the hospital prospective payment system.
Dorothy Rice Director of the National Center for Health Statistics, 1976–1982.	August 19, 1996	Health research and statistics; the “Survey of the Aged” in 1963; and the foundation for CMS's data systems.
Robert Rubin, MD, Assistant Secretary for Planning and Evaluation, 1981–1984.	August 16, 1995	Office of the Assistant Secretary for Planning and Evaluation; hospital prospective payment; and the creation of HCFA.

Interviews	Date of Interview	Topics
Patricia Schoeni First Director of Communications at the Health Care Financing Administration, 1977–1980.	August 19, 1995	Creation of HCFA; SSA; the Public Health Service; and payment policies.
M. Keith Weikel Commissioner of the Medical Services Administration (Medicaid program), 1974–1977, Ford Administration.	September 29, 1995	Evaluation of program effectiveness; national health insurance plan; HMOs; Professional Standards Review Organizations (PSROs); utilization review; and the Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT).
David Weinman Special Assistant to the Director of the Social & Rehabilitative Service, Department of Health, Education and Welfare.	August 18, 1995	Reorganization of the Department of Health, Education and Welfare; merging Medicare, Medicaid and Quality.
Paul Willging Deputy Administrator, Health Care Financing Administration, 1981–1982, Reagan Administration.	June 26, 1996	Experience with Medicare and Medicaid; the Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT); the creation of HCFA; oversight of carriers and fiscal intermediaries.
Don Wortman Acting Administrator, Health Care Financing Administration, Carter Administration.	July 11, 1995	Social Security Administration, Social Rehabilitation Service, Child Support Enforcement; reorganization of HEW to join Medicare, Medicaid and Quality under one organization.

Participants in Medicare Catastrophic Coverage Congressional Action, former Members of Congress, and senior HCFA/CMS retirees (Arranged in alphabetical order)		
Interviews	**Date of Interview**	**Topics**
William Archer (R-TX) Former Chairman of House Ways and Means committee	June 9, 2004	Topics include: service on House Ways and Means committee, running for office in Texas, healthcare in Texas, need for malpractice reform, and the challenges of controlling the growth in health spending.
Brian Biles, MD Former House Ways and Means committee staff.	October 9, 2002	Health policymaking in the House and Senate in recent decades; balancing the need to control the growth in health spending with efforts to increase health insurance coverage; and Medicare Catastrophic legislation.
Chuck Booth HCFA retiree	March 29, 2004	Early years in the Social Security Administration, launch of the Medicare program, early years of the Medicare program in systems, and moving to more automated bill processing.
Sheila Burke Former staff to Senator Robert Dole.	September 19, 2002	Working for Senator Dole in a variety of roles, repeal of Catastrophic and its impact on subsequent health legislation.
David Durenberger Former Senator.	March 31, 2004	Career in public service; health care finance; health care innovations in Minnesota; Medicare Catastrophic legislation; Medicare drug benefit, and the Clinton health plan.

Harvey Friedman Blue Cross Blue Shield Association retiree	December 15, 2004	Working for Blue Cross Blue Shield Association in Chicago; launch of the Medicare program from a contractor's perspective including payment, administrative, and operational reforms over several decades.
William Gradison (R-OH) Former Member of House Ways and Means committee	March 5, 2004	Topics include: early years in politics in Cinncinnati, Medicare hospital payment reform, Congressional committee jurisdiction issues, Catastrophic and its repeal, Clinton health reform, history of health reform in the U.S.
Chip Kahn Former House Ways and Means committee staff.	August 22, 2002	Working in a variety of political campaigns and Congressional positions as well as Catastrophic legislation.
Judith Moore HCFA retiree	April 21, 2004	Early years of the Medicaid program, creation of HCFA, efforts at health reform in several Administrations
Patricia Neuman Former House Ways and Means committee staff.	August 27, 2002	House Committee staff reaction to organized opposition to Catastrophic legislation, efforts to save it and subsequent repeal.
Wendell Primus Former House Ways and Means committee staff.	August 14, 2002	Medicare Catastrophic, working for Chairman Rostenkowski, and Clinton era welfare reform legislation.
John Rother AARP official.	August 27, 2002	AARP's advocacy for the proposed law, communication with beneficiaries, subsequent repeal and its impact on health reform more generally.

Dan Rostenkowski (D-IL) Former Chairman of the House Ways and Means committee.	December 4, 2002	His lengthy political career, including changes in Congress; his relationship with Presidents; and the repeal of Catastrophic.
Marina Weiss Former Senate Finance committee staff.	July 17, 2002	Enactment and repeal of Catastrophic, working for Secretary Bentsen at Treasury Department on Clinton health care reform, and move to March of Dimes.

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Interview with Joseph Califano

New York City on August 31, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: I'd like to ask you about the Health Care Financing Administration and a little bit about health care politics in the 1970s. Let's talk first about HCFA. If you talk to others, as I have, about the starting of the Health Care Financing Administration, people in the White House, they all say, "That was Joe's idea. You'd better ask him about it." So my first question is, was that your idea?

CALIFANO: Yes. What happened was after I was appointed I started I did two things from Christmastime until January 20th, which was to focus on people. I was interviewing maybe 10, 15 people a day and looking at the way Health Education and Welfare (HEW) was organized: where the money was, where the people were, what the functions were. We put together a series of charts that started with the department and then took each piece of the department. A couple of things became clear to me. One, when I went to HEW, the Secretary had about 50 people reporting to him, a preposterous span. Second, the common functions, whether it was health or cash payments or what-have-you, were not broken up in a functional way. They were broken up in a political way.

The political way was to keep Welfare and Medicaid, and poor people in one place and to keep old people in another place. The fact that Medicare was passed as an amendment to the Social Security Act was really a political decision. That was politically the most feasible way to create a trust fund and create a program that would get health care to old people, but Medicare was basically buying health services. And Medicaid was hooked onto the Welfare system, because that was the only way we could pass Medicaid in 1965. The whole thing that Johnson had with Wilbur Mills was also a political accident. Mills basically was angry because the Kerr–Mills health care bill, which provided some health care to poor people, he thought would help the South.

Five industrial states got 90% of the money. So Johnson said, "Wilbur, the way we'll do this is we'll create Medicaid. We'll hook it to Welfare so that anyone who's eligible for AFDC (Aid to Families with Dependent Children) or Supplemental Security Income (SSI) will be eligible for Medicaid, and maybe a few other people. We'll leave some flexibility in for the states. We'll create this concept of “medically indigent.” So that was hooked to Welfare really because that was the political way to get health care to old people. But when

you looked at, "How do you run this damn thing?" If you want to run it efficiently, you put all the health together; you put all the cash payments together. That was the concept of moving the Welfare program into the Social Security Administration and moving Medicare and Medicaid together in the Health Care Financing Administration.

BERKOWITZ: And you arrived at that idea while you were Secretary in January or before then?

CALIFANO: Between December 23rd when I was appointed and the end of January. When I got to HEW, I then had Hale Champion and Tom Morris and Bruce Cardwell, the Social Security Administrator. Mostly Hale and myself and Tom Morris, but also Bruce. This was before Tom became Inspector General. Hale was my Under Secretary. We had Tom working right in an office next to me because I just didn't want any leaks. It was part of reorganizing all of HEW. We actually were so worried about leaks that I had all the charts made in the Pentagon.

BERKOWITZ: Some people might say if they were cynical, that this was Joseph Califano who is billed as a Washington insider, which was a double-edged sword in 1977, but nonetheless knew how to get things done, and this was your effort to read Carter. That Carter was big on this reorganization, and you knew he'd be receptive, and therefore you went ahead on this as an early initiative, which showed that you could get stuff done. How would you critique that reading of the events?

CALIFANO: Carter wanted the government run efficiently, but that really wasn't the basic reason. I wanted to prove that the Great Society programs could be managed. That was number one. Number two, I wanted to get across to the liberals that you had to have competence and efficiency as well as compassion. There was no sense of efficiency among the liberal establishment, no sense of what that meant. For example, the Child Support Enforcement program. I went after fathers in the Welfare program with Russell Long. The liberals were all aghast in those days at doing that. I found out there were a billion dollars in college loans unpaid, and we hadn't sent anybody any bills. Nobody pays bills they haven't gotten. It was a way of getting it done.

It's a digression, but I want to deal with your point. Leo Kornfeld was running ADP, the check writing company, Automatic Data Processing. I went to him and said, "I want you to take over this college loan program and get these damn things paid." HEW kept records on shoeboxes, index cards. I couldn't get Leo and seven or eight people on the payroll fast enough, so I had them create a non-profit corporation so we could get started on the

thing, gave the corporation the job, and then ultimately we worked through Civil Service and brought them into HEW.

It was crazy to have Medicare and Medicaid separated. We lost all the leverage. And that's what it was about. The overall reorganization of HEW was to make it so I could run it, or anybody could run it. Sure, Carter wanted the government to be more efficient. That's one of the things he ran on. That's one of the things I admired about him. He understood the importance of that issue. Indeed, if we had more of that, we'd have less of what we have today in terms of the tremendous reaction to waste in the social programs.

BERKOWITZ: Did you talk to anybody? For example, this SRS (Social Rehabilitation Services) which was essentially being reorganized out of existence. That was originally the brain child of John Gardner when he was Secretary. Did you call him and say, "John, I'm thinking about taking out SRS. Got any ideas about what I should do?"

CALIFANO: I didn't call John. To be honest with you, this was done very tightly. I thought any leak would make it almost impossible to do. I was ready to announce it when I briefed the President. We gave it a couple of days between that briefing on March 3rd and announced it on March 5th. I didn't even want to take a chance over there at the White House. By the time I briefed the President I was all set to go, and I did it with a very small number of people. Indeed, I didn't talk to Tom Tierney until the day we announced it. I called him that morning. I thought it was right. I'd been immersed in the whole place for six weeks, and I realize that doesn't make me an expert, but these were fairly broad strokes. [Don] Wortman was involved too. These were basically career government employees. I wasn't dealing with guys that were coming to do some political thing. If they'd thought I was crazy, they would have told me I was crazy. I used as a lawyer Dick Beatty who now runs Simpson, Thatcher and Bartlett. I just said, "I'm going to do it. You've got to find a way to make it legal. We're not going to go to Congress, we're not going to get a law, we're not going to do anything else. We're just going to do it."

BERKOWITZ: And your instructions to Wortman and these others were, "I have these basic ideas that income maintenance should be with income maintenance, health should be with health. You work out the details." Or were you more explicit than that? Did you say, "I want Medicare and Medicaid to go together, I want AFDC out of SRS"?

CALIFANO: I said I wanted Medicare and Medicaid together. I gave them the big pieces like that, but I also followed this every inch of the way. I didn't say, "Go and then come back to me in three weeks." I'm sure I met

with them ten times, certainly with Hale and Tom Morris, as this was being put together.

BERKOWITZ: As those six weeks were going by that these people were working on the plan and you were writing maybe a weekly memo to the President saying, "Here's what's happening at HEW." Did you say anything about this? This was really kept confidential even from the folks in the White House.

CALIFANO: Yes. I didn't want any leaks. If you look what happened, if you get the Congressional Record the day after we announced it—the day we announced it—John Brademus went ballistic on the issue of consolidating rehabilitation services. We had this array of Disability programs scattered all over the department. If I could have, I would have repealed all of them and had one Disability program.

BERKOWITZ: Brademus was very big on vocational rehabilitation, which had been the cornerstone of the Social and Rehabilitation Services.

CALIFANO: And when they went to form the Department of Education, they moved some of that stuff in there just because they were angry. It had nothing to do with logic. He [Brademus] was very angry, several people up there were very angry, but there was no other way to do it. If I'd thought I knew another way to do it, I would have done it. It would not have gotten done. When we ultimately moved Medicare and HCFA out to Baltimore and actually consummated the physical move of workers together, I said to Leonard Schaeffer, "You've got to get this done. We're going to announce it and do it. It's going to be done before Congress comes back into session." It was late '77. I knew if I did it while Congress was in session they'd say, "Let us have a hearing. Let us do this and that. Can't you hold it up? Why are you so arrogant?" I remember Mac Mathias and Gladys Spellman both raising hell publicly, but then both of them calling me up privately and saying, "We're glad you're doing it. This is the way to do it. Don't worry about it. Go get it done." But these things are not easy.

I originally hired Bob Derzon. It was my mistake. I was so focused on over-hospitalization as the killer in our health care costs, that I brought in Derzon who I thought knew hospitals. You learn as you go along. Fortunately I think I was absolutely right about putting Medicare and Medicaid together, but I was wrong about the talent needed to run it. As I got to understand what they did, I realized that we needed a really tough son of a bitch who could administer something, who understood systems, and could get the right systems in place. We were writing twenty million checks (?) a month. Incredible. And that's when I fired Derzon and brought in Leonard Schaeffer. And Schaeffer was the right guy. I was lucky.

BERKOWITZ: Was it Hale's idea to bring in Schaeffer?

CALIFANO: We originally brought in Schaeffer as the Assistant Secretary for Management and Budget. Did you ever read *Governing America*

BERKOWITZ: Yes.

CALIFANO: I had Jim Gaither—Jim Gaither gave three months of his life. It was incredible. That's what made HEW. If you had to say who did HEW, I had a guy that was really out there getting me the best people. I interviewed two or three people for the Management and Budget job. I don't know where Schaeffer's name came from. You'd really have to look in the files.

BERKOWITZ: Hale knew him from having worked in Illinois for Governor Walker in Budget Office.

CALIFANO: He ran the Mental Health system out there for a while. That may have been how he got into the pot. I just don't know.

BERKOWITZ: How about Derzon? How'd he get into the pot?

CALIFANO: I don't know. That you really would have to talk to Jim Gaither about. Jim Gaither was there and when he left I brought in Peter Bell because the one thing I learned in the first ninety days was that executive recruitment at HEW was a permanent job. There were so many jobs that were critical to making the place roll that somebody had to be doing nothing but looking for talent. I brought in Peter Bell and he did international programs and recruitment.

BERKOWITZ: Let me take you back now to the White House briefing for the President on HCFA and on HEW reorganization. What are your memories of that? Presumably a few days before you called up Hamilton Jordan or someone and said, "We'd like to come over and do this."

CALIFANO: It would have probably been Eisenstat [Stu Eisenstat] or the President, either one.

BERKOWITZ: And you said, "We'd like to make an appointment to talk about reorganization." That took place in the Cabinet room?

CALIFANO: Yes. There's a picture of that in *Governing America*, I think. There were several pictures taken, I remember that.

BERKOWITZ: In the room, as you describe in *Governing America*, Hale was there, and you were there. Hamilton Jordan I think was there. [looking at the book]

CALIFANO: It was Tom Morris and myself, Eisenstat, Jack Watson, Mondale, the President, Harrison Wellford, and I guess that's Hamilton Jordan next to President Carter, partially obscured.

BERKOWITZ: Do you remember the President's demeanor when you went through this exercise?

CALIFANO: He was ecstatic. Literally his eyes were just bulged, and Mondale was very happy because Mondale had recommended me to Carter. Here was somebody coming in and really delivering something that he wanted. Then Dave Broder of the Washington Post did a fantastic story, front page, big headline, lead story. This is what Carter's all about. It went very well. That briefing went very well. The President was ecstatic. After the announcement to the press, I then had a series of meetings in the HEW buildings with all the employees we could cram into each floor. I said, "This is step one. This gives us the machinery and now we're going to run this place—coming in after Nixon, after Ford—we're going to do the things that we're supposed to do." It all went very well.

But what I learned about Washington, it was the first time I really started to appreciate how locked into special interests the Democratic Congressmen were, and, secondly, how distrustful they were, because of the sourness of Nixon's not enforcing the laws for eight years, what that had done, and, thirdly, how jealous they were of their power. In a funny way, it really didn't make any difference to the barons on the Hill whether the guy in the White House was a Democrat or a Republican; they didn't want too much power in the executive branch any more. I was struck by that and recall telling Hale, "This town has changed."

BERKOWITZ: That's interesting. It was your initiation back into the power game there. What about the results of that? There's a quote from Robert Ball, who obviously is a self-interested observer, who said that the creation of HCFA produced only an average result. The superior Medicare program went down a little bit and the inferior Medicaid program went up a little bit. The net result, he was implying, was zero. Do you think that's fair or do you think this really achieved the sort of synergy and management efficiency that it was intended to?

CALIFANO: I think it achieved some management improvement, some savings. I think more importantly it helped to focus the department on costs, on efficiency, on driving home these things. It also dramatizes that doctors

get paid less for Medicaid patients than they do for Medicare. If I had had the power, if we had had our national health plan, we would have merged Medicare and Medicaid. I've always thought that it should be one program with some kind of employee mandate for the rest of the country, but that just wasn't to be. It's a political accident and a political reality that poor people have less clout than old people, that they're separate programs.

BERKOWITZ: How far does this logic of reorganization extend then? Why not have a separate Disability bureau, if we can have Vocational Rehabilitation and Social Security Disability Insurance (SSDI) together? Why did you oppose the Department of Education, which you could say is just another step in the same direction?

CALIFANO: The reason the Department of Education made no sense to me, and still makes no sense to me, is that basically the Department of Education does two things. It hands out elementary and secondary education money. That's done by a formula, it's a negotiated treaty on the Hill now, and we just write the checks. But when you write the checks they're for schools that are full of people who are on Welfare and who are getting Medicaid. So I think that it helps to have all of that together because it's focused on the poorest people in the country, and it makes you better able to see them as people rather than see them as a kid in school, rather than somebody getting a Welfare check, or as somebody getting a little health care.

The other function is the higher education program, and that really is a check writing operation too. You're giving grants and loans to a bunch of students. We're not really administering that program; the universities are. If you look at those two functions, I don't believe the federal government has a major role in terms of academic standards or excellence. Thirdly, I think when you create a Department of Education, I worry to this day about the intrusion of government on the academic community. I used to talk to Derrick B [President of Harvard] about it and to Giamatti. Some of the things colleges and universities are living with now, the civil rights issues and the investigations that they have sparked, the fact that with federal money goes federal interference—there's no federal money without strings—and the dependence of some of these universities on federal money, to get this all concentrated in a Cabinet department I didn't think made a lot of sense.

BERKOWITZ: So it was more than turf?

CALIFANO: Oh, yes. Fred Bohen is somebody you ought to talk to. Actually Bohen was involved both in HCFA and all of this stuff. I should have mentioned him. He and Hale were involved in everything that we did in this area, of course. He's [Bohen] over at Rockefeller, he's the chief executive of

the Rockefeller Institute here. It was not turf, no. There was no turf. Grace Alvarez came to me with the Community Relations Administration about six months into the Carter administration. She said, "I want to fold this into HEW." I said, "Why?" She said, "We're hanging out there with half a billion dollars and it's a disaster. It's really just a pork barrel for Congressmen. I have no power. I can't do anything." I said, "I don't want to get into that. I have enough problems." It probably belonged in HEW, but I said, "I've got more than enough problems." This was not a turf issue. What I didn't realize was the level of the commitment Carter had made to the National Education Association.

BERKOWITZ: And for some reason Senator Ribicoff was keen on that Department of Education.

CALIFANO: Ribicoff basically couldn't run HEW, and he didn't think it was runable. When I went to see him—my courtesy call—he said, "It can't be run," so he couldn't admit that it could be run.

BERKOWITZ: That's interesting. I want to talk also about hospital cost containment in the Carter administration. The bottom line question is why we didn't get it. If you look at that proposal today it seems a very heavy-handed regulatory mechanism that would not fly in the modern policy environment. Do think there was a chance to get that hospital cost containment measure?

CALIFANO: I think we ran into for-profit hospital money. I think Michael Bromberg was very smart, absolutely first-class, he really knew what he was doing. I also think—God knows I made plenty of mistakes in the course of that—we didn't lay the groundwork. The case got made after the law went up there, if you will. We could have done a lot better at making the case in advance and starting to build a constituency.

Number two, we really should have gone through Congressman by Congressman to make sure we had a Democratic majority before we unleashed that bill within the subcommittees and the committees within Ways and Means, and Senate Finance and Government Operations committee, Paul Rogers' subcommittee. We actually got it out of Paul Rogers' subcommittee, but we couldn't get it out of Rostenkowski.

Thirdly, Carter made some political mistakes with Rostenkowski. Basically, Rostenkowski wanted his guy that ran the HEW regional office to be one of his cronies. I interviewed him and I talked to Carter about this matter. The guy was incompetent. That's a given. He could not run that office. Twenty-five billion dollars was going through that office, or some staggering amount. But I came up with the idea of making him the regional guy for HEW,

making Wilbur Cohen's son the deputy, making Rosty's guy a ribbon-cutter, cutting a deal with Rostenkowski in which this guy would leave at the end of the year. So we'd put him in sometime in '77 and he'd be out in a year, and he wouldn't do anything. Cohen would run the place. Rostenkowski would have bought that, but the President wouldn't buy it. He thought it was a corrupt kind of deal. I just hit Carter at the wrong time. I remember him saying, "All these guys want is these regional directors' jobs. I'm sick of it. They don't care about the country." It was a bad day.

If you work day in and day out for somebody like Lyndon Johnson you get to know him, you know when bad days are. Unfortunately when you're in the Cabinet you see the President rarely and you don't know when you're going to walk in there on a bad day. Something had really soured him on regional directors and he wouldn't do it. I think I said to the President at that time, "You'll never get hospital cost containment. A guy like Rostenkowski is simply not going to do it." And then Rosty became a great promoter of a voluntary program and a real enemy on that subject, so we couldn't get it out of the House Ways and Means committee until Charlie Rangel became chairman. Rangel was one of my oldest friends in Congress. I'd recommended him to Johnson to be counsel for the Commission on Selective Service. He was an Assistant U. S. Attorney up here in New York. So Charlie was ready to go and we got it out, but the bill was slaughtered on the floor.

BERKOWITZ: Who was a player at that time? Was Joe Onek someone that you dealt with on that issue?

CALIFANO: No, on this issue I dealt with Eisenstat. The other problem was that Frank Moore, Carter's Congressional liaison, just tore it with the Speaker and most of the Democratic leadership. He really tore it. I got the Speaker to set up a special committee on Welfare to put Agriculture and Labor and Ways and Means Committees together to do Welfare reform. Tip [O'Neil] was having a lunch with Tom Foley and Al Ullman and the chairman of Labor. Frank Moore arrives in the Speaker's outer office, and I arrive and I'm intercepted before I get to the outer office by his secretary and she says, "The Speaker wants you to go in this way." I go in the back door and the Speaker says to me, "That guy's not coming near this lunch." That was fine with me. What was I going to say? We just walked out the side door and left Moore sitting there. So we really had no significant White House support.

Contrast that with what it would have been like if I'd been at HEW and Larry O'Brien had been in the White House with LBJ. So we were doing it ourselves. Dick Warden who worked for me was better than the whole White House Congressional operation put together. The guy we dealt with was Eisenstat. I had very little dealing with people at the White House except for Eisenstat.

BERKOWITZ: Let me ask you one last question. Hale Champion tells the story about how you went to Memphis to help out Congressman Ford, and you came back and said something like, "All these people are from these health care places. They are the real money now. They're really running things," as if that was a real revelation. It seems to me that, that was a turning point in your career, that after this experience at HEW you got really involved in the health side and saw that as the crucial issue. Is that true? Is this one of the things you took away from HEW?

CALIFANO: Yes. When I went to HEW I wasn't consumed with health. I will say Bob McNamara told me he thought health was a big issue and I should look at it. This was before I went in and I was talking to people. When I started to really understand it, it became clear to me that if you looked at that department Social Security was running on autopilot. Anything we did with Social Security in administration as distinguished from policy, was going to be tinkering with problems.

The Welfare program was important, but as I said in the book, at the time it was really the Middle East and domestic politics. But health care was growing so fast it was eating everything up, and health care was something we could do something about and the country needed to be educated about. And Carter wanted a health promotion program which is what got me into smoking and all that stuff basically. Yes, I really got interested in health care. I began to think that the country didn't understand it, and I wrote *America's Health Care Revolution*, about which somebody yesterday said, "It was 1984 or '86 when you wrote that and it's so prescient." I said to him that anybody that got immersed in this subject had to see that stuff. So, yes, it had a tremendous impact. There's no question about it.

And when I got out two other things happened. One was Carey, when he was Governor of New York, had a terrible political problem with heroin. He was really getting hell kicked out of him for so much heroin in the state. He asked me to come up and look at it, and I said I'd look at heroin if I could look at alcohol. And I saw what an unbelievable impact alcohol and drugs were having on hospital systems in every city in the state. Then Iaccoca came and asked me to go on the Chrysler board and I turned him down the first time because I was still tied up with starting my law firm in 1980. Then he called me about four to six months later and had me come up here to New York. He said, "You've got to meet me in New York, I've got to talk to you." We spent three hours talking about health, and he said, "I can't save Chrysler unless we get health care under control. You can do it and I want you to go on the board. We'll set up a committee of you and me and Doug Frazier." Iaccoca said he didn't want to fuck up the system and we've got to deal with it. And I really got into it at Chrysler. I knew what we could do.

Chrysler was a dream, in a sense, for me, because unlike the government, we could put in the screens. I thought I knew what would work. The Company was in extremis. The first thing we did there was we offered the UAW (United Auto Workers) a check for a thousand bucks if they would take a system in which you couldn't go to a specialist without going through a general practitioner, because I thought that could reduce costs by 30%, that alone. But the UAW wouldn't buy it, just wouldn't buy it. Then I realized the UAW didn't trust us, so we went through a long, tedious set of discussions with Doug Fraser and the union people. We started to put in all the old screens, and in the first year of operation on a budget of maybe less than $300,000,000 we saved $52,000,000 on hospital costs. Just by the simplest kinds of things that are now what everybody's doing.

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BERKOWITZ: Okay, today is September 16th and I am here in Washington, D.C. with Dr. Louis W. Sullivan, the former Secretary of Health and Human services. And let me begin by asking, you are the second doctor that ever became a Secretary of Health and Human Services, and I guess the last one.

SULLIVAN: Yes.

BERKOWITZ: And I'm curious about that, how one would lead to another. Did you foresee for yourself from the beginning a role beyond clinical medicine in terms of administration and the like or—

SULLIVAN: Well, administration within the academic medical community because I had been—years ago, of course, my training was in internal medicine with subspecialty training in hematology and hematology research. I had established the long-range goal of becoming chairman of a department of medicine in a medical school by the age of 45. So, from that standpoint there was that interest in administration, but not beyond that. As it turns out, of course, I never became chairman of a department. I was recruited from Boston University where I was a professor of medicine at age 41 to become dean of the medical school that was being developed by Morehouse College. So I really took a leap from being a professor to becoming dean of the new medical school.

The essential link there that made that happen was this was my college alma mater, because I never would have considered anything like that someplace else. But, because of my allegiance to the college and my desire to participate in the formation of a significant institution, that's how that happened. So from that point I really became more and more involved in administration and of course had not anticipated then becoming involved in government. But I got to know then, Vice President George H.W. Bush, when he came down to speak at the dedication of our first building we had constructed for the medical school in July of '82. And that struck up a friendship that developed so that when he was elected president he asked me to join him as U.S. Secretary of Health and Human Services.

BERKOWITZ: I want to ask you about that. But let me just ask you first about your life. Did you grow up in Atlanta?

SULLIVAN: Well, I was born in Atlanta at Grady Hospital, the large public hospital there, though when I was really less than a year old my folks moved away—which was during the Depression, because I was born in 1933. And my father was a life insurance salesman. And of course no one buys life insurance in a Depression. They have more immediate concerns. So he left with the family from Atlanta and moved to Albany, Georgia to become partner in a funeral home there. And after two years with that he then moved to a small rural community 60 miles west, Blakely, to establish his own funeral home.

So my early years, I guess starting at kindergarten on, were in Blakely up until I was in the fifth grade. Because the schools in rural Georgia in those years of segregation were so poor for blacks, my parents, who were quite committed to education, sent my older brother and myself, the two of us, first to Savannah for a year and then back to Atlanta—from sixth grade on I attended public schools in Atlanta, graduated from high school there. So in a sense, I was born in Atlanta, early years in rural Georgia, and then from sixth grade on, most of the time in Atlanta. Then, of course, Morehouse College in Atlanta once I finished high school.

BERKOWITZ: So if I can ask you, you were how old in 1954 when the Brown decision came—still in school, right?

SULLIVAN: I was 21. This is May of '54, so I was 20 because I became 21 in November of ‘54, right.

BERKOWITZ: So you were already through your primary and secondary education.

SULLIVAN: Yes.

BERKOWITZ: Pretty much a segregated system?

SULLIVAN: Absolutely a segregated system. Yes, right. Those were bad days which I'm pleased that they are behind us.

BERKOWITZ: And so where were you in 1956?

SULLIVAN: I finished high school in 1950, finished college in 1954. So I was graduating from college at the time of Brown v. Board of Education. So I went on to medical school in the fall of 1954 and finished Boston University in 1958, because in those years, you know, segregation was still in Georgia. And I, as a resident of Georgia could not go to medical school in Georgia. So that's how I ended up going to Boston University and the State of Georgia paid the difference in tuition between the medical college in Georgia and Boston University as well as differences in transportation costs.

BERKOWITZ: That's interesting. They spent money to keep the segregation system going. Separate but equal.

SULLIVAN: Yes, right.

BERKOWITZ: That's not well known either.

SULLIVAN: No, actually there's a very interesting history behind that. You've heard of a Southern Regional Education Board? The Southern Regional Education Board was started by the governors in 1948 for the southern states to provide medical education opportunities for blacks in the 11 southern states. That was to Meharry, initially, because Meharry also had financial needs. So this was also to support Meharry. But it then grew from medical education to other fields in higher education. Now it has evolved so that it really no longer has anything to do with segregated education but interstate compacts. For example, LSU has a veterinary school. The State of Mississippi does not.

So there is a contract between the State of Mississippi and the State of Louisiana to provide a certain number of slots for veterinary students from Mississippi in the Louisiana State University School of Veterinary Medicine. So the Southern Regional Education Board, which is a very important regional educational organization, had its origins in this era to help perpetuate segregation.

BERKOWITZ: And so there was Meharry, there was—

SULLIVAN: Howard. That was it. Of 80 medical schools in the country at that time, those were the two that were predominantly black. And, of course, none of the southern medical schools had any black students. And a third of the medical schools in the country are in the south. So that was the reality. And then for other medical schools around the country, there were not many black students there. I was, quote, the black student in my class at Boston University. There were two others in the whole school when I was a freshman there. So whereas there were opportunities around the country, they were really not that generous.

BERKOWITZ: Then what was your expectation that you were going to be an academic doctor, I guess? You mentioned that you wanted to be the head of a medical department, rather than, say, a doctor in a community that—

SULLIVAN: Well, that evolved. When I went to medical school my goal was to become a family physician working in a small town in Georgia and when I entered medical school I knew nothing about academic medicine, various specialty areas. And so in medical school when I really learned about what

the world of medicine was and what it consisted of, I found myself very much attracted to internal medicine because there, you know, the cognitive skills you need to be a good internist are really quite significant. That's opposed to being an ear, nose and throat surgeon or a radiologist or what have you, although one needs certain skills in those areas. And then I also enjoyed laboratory work, including microscopy, which of course hematology involved a lot of that. So really, as a process of evolution I went from the idea of being a family physician in rural Georgia to being an internist and then a hematologist, and then from there to becoming involved in medical research, hematologic research, which is really the career that I pursued.

When I finished medical school I did two years of house staff training at New York Hospital-Cornell Medical Center and then went back to Boston and did a year of pathology fellowship at Massachusetts General Hospital and then three years of hematology training at the Harvard Unit at Boston City Hospital. And at that time my goal was really hematologic research. And then that evolved into the goal of becoming chairman of a department of medicine.

BERKOWITZ: I see. You were a man of science and medicine but you were around Atlanta when the King family was there, and so on. Did you have contacts of that nature or were you sort of outside the civil rights community?

SULLIVAN: Well, first of all, Martin Luther King finished Morehouse College in 1948. I was finishing my junior year in high school when he graduated from Morehouse. Of course, I entered Morehouse in 1950. And, of course, interestingly enough, he went to Boston University Theology School and he left Boston in 1955 to go to Montgomery. And, then there were a number of boycotts in Montgomery and elsewhere. So that's, of course, when he became prominent. I did not know King, nor did I meet him actually until 1964 when he came to Cambridge to speak at Christ Church there when he actually first spoke out against the U.S. involvement in Vietnam. So when I was in Atlanta, you know, the King family had not achieved the prominence that they later did.

BERKOWITZ: Were you aware of his dad though, his being a minister?

SULLIVAN: Oh, yes, yes. His dad was also a Morehouse graduate and we had daily chapel services. And his dad would at least once or twice a year address the group there. His father was a very dynamic speaker. So I knew about him but really didn't know his family.

BERKOWITZ: You knew, of course, the senior King was a Republican by political affiliation, as I guess a lot of people in his generation were. Was that true in your family, too?

SULLIVAN: My father was a Republican. The first political argument that my father and I had was in 1960 when I told him that I was going to vote for John F. Kennedy for president and he was very upset about that. Because in my father's mind, as in the case with many blacks of his generation, the Republican party was the party of Lincoln, who freed the slaves. And the Democratic party, which was really the political party in the South—there was hardly any Republican party—the Democratic party was the party of the poll tax and voter testing strategies to prevent blacks from voting. So, so far as my father and a number of blacks were concerned, their image of the Democratic party, you know, was a very negative one. And, of course, all of that shifted, starting with Roosevelt and the New Deal, so forth.

BERKOWITZ: Your family would have played that out, I guess.

SULLIVAN: Oh, yes. Yeah, right.

BERKOWITZ: So this—let me ask you about this Morehouse School of Medicine. Were you brought in after a sort of structure was there? How much work did you have to do in terms of starting?

SULLIVAN: No, I was recruited back when the college trustees voted to undertake the development of a medical school. So that was in March 1974. And as alumnus for the college, I was asked to serve on a committee that included other Morehouse College alumni who, like myself, were in academic medicine positions around the country.
So this committee was asked to advise the college on this whole concept because the college really had not been involved in medical education. And this committee, interestingly enough, included not only myself but Dave Satcher, because Dave at that time was out in Los Angeles at the King Drew Medical Center affiliated with UCLA.

BERKOWITZ: And later surgeon general, correct?

SULLIVAN: Right, right. Then Henry Foster, who was a classmate of mine who had been nominated to be surgeon general—and remember, was rejected, was not confirmed—was an obstetrician. And Perry Henderson, another classmate of mine who was deputy chairman of the department of obstetrics/gynecology at University of Wisconsin, another classmate, William Jackson, who was on the faculty of the University of Illinois, and other classmates.

Anyway, I think 12 or 13 of us were on the committee. So we came together in the fall of '74. And among the first things we were asked was to give our concepts of how this medical school should develop, what its mission should be, and then to suggest possible candidates for the deanship.

So I got very busy and sent about two weeks later, a list of 11 names along with some thoughts about the medical school back to the college, whereupon about a week later they called me and thanked me for the list but said they were disappointed that it was not complete. And of course as I then started to protest, I was saying, "Well, what do you mean not complete?" I said, "Oh, no, no. I'm not interested." I was at that time professor of medicine at Boston University, had a hematology research laboratory, two NIH grants, a hematology training grant, two fellows training under me in hematology and I was responsible for hematology at Boston City Hospital.

And my wife was from Massachusetts. So, as far as I was concerned, I was very happy. I was interested and wanted to support the college but I had not envisioned myself. Because, quite frankly, you'll see a lot of things that I've been involved in, I say, serendipity. They weren't really the result of a conscious plan.

I never thought of, or dreamed of, becoming secretary. As I mentioned, I got to know the Bushes because Vice President Bush spoke at the dedication of our first building. We started our friendship then. He invited me to go with him to Africa in November of '82, a two-week trip.

Barbara was on that trip with him visiting eight countries and I invited her to come on my board, which she did in January of '83. So my wife and I were coming in once every month or every six weeks to something at the vice president's home, et cetera.

So we got to know them a while, and then I used that to propose one of my trustees to be Secretary of Health and Human Services. And after Bush was elected president I called him the next day to congratulate him and reminded him of my trustee that I previously lobbied him as a good candidate, who had actually been one of the finalists when Otis Bowen, my predecessor, was chosen in 1985.

BERKOWITZ: So this is somebody I should know then?

SULLIVAN: He was a senior executive with a pharmaceutical company, an M.D. and Ph.D., too, I believe, and had been a finalist. And he was interviewed by Don Regan, then chief of staff, as were the two other

finalists. And somehow that interview did not go well, so that was the end of his candidacy and Otis Bowen was chosen.

So when the '88 campaign came around and Bush was doing well, after the June Super Tuesday primaries my trustee then told me that he was interested in trying again to become secretary; would I support him?

I said, "Sure, I'll be happy to. I think you'll be a great secretary." So that's when I first spoke with Bush about him in June 1988. Then a few months later, after the election when I called the next day to congratulate him I again said, "Remember so and so that we have talked about whom you know because he had been at some receptions for the board that Barbara had hosted."

So he called me about a week later and said, "Lou, I'm looking at your man there but I'm not getting the feedback I think I need to really go forward with his name. So I wonder, would you be willing to come up? I'd like talk with you about this." Just that was it.

After that call, what did he mean? Does he mean he wants to talk with me about the candidacy of my trustee or did he mean that he wanted to talk with me about becoming secretary? That was really a puzzle, and I didn't have the nerve to call him back. So when I came up, I had no idea what. This was just before Thanksgiving. So sure enough, that's when he asked if I would join him in his cabinet.

BERKOWITZ: I see. Who else did you meet with besides the president?

SULLIVAN: With Bob Teeter and with Craig Fuller. He was Bush's chief of staff as Vice President. He's now with one of the pharmaceutical drug store chains. I met briefly also with John Sununu. I met with Bush about 30 minutes, who talked to me about it and at the same time he said, "You know, I'm not sure frankly that I'm doing you a favor to ask you to serve because this job has the reputation of being the most unmanageable job in government," et cetera.

"But," he said, "you'd really do me a big favor and the country a great service and I think you would be a very good secretary." So I was flattered. Meanwhile, with this question, I had already talked to the chairman of my board of trustees, and other than saying I was coming up, I wasn't sure but I thought this might be going to happen. I wanted to get some feedback from my board and also I spoke with the speaker of the Georgia legislature, who is still there: Tom Murphy. He's the longest serving speaker now in the country. Because as a private school Morehouse School of Medicine is getting state support and Tom Murphy is a Democrat.

So, one of my concerns in terms of my school, was how he would react. So I went to see him. He is a heavy, tall guy, chews tobacco and puts a stare on me. He says, "Well, I don't know. You know, I don't think there's a dime worth of difference between Bush and Dukakis. So if he offers that to you, you go ahead." So I had his blessing.

BERKOWITZ: Is that the only job you would have taken? Did you think about other jobs like director of the National Institutes of Health. There's a lot of other medical jobs in the federal government.

SULLIVAN: No, that was it.

BERKOWITZ: This was the only one that would really draw you.

SULLIVAN: Yeah, right, because frankly, first of all I'm pleased that I had the opportunity. I'm pleased with my service. But, at that juncture I really was not that interested. I had a new school. Frankly, part of my plan was, with my trustee as secretary of HHS and with Bush in the White House, I would be sitting right there to really—

BERKOWITZ: Get all the money.

SULLIVAN: Yes, right. So that was really, really my plan. But no.

BERKOWITZ: So this was really serendipitous, as you said.

SULLIVAN: Yes, right.

BERKOWITZ: What did you do? Did you start reading about HHS or looking for models of good HHS Secretaries?

SULLIVAN: Well, first of all, when I met with Bob Teeter and—

BERKOWITZ: We'll get that other name.

SULLIVAN: Craig Fuller, yeah. Met with them and I must have spent a couple of hours with them. I spent a half-hour with Bush, a couple of hours with them, briefed me, and among the things of course they, sort of immediately, "Don't talk to the press. Don't say anything to anybody except your wife. Keep a low profile."

Because of what had happened, frankly. I stayed at what was then the Sheraton Carlton Hotel on 16th Street. So I came in the night before and had an 11 o'clock AM appointment. But I was so nervous about a possible problem with planes, I came in the night before. So then I walked from the Sheraton Carlton across Lafayette Park, came over by the entrance to the

White House between the Old Executive Office Building and that circular driveway leading up to the White House.

But there were cars parked in that circular driveway, so when I got there to the security gate they said there was some foreign dignitary visiting, so this was closed for security reasons. They directed me over to the Old Executive Office Building to go in the gate over there.

What had happened is, as I crossed Lafayette Park there were a cluster of photographers and television cameras there. I thought they were there focusing on whoever was in the White House. I got about two feet away from the curb and someone said, "There he is."

The cameras turned around and, "Dr. Sullivan, I understand you are meeting with President-Elect Bush. Is he going to offer you the job of secretary?"

And I said, "I have been asked to meet. I have no idea what." They said, "If he offers you the job, will you take it?" I said, "I really don't know what it is and I would rather not try to speculate." So now I'm trapped out here with this gate closed and I have to walk down with these people trailing behind me. I got through the gate going into the Executive Office going down Pennsylvania Avenue, got up there, and so they typed me into the computer, et cetera.

They said, "Oh, yes, the other gate is now open, so rather than going through here—

BERKOWITZ: The northwest gate, the one next to it?

SULLIVAN: Yeah. "Would you go back there? They'll let you in." So I had to go back and sure enough. But the only thing I could imagine is my wife, who is back in Atlanta, seeing me on television looking like a fool with this cast of people. Well, that was the first and only time I have ever gone to the White House walking. Because everybody else I saw was going in cars. I was so uninformed and so naive about the ways of Washington and all of the interest in political things of the new administration coming in. I had no idea that anybody would pay me any attention. All of a sudden. So when later on in the White House they told me to keep a low profile, I appreciated what they had to say. You have a lot of information. They gave me briefing books. They said they would be sending me things.

And of course I really met with some of the people who were familiar with the department. Do you know Debbie Steelman, by any chance? Well, Debbie Steelman, of course, had been part of Bush's campaign. She was one of the people to brief me on the department and the various people and

names. And actually I had tried to recruit her to be my deputy secretary but she wanted to stay in the private sector. So I had a lot of help from people like her and others to brief me on the department.

BERKOWITZ: In terms of getting confirmed, did you have good relations with your Congressional delegation? I'm not sure how many Republicans there were from Georgia at that time but—

SULLIVAN: Gosh, there was Newt Gingrich.

BERKOWITZ: Of course.

SULLIVAN: Let's see.

BERKOWITZ: Who was close by to you, right? He was from the Atlanta area?

SULLIVAN: Oh, yes, because I knew him but at the time this happened I was no longer in his district. But when he was first elected I was in his district. And he came by the medical school and he was very interested and very supportive of what we were doing. He was very supportive of my becoming, you know, secretary. So he was—frankly, he was the only Republican at that time. But I had to meet with the other members of the Georgia delegation.

BERKOWITZ: Senator (Sam) Nunn and—

SULLIVAN: Right. And of course my instructions then were always just to meet with them. No statements to the press. But of course for congressional courtesy and to get their support I needed to do that. But I had to meet with members of the Senate, Orrin Hatch (R-Utah) and Arlen Spector (R-Pennsylvania), Allen Simpson (R-Wyoming) and Ted Kennedy (D-Massachusetts) on the Democratic side.

BERKOWITZ: (Henry) Waxman (D–California)? Had you had dealings with him?

SULLIVAN: Yes, I met with Waxman. And actually, he knew me and I knew him because I had of course testified before his committee a number of times for things, you know, on behalf of the medical school. He was cordial. Interestingly enough, I guess I would say the average reaction from my Georgia delegation, I think they all were very pleased and very excited. The others like Waxman, Democrats, were correct, cordial, but not overly so. On the Republican side, it was as though I had known them all my life. So I'm beginning to see all these things.

BERKOWITZ: And you got finally on the job officially when, exactly?

SULLIVAN: My confirmation vote was March 1st, 1989. I started then. I was really working within the department but not occupying the secretary's office up until that time because Otis Bowen was staying on until my confirmation.

BERKOWITZ: So now let me ask you a little bit about stuff on your plate there. I'm interested in the catastrophic health insurance legislation which had been passed in 1988 and would be repealed in 1989, very soon after you got on board (in May of 1989). What were your feelings about it? Were you in on that issue? As I understand it, you opposed repeal? Was it—I thought—I understand but I have read that you were reluctant to—for repeal.

SULLIVAN: Yes.

BERKOWITZ: You were kind of keen to keep those additional benefits in Medicare. Is that true?

SULLIVAN: Yes. Basically, the argument that I made, which obviously didn't carry the day, was this: that the Congress had worked and passed it. It had some good features and we should at least wait and give it a chance to see how it works out as they implement it. But that was like water on a duck's back. I think the momentum for repealing it had really become so strong, you know, by the time I was confirmed which was, what, two months before, that that argument didn't carry the day. No, I had hoped to—to indeed avoid that repeal but didn't carry the day.

BERKOWITZ: Who were you talking to about that issue in the White House?

SULLIVAN: I had their blessing, you know, for that. But, you know, they were not particularly happy with it but they were not actively working, you know. This was really, you know, Republicans in the Congress. And of course the other thing was the fact that the seniors were so angry because remember the Rostenkowski incident.

And see, what happened was Congress had passed this and they were patting themselves on the back. And here it was a few months later they were being hounded and chased by angry seniors because the seniors didn't understand at the time that they would have to pay the premiums for this. A lot of the congressional votes, as I see it, were self-defense because it became something that people didn't want to have anything to do with, you know.

BERKOWITZ: When you were secretary did you take more involvement in the health issues because you knew about those? It's such complicated stuff.

The welfare stuff is very complicated. The Social Security stuff is very complicated.

SULLIVAN: Sure.

BERKOWITZ: Even the technical aspects of the Medicare reimbursement is awfully complicated.

SULLIVAN: Sure.

BERKOWITZ: How did you divide up that stuff when you were secretary?

SULLIVAN: Yes, right. No, I really turned over the leadership on those things to several people, you know, in the department. Gail Wilensky on Medicare stuff. Then Jo Anne Barnhart, who is now Commissioner of Social Security, on welfare issues and Gwendolyn King, you know, for Social Security. So my style, frankly, was to consult with them, hear their positions, see if we could poke holes in it and if we could then find solid solutions to support them.

I knew that I could not manage all those things, so I gave the leadership to people directly responsible for the program. So really my goal when I came in, was to strengthen medical research, increase support for the health professions, education, increase minority representation in the health professions, increase minority appointments in the department because I worked—and successfully, I believe—to appoint women and minorities to a number of senior positions.

The first female head of NIH, Bernadine Healy, first female and first minority surgeon general, Toni Novello, a Hispanic; Gwen King, a black, you know, Commissioner of Social Security and also a female. Let's see, not immediately, but my third—I had three chiefs of staff. My third chief of staff was Robin Carl, who had been my executive secretary when I first came in. After the Bush administration was over, she went to the Hill to become clerk of the House, the first female clerk in the House of Representatives in the nation’s history. I also worked to see that women and minorities were appointed in significant numbers on advisory committees for the FDA (Food and Drug Administration), CDC (Centers for Disease Control and Prevention), NIH (National Institutes of Health), and so on.

BERKOWITZ: So that was an issue on which you thought that the prestige of the secretary should be put into?.

SULLIVAN: Yes. When Bush did ask me to be secretary, in a sense I thought that was what was going to happen. I thought this through. What were the things I would want to do? So I talked with him and told him that if

I was the secretary these are the things I would want to really push on: addressing minority health, increasing minority representation and representation of women.

And he said, "Lou, I fully support that." So that was it. So those are the things that I really focused on. The other things where I really had no expertise I didn't pretend to try and do them. And I frankly felt that Gail Wilensky and Gwen King and Jo Anne Barnhart—

BERKOWITZ: It was a great team. Very competent bunch.

BERKOWITZ: And so—and you stayed a long time.

SULLIVAN: The whole four years with the Bush administration.

BERKOWITZ: Which is not that usual for that HHS position.

SULLIVAN: Because when I left I was the longest-serving secretary because Otis Bowen, my predecessor, served 37 months. He had the record when I came in and I served 47 months.

BERKOWITZ: So you stayed because you found the job stimulating or the president compatible, both of those things?

SULLIVAN: Both. I found the job stimulating. I found that in some ways when he could not support me publicly for his own political reasons, I still got quiet support. For example, as you know, I was very outspoken about tobacco use.

BERKOWITZ: Which is another sort of traditional thing for an HHS secretary to take a leadership role on in some ways and you continued that.

SULLIVAN: Sure, exactly. Exactly. So, I tried to get the president to sign an executive order making all federal facilities smoke-free. I was able to get the ash trays removed from the Cabinet Room in the White House. I was able to declare all HHS facilities smoke-free. And I worked towards getting all federal facilities smoke-free.

And when I took this idea to him he said, "Well, Lou, that's an interesting idea but to do something like that we need to put it through clearance," which meant I had to really put it through all of the other cabinet agencies to get their responses.

The State Department came back with objections. They smoked in their treaty rooms. There they are dealing with major political issues, trade and war and peace, and were we going to really have a tense environment

because people couldn't smoke there? So we made an exception for that. The Interior Department said, well, our facilities include things like the Washington Mall. Does that mean that people can't smoke on the Washington Mall? And of course we had to rework the proposal. Basically they were not supportive.

But to make a long story short, we started this in January of '90. We finally got the thing finished in January of '93 about 10 days before the end of Bush's term. We had gotten sign-offs for all of the cabinet agencies except the ones who opposed it, such as Agriculture.

BERKOWITZ: They have their own constituency of tobacco farmers I suppose.

SULLIVAN: Yeah, right. And then Interior, although we had a good reaction from Secretary Manuel Lujan Jr. But, to make a long story short, this damn thing disappeared. Nobody in the White House could find it. Well, now, one of Bush's aides over at the White House had worked for Philip Morris and when he left the White House he went back to work for Philip Morris. I can't prove this, but my suspicion was that he made that document disappear.

It finally showed up the day before Bush was to leave office, I think the morning of the 19th. And I called over. So he spoke to me and said, "Lou, we've finally gotten this thing you've been talking about. It's here. But, you know, this is such a sweeping thing I don't think I should really sign something like this. I'll leave it for President Clinton to decide what he wants to do."

I said, "In a sense that's not fair to him to kind of dump this on him." So that was the end of it. Clinton comes in. He declares the White House smoke-free. So I was happy on the one hand but also ticked off, you know, on the other.

BERKOWITZ: When you got back to Atlanta after being secretary of HHS had you learned a lot? You must [have] had a good sense of what was going in the federal government with regard to health care. So it was helpful to you in that way?

SULLIVAN: Oh, yes. Absolutely. I learned the department well. And frankly, being new to the department, not having been in government before, when I met with the senior executives in the department, including the SES employees, I just said, "Look, you know, I'm new to government. I need your help. You need to teach me about the department and I'm going to do everything I can to support you. But don't hesitate to come up with ideas.

Challenge me if you feel that, you know, you have a better idea or you don't agree with something. And there's no such thing as a bad idea."

Frankly, with that I was able to develop a very good relationship with the department. Overall, I think I had a pretty good tenure. But 90 percent of that was not me, it was the employees. They appreciated not being talked down to, not being taken for granted, but becoming, you know, my partners.

And I also traveled. I visited each of the 10 regional offices at least once a year. And even Social Security offices in a lot of other cities. And also, you know, I walk every morning and I also would send word on in advance. I'll be in Denver, you know, on the 19th. I'll be walking in such and such a park, invite any employees who want to walk with me. So I really tried to make myself accessible. And I enjoyed it because I was learning the department. And you go to Denver and they had a different issue, they had another in San Francisco and so forth. So at the end of my tenure, I felt that I knew the department well. I knew a lot of the people in the department. I also knew other agencies because of my interactions with them, as well as a lot of private sector organizations.

You know, I met Betty Ford with the Betty Ford Clinic and Barbara Sinatra with her children's child abuse center and people like that. So, no, there's no question that when I went back to Atlanta I had a much broader view. I had been well educated. I developed a lot of relationships and contacts which were helpful for me back in Atlanta, whether it was recruiting people, raising funds or whatever.

BERKOWITZ: I see. So let me ask you just—just two more questions. Number one is after you left if you could have changed anything about the department without, you know, assuming away a lot of political hassle and stuff. Was there anything that you thought, geez, if you only did this, this would be a much better way to run the government? Like, for example, is HCFA—should it be running Medicare and Medicaid both? And of course Social Security today is not even part of HHS.

SULLIVAN: I know, which I think is a mistake because there is so much interconnectivity between Social Security, and a number of other HHS programs. And also I'm not sure what's happened now but we kept the information on the same computers. So I would not have separated Social Security out.

But let's see. There are a couple of things I would have done differently. One, it's not minor but not earth-shaking. One of the things I tried to do was to open up VA hospitals to non-veterans. I went to Edward Derwinsky who was, of course, the first Secretary of the Veterans Administration. I told him

about the VA hospital in Tuskegee, Alabama, which really predated the VA system. It was built in 1924 for black veterans of World War I.

Tuskegee Alabama is in a predominantly black area. I think 60 percent of the population or more is black. The one private hospital there had closed about 7-8 years before. So people in Tuskegee, Alabama in those—in that surrounding area who are not veterans would have to go to Montgomery or to Opelika, Alabama 25 miles away if they needed hospital care. Meanwhile, the Tuskegee VA was half empty. So I convinced Ed—and also we, Morehouse, had an affiliation with that VA hospital. I convinced Ed that this would be a good idea for the following reasons.

One, we would have additional funds coming into that hospital, reimbursement for Medicare and Medicaid services. Two, the doctors and nurses would be busier in maintaining their skills and three, it would help to assure the longevity of that hospital because it would be making money rather than losing money, and making it a more interesting hospital. And for the non-veterans in that area, it would mean they would have a hospital facility right there. Interesting enough, it took us more than year with our attorneys working out the details for this. He was all for it. But when we announced that we were going to have this as a test program, because he had suggested we have two VA hospitals involved, the veterans organizations went bananas.

All five of the veterans organizations went up to Capitol Hill. The Senate voted 93 to 2 to instruct the two secretaries to cease. The veterans went to the White House and told the president's staff that, if he didn't call these two secretaries off, they would actively work against his reelection. So—and you may remember, Ed Derwinski left, resigned from the VA in July of '92 to take this political albatross that we had created away from the White House. That is, he took the fall, saying that he had made a mistake and he apologized to the president. That was really, frankly, for political reasons.

Fast forward to today. A lot of VA hospitals are half empty and are in trouble because the World War II veterans, as we had predicted, they are dying off and so forth. But, you are right. I mean, the VA representatives said such things as, "What if you have an amputee from World War II or Vietnam in bed next to a draft dodger who went to Canada?" Inflammatory statements like that.

So, to make a long story short, we weren't smart enough. We really thought only of the efficiency of our model. We weren't thinking of all the political things. So that was one thing. The other perhaps even more significant thing was I wish we could have gotten a health care plan introduced sooner.

You may remember—because most people don't—Bush introduced in February of '92 in Cleveland, Ohio at the Cleveland City Club, plans for reforming the nation's health care system, which was going to be a system of tax credits for businesses and tax deductions for individuals. We had put that plan together. We had it ready, frankly, in May of '91.

The White House said, "Don't send that over here. We're not ready for it." But I wish we had pushed harder because, being an election year, it was immediately dismissed by the Democratic Congress, saying, well, this is nothing but an election ploy.

And it may have turned out the same way but I really wish that we had been able to introduce that, you know, in May of '91 or around that time. We knew this was not a perfect plan. Our actuary estimated that, with this plan, rather than 37 million uninsured we'd probably end up with 5 million uninsured.

But we calculated 5 million the system can absorb through various strategies of uncompensated care, et cetera, and preserve what we wanted to preserve, that is, a mixed public-private system rather than government taking over.

BERKOWITZ: —we have never solved that problem. So you are not alone in that.

SULLIVAN: Yeah. Those are the things I guess I wish we had been able to change. On the other hand a lot of things, the food label we introduced, Healthy People 2000 that we introduced, the appointment of women and minorities in senior positions, which I think has changed because nobody—at least, I shouldn't say nobody—but it doesn't at all seem unusual to have a minority surgeon general.

Because since Toni Novello was surgeon general, you know, we've had—there was Jocelyn Elders—

SULLIVAN:—who was really very much admired. So, you know, I think we hope to move the needle a little bit so that these things are no longer something you sit up and take notice about because this is so different. So those things I feel very good about.

BERKOWITZ: That's good. One last question. People talk about the elder Bush as a compassionate conservative. Did you have glimpses of that that the public didn't get to see?

SULLIVAN: Oh, yes, sure. The senior Bush's problem in my view, and I think other people have stated this, you bring a television camera in, he

becomes frozen, immobilized, waxen. Because, before those cameras come in he's sitting like you and I, talking, laughing, very relaxed. But somehow his comfort level with cameras is not high.

When he recruited me, he knew he was not getting a seasoned political operative. He was taking a chance on me. And that, I am quite confident, is because of the personal relationship we had. That is, he respected what I knew. But also, I'm sure he knew that I did not know the ways of Washington and bureaucracy and so forth. But he was willing to give me that chance.

But I think he also was making a statement to the rest of the country. I mentioned I met him when he spoke at the dedication of our first building in July of '82. I went to Africa in November of '82 with him.

What happened was this. About a month after he spoke at our building dedication he called me and said that he was planning a trip to Africa and he was calling to see if I would be willing to go with him as part of his delegation. And so I was surprised that things ... well, gee, Mr. Vice President, I would love to go if I can. I have to see if I can arrange my schedule. But tell me, what would be my role?

He said, "Well, Lou, you know, to be honest with you, we don't have an Andy Young in President Reagan's administration and I should not go to Africa as the vice president of the United States without some African Americans in my delegation."

He said, I'm hoping the president of Tuskegee University can go. And maybe Art Fletcher, who had been assistant secretary for labor under Nixon. While I'm meeting with heads of state, we'll have an itinerary for you. But for you to be a member of our delegation would be great. I appreciated his honesty and I also learned other things about him that most people don't know.

His mother was one of the founding directors of the United Negro College Fund back in the late forties when the UNCF was formed. And ever since that time there has been a Bush on the board of directors of the UNCF, support for black colleges, et cetera. He was a very good friend of Fred Patterson, a former president of Tuskegee—all those things which you would say, well, gosh, as a political operative why wouldn't he use something like that?

But there's something about him that says, "No, this is exploiting a relationship. I'm not going to do it." I'm sorry, another thing I should have mentioned to you.

On this trip I noticed that Barbara (I frequently tagged along with her) spoke often to adult literacy organizations. So on the way back I said, "Barbara, I noted your speaking to all these literacy organizations in Zambia, Zaire, Zimbabwe, and other places and that really—that's an aspect of education, which is what I'm involved in. We need someone like you on our board. Would you be willing to serve on our board of directors?"

And her response was, "Well, Lou, I don't know. I need to check with the White House counsel. But that might take me two or three weeks. So let me check and I'll get back to you." I thought that was kind of a kiss-off.

Two days later she called. "Lou, I can do it. I'll be happy to be a trustee." So she became a trustee in January of '83 and served until '89.

But in 1989 C. Boyden Gray, the White House counsel, made her resign from all non-profit boards. So she said, "Lou, I'm just sorry. They say I have to do this."

So I called Boyden Gray and now I'm coming in as secretary, throw some weight around. I said, "Boyden, I don't understand what is the qualitative difference between Mrs. Bush serving on the Morehouse School of Medicine's board if she is the wife of the vice president and she can't serve as the wife of the president.

So Boyden looked at me and said, "Lou, the nice thing about being the White House counsel is there is only one person I have to answer to." I figured out later it basically wasn't any legal reason, it was really political because she got thousands of requests to serve on boards, etc. So if she said no to them, "Well, why is it that you can't serve on our board and you're on the board of Morehouse School of Medicine?"

Her level of prominence as the wife of the president obviously was much, much greater than as the wife of the vice president.

BERKOWITZ: Well, thank you very much.

SULLIVAN: Okay.

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Telephone Interview with Donna Shalala

August 15, 2002
Interviewed by Dr. Ed Berkowitz

BERKOWITZ: August 15th, 2002 and I am talking to Donna Shalala, who is president of the University of Miami. She is in her office in Miami and I am in Baltimore. We are talking over the phone. And why don't we start by asking you a little bit about how it is you actually became the Secretary of Health and Human Services, and by my account the longest serving Secretary of Health and Human Services.

What was your connection with Bill Clinton before you were appointed?

SHALALA: I had known both Clintons for 20 years, not well. We had mutual friends in New York and Hillary and I sat on the board of the Children's Defense Fund for probably 15 years.

BERKOWITZ: I see. And were you actively involved in the campaign in 1992?

SHALALA: No, I had nothing to do with the campaign. I did see the Clintons. They came through Madison, Wisconsin where I was Chancellor. Hillary called me when she came into town and I saw her briefly. And then the President and the Vice President, before they were elected. A few days before the end of the campaign they had a huge rally in Madison. Afterwards they came over to my house for dinner.

BERKOWITZ: And what did you talk about?

SHALALA: What did we talk about when they came over? We talked about the campaign, actually. You know, they were all revved up. They had had this fabulous community rally and they were all revved up. They were also very tired. I remember the Vice President spent most of his time on the telephone, so I didn't really talk to him.

I had known Clinton, and Clinton was starving so there was a lot of food. And, you know, we had a nice chat about how the campaign was going and our mutual friends in New York.

BERKOWITZ: I see. So no mention of a job.

SHALALA: None. Zip.

BERKOWITZ: So was that in the back of your mind at any point?

SHALALA: I knew they would offer me something. I had been an assistant secretary in the Carter Administration.

BERKOWITZ: In HUD (the Department of Housing and Urban Development), right?

SHALALA: At HUD. And I figured that they were going to offer me something. What I was worried about was that they were going to offer me education or HUD and I was not prepared to go back to Washington for either of those agencies.

BERKOWITZ: Why not?

SHALALA: Because they are not big players in Washington and because I had a fabulous job at the University of Wisconsin, a great research university.

BERKOWITZ: And that was reasonably secure at that point?

SHALALA: Very secure. And I had no deep desire to go back to Washington, to go back into government. I saw myself basically as an academic. And, you know, I had done my government tour of duty.

BERKOWITZ: In the Carter Administration.

SHALALA: Carter Administration. So I probably was one of the few people in the country that wasn't dying to go join the Clinton Administration.

BERKOWITZ: I see, I see. So how was the offer made then? Who actually contacted you?

SHALALA: Actually, someone in the campaign. Someone that was running -- I don't know whether it was Vernon Jordan or Warren Christopher. I guess it was Warren Christopher that called me. And I had known -- he was running the search process for the Cabinet.

He called me and said that the President-elect wanted to talk to me and could I come down to Little Rock. And I asked him what it was about and he said, you know, of course it's a Cabinet post.

And I said, "You know, Warren, I want to make it clear that, you know, I am very reluctant unless, you know, the President was prepared to put together, the right offer, tell him I won't take Education."

And he said, "Well, you can't say that. You can't say that you won't take a certain post. Just come down and talk to him." So I got on the plane and went down to Little Rock and talked to the President.

BERKOWITZ: And did he make an offer at that point?

SHALALA: No. We talked about three posts. We talked about HUD, we talked about Education, we talked about HHS, but it wasn't very specific. I told him he should get Henry Cisneros for HUD.

BERKOWITZ: Which he did.

SHALALA: Which he did. And we talked a lot about education and about higher education and mostly we talked about management and total quality management and how you manage large, complex institutions.

BERKOWITZ: I see, I see.

SHALALA: Interesting academic discussion.

BERKOWITZ: Right, right. And then eventually you were offered the job within how many weeks after that?

SHALALA: Oh, I think it was about a week. It was very quick.

BERKOWITZ: And did he call you himself?

SHALALA: No.

BERKOWITZ: Who called you to offer you the job?

SHALALA: No one did. Warren Christopher called me and said, "Come on back down.

And I said, "Well, what job are we talking about?"

And he said, "Well, I'm not quite sure."

And I said, "I don't think I should come down until we, you know, had a more specific conversation."

And he said, "Well, I know you're not interested in HUD or Education," he said, "but I can't actually tell you."

So I went down and they were already drafting a press release, but the President hadn't made the offer yet. And it turned out that Jocelyn Elders thought she was going to be secretary. And the President was in contortions about it. So he had to tell her she wasn't going to be secretary but he wanted to offer her the surgeon general's job. So that was his explanation to me on why he hadn't made a direct offer quick enough.

BERKOWITZ: I see.

SHALALA: He made the offer and I was prepared to take HHS. I mean, that was almost the only thing I was willing to go to Washington to do.

BERKOWITZ: So when did you actually -- when did this actually happen, this particular incident that you are describing now?

SHALALA: December, I think.

BERKOWITZ: December?

SHALALA: Early December.

BERKOWITZ: I see. Okay, now let me ask you this. So all of a sudden now you know you are going to be the Secretary of Health and Human Services.

SHALALA: They announced it right then, there.

BERKOWITZ: Right. And so, did you have any models in mind of somebody who was actually a successful Secretary of HHS?

SHALALA: No. My models were what not to do.

BERKOWITZ: Okay.

SHALALA: I had seen both (Joseph) Califano and Pat Harris. I had seen a bunch of secretaries during the Carter Administration and they all were surrounded by special assistants.

BERKOWITZ: Right. Califano liked to have the lawyers around him.

SHALALA: Right. And Pat Harris had a bunch of lawyers around her, too: young ones. Califano had grown-ups.

BERKOWITZ: Right.

SHALALA: And I was determined that I was not going to have a huge secretary's office that sort of dominated the assistant secretaries. I was going to go out and find stars for the major positions.

BERKOWITZ: I see, I see.

SHALALA: And I had been very clear with the President that I wasn't going to take a bunch of political hacks and I wasn't going to have a bunch of assistants, that I was going to run a pretty lean operation and depend on very competent people to run the major agencies.

Because I had run a major university, a couple of universities, I was very aware of the kind of fiefdoms of a large bureaucracy. The non-hierarchical atmosphere of HHS was not unusual for me. I had been to places like HCFA (the Health Care Financing Administration) and Social Security and if you run a large university you are sort of used to that kind of format.

I had been a student of public administration at Syracuse in the late 1960s, and I knew about bureaucracies and about the politics of bureaucracies. I had taught it for years. So I knew exactly what I was getting into.

BERKOWITZ: I see, I see. Why don't we talk about Social Security for just a minute, which eventually became an independent agency.

SHALALA: A stupid idea.

BERKOWITZ: Right. What was your take on that? That was something that took place actually on your watch, right?

SHALALA: The President said to me, "I know it's a stupid idea but (Senator) Pat Moynihan (D-NY) wants it and no one is willing to buck him on this."

And I said, "That agency is going to get lost. It's a bureaucracy, it needs strong leadership, and it won't have it as an independent agency. It is going to get lost from a policy point of view." And I was dead right: it got lost.

BERKOWITZ: Did you have people that you talked to? Did have a network of people that you talked to about Social Security, Robert Ball, maybe, or someone?

SHALALA: I talked to all of them.

BERKOWITZ: All of them being Robert Ball and -- ?

SHALALA: Yeah, the whole -- the usual suspects.

BERKOWITZ: Okay.

SHALALA: I thought Social Security was relatively easy to run.

BERKOWITZ: From the secretary's point of view?

SHALALA: From the secretary's point of view. It was a classic bureaucracy.

BERKOWITZ: Right. How much did the issues associated with an agency like that get up to you? For example, were you aware of, say, currents in disability policy that were going on that would have --

SHALALA: All of them got up to me.

BERKOWITZ: How would that work? How would you communicate with an agency?

SHALALA: Policy and development process. First of all, I met regularly with the Social Security Commissioner, but we had a policy development process that got all the major issues up to me. And of course I was testifying constantly so I was in constant conversation with members of Congress and with the White House.

BERKOWITZ: I see. So let's talk a little bit about HCFA, or was called HCFA when you took it over. What do you think of the name change, by the way?

SHALALA: I don't think about it. I mean, people can change their names. You know, what you have to do is change the culture. I have never been big on name changes or moving boxes.

BERKOWITZ: Right. And I guess the idea of being the Centers for Medicare and Medicaid Services sounds a little bit like Centers for Disease Control, perhaps?

SHALALA: Yes, probably. I never thought of it that way. People are still calling it HCFA.

BERKOWITZ: Right. And CMS is hard for people to remember because it's not the same.

SHALALA: Insiders are calling it CMS.

BERKOWITZ: Right. Well, let's talk a little bit about that. I know you eventually hired Bruce Vladeck to be the administrator for HCFA. Can you talk about that a little bit? How did he come on your screen?

SHALALA: I actually, in searching around the country there were two choices when you got right down to it of people who were tough and smart enough to run it. One was Bruce Vladeck.
Bruce Vladeck, who I had known for a number of years, while he hadn't been elected to office, was considered a very smart, very witty, very aggressive policy person.

BERKOWITZ: I see. Well, now, when you make an offer for something, a major agency like that, what was your means of communicating that to the White House and others who would be interested?

SHALALA: First of all, I probably would talk to the President. But what I normally did, because there was by that time a White House personnel office but it was just getting started, is I always -- I had this trick.

I said to people who were interested in jobs, "Go get your letters in at the White House," and then the White House would send me a list with the names I actually wanted.

And so if I picked off that list -- if I had sent a name like Vladeck's over to the White House, they would have had their backs up a little bit. I never pulled a name out of the air. I always had it come back at me. And even though it wasn't necessarily their first choice -- the President probably wanted a state Medicaid director -- they had to concede that I had looked at their list, interviewed people, and came back with someone that was on their list.

BERKOWITZ: I see. That's interesting. So now the agency itself -- just to talk about HCFA for a minute -- the agency was started in the Carter era, right at the beginning of the Carter era. And one of the rationales for creating it by Secretary Califano was to unite the administration of Medicare and Medicaid. Was any of that visible to you as you took over as Secretary of HHS? Did you have a perception of that agency's mission?

SHALALA: Yes. I knew the programs pretty well and I knew something about the agency. And we had a number of things going on at the time. We wanted to complete their space in Baltimore.

BERKOWITZ: My understanding is that was fairly well advanced. Is that incorrect?

SHALALA: It was. But it wasn't finished yet. And we wanted to make sure that it got finished because consolidating that agency into one building turned out to be extremely important in terms of getting some management control over it.

BERKOWITZ: Uh-huh. And of course they have the problem of having offices in both Baltimore and Washington. When you talked to Bruce Vladeck, I assume that it was in Washington?

SHALALA: No, I often would talk to him in Baltimore.

BERKOWITZ: The top administrators had offices in Washington, right?

SHALALA: Yes, they did. But we did a lot on the telephone. We did a lot of conference calls, particularly with Social Security and Medicare and Medicaid. If they were out there, we had all sorts of technology so that we could, you know, have live telecasts and things like that. But Bruce came in quite a bit for major meetings. And remember, we were in the middle of health care reform, too.

BERKOWITZ: Right. I wanted to ask you about that. Did the President talk with you about that when he first talked to you in December of 1992? I was curious as to whether maybe that was something up front he just said, "Okay, it's one of the things that we are going to try to do during the first term."

SHALALA: Yes, he did. And later he talked to me about Hillary's role. I mean, he was pretty straightforward about it. He didn't talk to me about Ira Magaziner. And when I saw Ira's role, I thought it was not going to work.

BERKOWITZ: So how did you communicate your displeasure to the President?

SHALALA: Well, a number of us in the Cabinet communicated that the process that Ira was proposing to set up was not going to work, that you didn't work with Congress that way. You didn't present them with a fait accompli. You set up the principles that you wanted and you sat down with Congress and you wrote the bill. But you didn't send it up, go through a complex process in which they were essentially cut out of it as were the major interest groups. You were better off sending your principles up and there was already a bill up there that we could have fixed.

BERKOWITZ: Is there something that you would say was a particular lesson of the Carter era, that particular lesson?

SHALALA: No. It was consistent with American Congressional politics. I mean, everybody knew that except for the President—he had strong views.

BERKOWITZ: Okay.

SHALALA: He was told by everybody. He was told by me. He was told by Leon Panetta. He was told by Alice Rivlin. Everybody thought it was a crazy process.

BERKOWITZ: And why did he persist, do you suppose?

SHALALA: A lack of experience in Washington. Hillary wanted an appropriate role—she is very talented.

BERKOWITZ: Right. And he was clear then from the beginning this was something he wanted Hillary to do.

SHALALA: Yes.

BERKOWITZ: That was her portfolio in Washington, in a sense?

SHALALA: December or January. But it was very clear that she was going to have a major role. And it was also clear that one of the reasons I got the job was because it was perceived I could work with Hillary.

BERKOWITZ: I see. So how did you create a relationship between Hillary's task force and your department.

SHALALA: I used Judy Feder, who had been on the campaign, who was a major health policy person, made her the deputy assistant secretary for health policy in the department. And she was the liaison, along with Bruce and others.

BERKOWITZ: Was there also ASPE (Assistant Secretary for Planning and Evaluation) involvement?

SHALALA: Yes. She was the deputy assistant secretary of ASPE.

BERKOWITZ: I see. Right. So she was a job similar to Wendell Primus' job then, in other words, working for --

SHALALA: She didn't have Primus' job. He was the welfare deputy assistant.

BERKOWITZ: Right, but a parallel job in health.

SHALALA: Yes.

BERKOWITZ: Working for David Ellwood.

SHALALA: Yes.

BERKOWITZ: So you said to Hillary, "You can have our research capability, basically"? And --

SHALALA: No. I told her we would do anything we could to make it successful.

BERKOWITZ: And what was your understanding of the role you would play in terms of public presentation of the proposal when it was done?

SHALALA: That once Hillary made the initial presentation I assumed that the department would have to carry the bill. The problem is, the bill was never done. And so we had to go up without a completed bill. And by that time it was in big trouble. As soon as people started to read what we were going to do, the thing was in big trouble. So we dug a hole for ourselves and never got out of it.

BERKOWITZ: I see, I see. In terms of your time, what would you say the percentage of your time that was spent on that health reform was at its peak?

SHALALA: A third.

BERKOWITZ: A third. Was welfare your biggest single responsibility?

SHALALA: Inside the department?

BERKOWITZ: Just in terms of your allocation of time.

SHALALA: No. That was about 20 percent.

BERKOWITZ: So what was your other time spent on? What was the other 50 percent spent on?

SHALALA: CDC (Centers for Disease Control), I had FDA (Food and Drug Administration). I had huge issues out at NIH (National Institutes of Health). I had to find new leadership for NIH. I had big agencies that basically had not been led for a very long period of time and I had a lot of Congressional work to do.

BERKOWITZ: So let me ask about Congress then for just a second. In terms of Medicare and Medicaid, had you already known, for example, Henry Waxman (D-California)?

SHALALA: Yes.

BERKOWITZ: And worked with him?

SHALALA: Not worked with him, but I knew him.

BERKOWITZ: You knew him. Who else would be -- were you talking? John Dingell (D-Michigan)?

SHALALA: John Dingell.

BERKOWITZ: Had you met him already?

SHALALA: Yes.

BERKOWITZ: And what was your impression of him?

SHALALA: Smart, shrewd. He became my best friend in Congress.

BERKOWITZ: Is that right?

SHALALA: Yes.

BERKOWITZ: How did that happen? Just from testifying in front of him?

SHALALA: No, I think he just decided I was a good person and he adopted me and said he would warn me. He said he actually hated the department, thought they lacked response. And he just sort of coached me on how to have good Congressional relations. And he protected my back.

You know, if he saw something coming, he would pick up the phone and call me. I had very good relationships with the Hill. And I had legislative people and staff people who knew the major players on the Hill: Bruce Vladeck, Judy Feder, Phil Lee, our legislative people, Jerry Klepner.

They all had long-time relationships with Waxman and with Dingell and with the Senate side. So we were well positioned.

BERKOWITZ: I see. Remind me what Phil Lee did in your administration.

SHALALA: Secretary for Health. We brought him back to coach all of us on public health.

BERKOWITZ: I see, I see. So how about on the Senate side? Who are the people with whom you maintained the --

SHALALA: Kennedy (D-Massachusetts).

BERKOWITZ: Edward Kennedy?

SHALALA: Tom Harkin (D-Iowa), Spector (R-Pennsylvania).

BERKOWITZ: Of Pennsylvania?

SHALALA: Yes. First (R-Tennessee). I mean, in many ways our relationships with the Hill were easier than our relationships with the White House because they were more professional. All of our committees we had excellent relationships with. Even the most conservative members of Congress will talk about our responsiveness. And, you know, people hated HCFA.

BERKOWITZ: People on the Hill, you mean?

SHALALA: Yeah. So did the President.

BERKOWITZ: Because it was a source of frustration over Medicaid? Or what was the reason for that?

SHALALA: Over a whole set of things. It wasn't just Medicaid, it was also Medicare. The legislation for that agency, for HCFA, is essentially flawed. It's contradictory, it's rigid, and they blamed HCFA for what was a bad piece of legislation.

BERKOWITZ: Meaning, in terms, the legislation creating HCFA or the legislation governing Medicare?

SHALALA: Medicare and all the changes they had made over the years. They were essentially bogged down by excessive and strange laws, and then the regulations that were imposed on them.

BERKOWITZ: Is that because in trying to create a cost containment structure through DRGs and the relative value scale that was used to pay physicians that, you know, lots of exceptions had to be made for different groups?

SHALALA: Yeah, exactly. And they kept making changes. And they would load it on. And HCFA was basically administering, in my judgment, very flawed legislation and was getting caught constantly. The bureaucracy is enhanced when you've got crazy legislation to enforce.

BERKOWITZ: Right. In other words, that regulatory role becomes sort of preeminent --

SHALALA: Exactly.

BERKOWITZ: -- in creating problems with Congress and with interested parties.

SHALALA: Exactly. Hard even for the brightest people. And I had two of the most able people I have ever worked with: Bruce Vladeck and Nancy-Ann Min DeParle. And for the two of them it was tough.

BERKOWITZ: I see. Let's talk about Nancy-Ann for a minute, who succeeded Bruce Vladeck as head of HCFA. How did she come across your screen?

SHALALA: She was at OMB (Office of Management and Budget) and she was one of the assistant OMB people who was responsible for the HHS programs. And I always had a good relationship with her and I knew second term that the President and the White House by that time would want to impose someone on HCFA after Bruce left, probably a state Medicaid director and probably someone they thought that they could, you know, manipulate.

And I had enormous respect for Nancy-Ann and for her integrity. So without asking her whether she would come over and take the job. I brought it up at the White House. I had a meeting with the President and the Vice President about a variety of things.

And at the end of the meeting I said to them, "What do you think about Nancy-Ann Min DeParle" -- and she was from Tennessee and Al Gore knew her very well -- "for HCFA director?" And they both said yes immediately.

And I said to the President, "Would you tell the White House personnel office?"

And he said, "I'll do it right now."

And Al Gore said, "You don't want to do a search."

And I said, "Absolutely not if you two will sign off on this. I want to go approach her." And I think she was startled when I went and approached her, but she said yes.

BERKOWITZ: I see. And do you think that worked out well, that appointment?

SHALALA: Oh, it was a first-rate appointment.

BERKOWITZ: Well, that's good. Let me ask you, too, in terms of OMB. You know, the Medicare is one of the big OMB-type issues and budget issues of the Clinton era, trying to somehow fit in Medicare with the notions of how big the budget should be and deficit containment and all that. Do you have memories of these sessions with OMB about Medicare?

SHALALA: We had terrible fights with them about the cuts they were taking.

BERKOWITZ: Do you remember any issues in particular that stand out at this distance?

SHALALA: Yes. They were going to take cuts in everything, in nursing homes. Now, I do think that there was a need to right-size all of this. But these were pretty deep cuts and we objected to them, arguing that we really should go back and look at the legislation that was more flawed, as opposed to using a crude instrument of a cut. I just thought the Balanced Budget Act went too far. And in fact, OMB was a piece of cake compared to the Hill. The Hill went through that and made even deeper cuts.

BERKOWITZ: Who were some of the people involved there? Was it Senator Roth (R-Delaware)?

SHALALA: Yes, it was all of them without understanding the implications of the cuts, not even having the health people in the room -- which was not unusual when they were making the final cuts. But years later the conservatives would come back to me and say, "Why did you cut this, why did you cut that?"

And I would say, "You did it, not me. I'm on record for having objected to that cut." And, you know, they were shame-faced. But it was a desire to balance the budget. They had to do it on the back of those programs. I think some of the cuts were appropriate.

BERKOWITZ: Such as?

SHALALA: Home health care needed to get under control. But the most conservative members of Congress, particularly those in the southeast Texas saw lots of companies go out of business once we made those cuts. And they were beside themselves.

BERKOWITZ: I see, I see. Let me ask you two more questions, if I might. One is that when you were in Washington you saw a real change in the political leadership of Congress after -- beginning in 1995. How did that change your job? Did you have to essentially you know, retool?

SHALALA: It didn't much because I had worked the Republicans as hard as the Democrats. I had a legislative staff that felt very strongly that these things could flip back and forth. Every program I had was bipartisan. Once we got out of the President's major recommendations on welfare reform and health care reform, everything else we did was bipartisan. So all the rest of the progress for the rest of the administration was bipartisan. And we did big things on disability. And in some ways it was easier. I mean, my biggest supporter on the fraud issues that we were doing (which was a huge HCFA-IG (Inspector General) effort) was Senator Grassley from Iowa. And no one believed we could take on the fraud issue. They all sort of chuckled. And it was a major achievement of the administration.

In fact, the report of the trustees of Medicare reported that our fraud efforts actually slowed down the growth of Medicare.

BERKOWITZ: Uh-huh. That's quite remarkable.

SHALALA: But, you know, my view of the department was, I was passionate about supporting the President's policies but I was bipartisan in administrating the department. And I can't think of a program in the department that didn't have strong bipartisan support.

BERKOWITZ: Yes. Again, I guess the politics is a little different, isn't it, on things like of DRGs or whatever? It's different.

SHALALA: Exactly. And you just couldn't make changes unless you had both parties.

BERKOWITZ: I see.

SHALALA: And that also was true. We now have huge bipartisan support for NIH, for the Centers for Disease Control.

BERKOWITZ: Right.

SHALALA: For the Food and Drug Administration.

BERKOWITZ: Right.

SHALALA: Because we moved major legislation during that period. But all of them were carefully crafted. Once the White House got out from under us, you know, on big policy initiatives, we crafted major legislation with the Hill and basically demonstrated to the White House that you could get this stuff done.

BERKOWITZ: I see. Let me ask you one final question, if I might. I was trying to think about people who have served for two terms in the Cabinet. You know, I thought about Frances Perkins and Harold Ickes during the Roosevelt administration. I couldn't really think of too many other people that stayed. And HHS or HEW, I know there is no one that stayed for two terms.

SHALALA: No. In fact, the longest serving secretary was Sullivan, who served for three and a half years.

BERKOWITZ: Right. So he served basically a term. But you served basically two terms. What accounted for that? You saw a lot of turnover in the cabinet and people leaving. And you saw two different terms, two different atmospheres in Washington.

SHALALA: Well, first of all I was at the right point in my career, even though I wanted to get back to higher education. I thought I was going to leave after the first term but the President convinced me that since I thought we had some problems on welfare reform the only way to straighten it out was if I stayed around and worked closely with him.

And the job was interesting, but I also was a very experienced manager and leader. And my basic crew of people wanted to stick around. And it was fun.

It was interesting substantively. It was a challenging job. I had an excellent relationship with the White House by the end of the first term.

I was highly respected by them and by the Hill. And it was -- you know, it was fun. You know, my field is public policy and political science. So it was, you know, a chance of a lifetime.

BERKOWITZ: Right. So you --

SHALALA: I decided I would stick around. It went on a little longer than I expected but, you know, I just -- once you get, you know, in deep into your second and third year of the second term you've just got to finish up. I had lots of job offers and I just said, you know, "Let me finish up with the administration. Then I'll go look."

BERKOWITZ: And then you became president of the University of Miami.

SHALALA: Right.

BERKOWITZ: Right. Which sounds like they are very lucky to have you from --

SHALALA: Well, I'm having a good time.

BERKOWITZ: Well, very good. I really appreciate your talking to me.

SHALALA: Okay.

BERKOWITZ: And --

SHALALA: I actually thought that, you know, I was a big protector of HCFA not because I loved Bruce Vladeck and Nancy-Ann Min DeParle, which I did, but because I thought that their problem was not what you would call a classic bureaucracy, but flawed legislation that was very complex to work with. And they kept getting blamed like they were idiots, when they really had to work with stuff that was quite complex.

BERKOWITZ: I think that is a good note on which to end. Thank you very much.

SHALALA: 'Bye-bye.

BERKOWITZ: 'Bye-bye.

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Telephone Interview with Bob Derzon

Sausalito, California on December 11, 1995
Interviewed by Mark Santangelo

SANTANGELO: Could you give us some idea of your background before you came to the Health Care Financing Administration?

DERZON: I started out my career as a hospital administrator. I first got interested in that while I was at the Tuck School of Business getting an MBA. Jim Hamilton came to the Tuck program and talked about the field of health care administration, and I later attended and graduated with a master's degree from the University of Minnesota program in health care administration. I then went on to serve at NYU Medical Center in New York City in various administrative capacities. After that I became the first Deputy Commissioner of the New York City Municipal Hospital System. At that time it was a 17 hospital system. I was involved in the creation of the New York City Health and Hospital Corporation. I had left Minnesota in 1956 and went to New York City where I stayed on until 1966. After that I became the Director of the University of California at San Francisco Medical Center which was the two hospital system of the University in San Francisco. It was from that post that I took the job of HCFA Administrator.

SANTANGELO: How were you contacted for that job? I understand that you knew Philip Lee, is that correct?

DERZON: Philip Lee was the Chancellor of the campus at San Francisco and he was therefore the person who hired me for the post as Director of the Medical Center. I believe that he recommended me. I was contacted first by Secretary Califano, whom I had never met before, and I was asked whether I would be interested in either the post at the Health Care Financing Administration—of course, it was a new organization, and nobody knew anything about it—or would I like to consider the Assistant Secretary for Health post. It wasn't that the job was offered but which was I more interested in. I thought it might be a little more interesting and exciting to be involved in a new organization in HEW, and I thought I might know a little more about Medicare and be a little more acceptable to the health community in that post since the Assistant Secretary of Health was traditionally a nominee of the American Medical Association. Organized medicine usually wanted a physician to have that post.

SANTANGELO: As you said, the Health Care Financing Administration, had just been formed. How much did they tell you about its mission when you were first contacted?

DERZON: Not very much. Of course, I'd been involved in Medicare as a provider, and I knew a good deal about the Medicaid program from both my New York City experience and also my UC experience, but largely as a provider of care.

SANTANGELO: When did you make the decision to take the Health Care Financing Administration post?

DERZON: I think I asked Secretary Califano for a week to consider it and took it on relative soon after I accepted, about a week later.

SANTANGELO: This would have been in 1977?

DERZON: I believe the organization was put together in '77. Califano tried to put the two programs together in one agency in January or February, and I came on in March.

SANTANGELO: When you came out to Washington, where were you located?

DERZON: The first office was in the Switzer Building, which was the old welfare agency building. I may have had an interim office. I was hired as a consultant; that was the typical way of doing things. I left my family behind and came out by myself. The youngsters were in school.

SANTANGELO: Did they follow you ultimately?

DERZON: Yes.

SANTANGELO: When you first arrived did you sit down and have some preparatory meetings with the Secretary and others about what you needed to do?

DERZON: I think Joe Califano had a pretty clear idea of what he wanted to do.

SANTANGELO: How did he communicate that to you?

DERZON: Joe used to say, "We're going to mash the two big health insurance programs of the federal government together."

SANTANGELO: Did he communicate any kind of time table or schedule? For instance, "By a certain date I want this infrastructure in place," anything along those lines?

DERZON: No. I think we had too many urgent other matters. There was a real deficit in deferral of regulations from the previous administration, so there were hundreds of regulations pending for Medicare and Medicaid. The Congress expected some executive action, so I think that was our first challenge: to make up for that lost time. The previous Administration didn't want to issue any regulations. I think what Joe wanted was continuity, and he wanted output as though the agency had been there forever.

SANTANGELO: I know this was a while back, but do you have a sense of how big a backlog of regulations there was?

DERZON: I have a chart saying how many regulations I signed during the period of the twenty months or so that I served as the HCFA Administrator, so I could give you the tally of that, but there were hundreds of overdue regulations. Joe was very concerned that we get those out and that we monitor the progress that we made. It was just business as usual. There were a number of hearings involving long-term care, and then there was a big debate as to whether long-term care was the province of the people who operated Medicaid or more of the Public Health Service. That was never really straightened out very clearly, but we both ended up testifying. There was a lot of testifying in Congress on that matter and others.

SANTANGELO: This was you testifying?

DERZON: Yes. Laboratory regulations, PSROs (Professional Standards Review Organizations), that sort of thing.

SANTANGELO: I assume one of the other projects in the early going was to get together a team.

DERZON: That was a very key issue. First of all there were large arguments as to who should be moved into the agency, how many positions. Of course, the people who were losing staff wanted to hang on to their staff and wanted to argue that their staff were working on other facets of their department's activities. But there was a transition team brought together led by Don Wortman, a very able fellow who later became Social Security Administrator, a career civil servant who really knew the federal system. I was at some disadvantage, having not had any previous federal experience, dealing with this reorganization. I really didn't understand all the Civil Service rules. We were very concerned about whether we were getting our fair share, whether people were withholding their best people, so there was a fairly steady argument about all that. There was also argument about the number of appointed positions, the so-called "political" positions. There was strong interest on the part of the Senate Finance Committee staff who wanted to make sure that the Medicare group didn't get cheated, and Jay Constantine

from that staff was constantly nudging Secretary Califano about that. Jay was a very difficult individual, although I didn't have too much difficulty with him, but he gave Joe a terrible time.

SANTANGELO: Would the issues have been just individuals, or was it a problem between the Medicare and the Medicaid programs?

DERZON: There were issues, of course. The Medicare program was much more tightly organized centrally than the Medicaid program. The staff had more continuity and stability. Tom Tierney had been there for years, practically since the beginning of the program, and the people who were working Medicare and came from the Bureau of Health Insurance really were Social Security staff. The Social Security organization had a tradition of pride and a very high morale. They were watched carefully by the Medicaid staff. The Medicaid group came out of the welfare system, and that was always Peck's bad boy, although there were some very able people who came with the Medicaid program. Keith Weikel, who had run the program, was a very strong fellow. The Medicaid staff felt a little bit at a disadvantage, so we had to balance the interests of both organizations. Of course, the two programs were really very different. The Medicaid program was largely operated by states, with considerable latitude in the states, and the Medicare program was highly centralized, centrally managed through the intermediaries, the carriers, by the staff of the Bureau of Health Insurance. So the philosophy was very different, and, indeed, the statutes were quite different. About the only thing the programs had in common was that they were both insurance programs and both entitlement programs, even though that's now a dirty word.

SANTANGELO: What about location? Weren't they located in different places?

DERZON: Yes, they were. There were three groups that came together in this organization: the Bureau of Health Insurance was located in the B Building at Social Security; the welfare group that ran Medicaid was in the Switzer Building; and the PSRO program which came into HCFA was up in the Parklawn Building in Rockville. So, yes, we were quite spread out. Secretary Califano was very anxious to get us under one roof. I worried a little bit about that—that was one area where we had some differences—because a great many of the staff had located their homes close to their respective office buildings and their kids were in school, and I was afraid that if we forced everybody to move we would lose the best people who were marketable. So we were a little slow in trying to pull people together under one roof. There'd also been plans to put HCFA in the Humphrey Building. Those plans were already underway. So there was a little bit of confusion. I think that Secretary Califano, when he replaced me with

Leonard Schaeffer, he gave Leonard instructions to get HCFA under one roof. And, you know, HCFA did get under one roof last fall in 1995, so I congratulated Leonard. He and I were both there. At any rate, that was not such an easy task, to pull people together in one place. It was also a difficult situation for the Administrator who would have to work back and forth between Baltimore and Washington.

SANTANGELO: How did you work that out?

DERZON: I tried to be around all the places. We also wanted to decentralize in the regional offices, and that was only partially successful. The central office staff did not really want to decentralize very much, particularly the Medicare people. At any rate, I didn't think that was the most important issue, although Bill Fullerton, my deputy, and I both tried to find a central office location. In fact, he'd found a piece of property in Columbia [MD], and we also had found a Social Security building in Baltimore that we thought might work very well. So we were not idle in trying to get our people accommodated. But I'll tell you, if we had, we would never have had the lavish new facility that HCFA has now, because the Democrats wouldn't spend that kind of money. I'm sure of that. Especially when the programs were being cut back. But that's a beautiful new facility and I think it's wonderful.

SANTANGELO: You mentioned Bill Fullerton was your deputy. How did it happen that he went up there?

DERZON: I didn't know him before, but I knew of him. I had been on the advisory panel to Ways and Means so, of course, I had had a little contact with him. I felt that in organizing HCFA I needed one of two kinds of people as my deputy, either somebody who understood the health insurance industry or one that really understood the intricacies of the political framework in the federal government. You can see where Fullerton fit in there. I was very interested in Bernie Tresnowski, for example, who I considered for the deputy post. He'd been number two in the Blue Cross program and, of course, they administer a lot of Medicare and he really knew how a health insurance company worked. That was not an experience I had. I was looking in one of those two directions, somebody who really understood health insurance or somebody who really understood the politics. In terms of finding somebody who was suitable for the political sphere, I had to find somebody who was acceptable to Secretary Califano, President Carter and his staff. Bill had worked for Wilbur Mills for a long time, was a known commodity, and he was highly trusted. And, of course, he had strong policy underpinnings.

SANTANGELO: Do you recall when you brought him in?

DERZON: Early. I think within the first few months probably.

SANTANGELO: So that would have been one of your first important team-building decisions?

DERZON: Yes, that was a key move.

SANTANGELO: You've mentioned the two big players in Medicare and Medicaid, Tom Tierney and Keith Weikel. They were both there the entire time that you were there, is that correct?

DERZON: No, neither lasted for the whole time. In part because the Secretary [Califano] worried about people who were in the previous Administration, and he really wanted us to use these appointment positions for people who would be comfortable with the President's and the Secretary's policies. He also thought it was important to get new blood, so he pressed me to move these people off, and I did, even though I thought both of these individuals had made major contributions to the programs.

SANTANGELO: When would this have happened?

DERZON: I think Tom Tierney lasted about nine months maybe, and I think Keith went sooner.

SANTANGELO: Who was brought in to fill their positions after they left?

DERZON: Paul Wilging was Keith's deputy, a very capable guy, and I didn't think we had any major policy differences. I think that both Tom and Keith were both highly acceptable people in their jobs. They had good institutional memory and I needed some of that, particularly in dealing with the states and with the carriers and intermediaries.

SANTANGELO: Had they been supportive of you when you first came in and were trying to pull everybody together?

DERZON: Yes, I think so. I knew Tom Tierney a little bit and he knew of me, and I think we were reasonably comfortable. I was comfortable; I don't know whether he was or not. And I think Keith and I had a healthy respect for each other, so I don't think there were any major problems. The major problem was that Joe Califano didn't really think these holdovers were useful, and he felt we ought to take advantage of the appointment process.

SANTANGELO: I understand that one of Secretary Califano's big pushes for the creation of HCFA was the rising costs, especially of Medicare, and that this one of the reasons for bringing the two together, to try to help cut these rising costs. Is that correct?

DERZON: I think that's wrong. I think all of us were concerned about costs. Joe was more concerned about rip-offs. He thought there was a lot of fraud and abuse of the programs, a lot of fat cat providers. He used to talk about the hospitals eating éclairs, things like that, he used very colorful language. There were some concerns about health care costs, but I don't think it was of the magnitude that we have today. Frankly, I think that if we fell a little short, that we weren't aggressive enough in trying to do enough about the costs. Our efforts were a little late and hospital cost containment proposals didn't go very well. I don't think we ever did anything very aggressive to pursue physicians' costs. We did not readily accept Allain Enthoven's idea to go to HMOs, managed care. We didn't jump on that bandwagon very fast. What we did do, I think, is that we started to think about physician supply and federal programs to increase the numbers of physicians. Secretary Califano and I both decided that the extra supply of physicians was adding costs, but we didn't try to change the physician payment system. It wasn't so easy to combine the purchasing power of the two programs to reduce costs.

There was only limited statutory authority to do that. First of all, the states set the rates of Medicaid payments to providers. The only provision was that they couldn't pay a doctor more than the doctor was being paid by Medicare, and that's the only control. We did try to control the cost of the kidney program, and that was not so easy because we were really out-gunned by John Sears who helped National Medical Inc. Congress didn't want to put the screws on National Medical. We couldn't even get cost reports from them. We tried and tried to control the cost of the kidney program but were unsuccessful. I don't think that was the first order of business. Congress started to pass legislation to limit costs with a section (228) that looked at the cost of routine care, and everybody had to live close to the average. We were able to set some limits on payments, but we weren't quite ready to get rid of cost reimbursement, which was very inflationary. And the Secretary never suggested that we do that. The prospective payment system came in after I left, in the early '80s.

SANTANGELO: You also referred to fraud and abuse being a concern of everyone. Did you undertake a major initiative there, or was this a continuing effort?

DERZON: Joe mau-mau-ed that pretty heavily. We did impose civil monies penalties—very large ones—on Medicaid abusers. They were very expensive fines, and the people got dropped out of the program. But that was a very tedious proposition, trying to indict those people for cheating. The Justice Department had thousands of cases to deal with, and they could only help a certain amount. It was very expensive chasing the crooks. But we sought

Congressional authority, and we established the Inspector General. We tightened up on a lot of the hospitals. We tried to figure out ways to set payment limits on nursing home care and other elements of the program.

But every time we started to work on cost containment, we began to be concerned about adequacy of providers, accessibility of providers. A number of doctors weren't accepting assignments, and we thought people were losing their benefits. An insurance company has a couple of concerns. One is keeping its premium levels down; the other is making sure that insured people are getting the benefits that they bought. We certainly were in that category. We were trying to balance the interests of the beneficiaries. I think that was the tradition of Medicare and, less so, of Medicaid, because the states were not always interested in making sure the beneficiaries got the benefits.

SANTANGELO: Were there specific states where that was more of a problem?

DERZON: Sure. I don't want to single them out, but the states were quite variable in who they covered and what benefits they offered. Usually the poorer states had a tougher time in expanding the benefits in the covered population. The southern states had very tight programs, as a rule. They tried not to cover too many people. In some cases the chintziest states paid the providers the most. Georgia was a good example. It was because they were covering fewer people, and they could afford to pay providers for care. Places like New York, Michigan, Minnesota, that covered a very wide population—they didn't pay their providers so well. So there was usually an inverse relationship between the numbers of people who were covered and the providers' payments. At any rate, I think we did a lot to try to restrain some of the costs, but I don't think we were as vigorous in reforming payment practice as we might have been.

SANTANGELO: Do you attribute that to its just not being a top priority?

DERZON: I don't think it was on the radar screen quite as much as other things.

SANTANGELO: So, as opposed to cost containment, what were the things that were really at the top?

DERZON: I think trying to fulfill the Congressional mandate. We always seemed to be chasing that. After all, that's what the executive branch is supposed to do. You swear that you will uphold the law. We inherited this regulatory deficit, and I think that we had a very real responsibility to manage the dollars that were entrusted to us as well as we could. I think

that's pretty clearly the responsibility we had. We tightened up the way we paid the states. The states were being paid their quarterly payment in advance, and they were taking a lot of interest off that federal money advance. We cut that off. There were little things in the infrastructure where we saved some money.

SANTANGELO: Let's move on to some other facets of what you were doing there in Washington. You mentioned that you testified before Congress often. How was HCFA's relationship with Congress in the early days?

DERZON: I think it was quite satisfactory with the Senate Finance Committee and with the Ways and Means Committee. With the Committee on Aging we were so-so, because we didn't always agree with Senator Pepper. He wanted massive expansion of home health programs for the elderly, and OMB didn't want it. And we weren't sure that that would save any money either. But we did start the hospice program, paying for hospice care in about '78.

SANTANGELO: And the relationship with the staffs was good as well?

DERZON: I think the relations were quite good. I think between Secretary Califano and Senator Kennedy there was bad blood, a little jealousy. Kennedy's Health and Labor Committee were always a little worried about HCFA, because the Committee was very close to the Public Health Service, but my personal relationship with Senator Ted Kennedy and his staff was quite all right. I think we did all right with Congress. Bill Fullerton helped a lot with that. I think that where the relationships may have been a little bit unsatisfactory was between HEW and the President. The President wanted stronger support from Joe Califano. Well, you know the President dismissed him, shortly after Joe asked me to leave.

SANTANGELO: Were there signs that you had seen in advance that that may have been a problem between the two of them?

DERZON: We had heard a little of that, but I think Joe was a capital insider, and he did his own fence-mending. He never let on if he had troubles. I know he had a little trouble with Kennedy's group, and he had a lot of trouble with Jay Constantine. Constantine was a difficult man—he worked for Senator Talmadge—Jay had an inflated sense of his own importance. He was a constant needler and Califano disliked him. Sometimes our relationships were affected by the Secretary's office. Generally speaking, Joe wanted to handle most of those Congressional relationships directly with his own staff. During the time when Bill Fullerton and Karen Davis were working with Secretary Califano on hospital cost containment, there was a lot of work with

Congress. Congress didn't like the program and the hospitals didn't either. It never really got started.

SANTANGELO: Were your dealings with HEW mostly through the Secretary or the Secretary's office? Were there other individuals that you would have dealt with?

DERZON: HEW—HHS is a big outfit. I think I was in the inner circle. Joe counted heavily on people who operated the major elements of HHS, and I think the HCFA administrator was in that category. Joe spent a lot of time on HCFA, and I was the guy to represent the organization in those circumstances.

SANTANGELO: What about Hale Champion during this period?

DERZON: Hale was important as the Undersecretary. The Secretary relied heavily on him. I had a healthy respect for him.

SANTANGELO: Is it true that you had known him from California?

DERZON: No, I didn't know Hale.

SANTANGELO: He was in California in the '70s, if I remember correctly.

DERZON: Yes, but I didn't know him when he was there.

SANTANGELO: You first met him in Washington?

DERZON: Yes.

SANTANGELO: How did he play out his role in the administration?

DERZON: He was very much the Number Two man in the organization, and I think Hale took on a lot of projects and a lot of problems, and he picked up a lot of pieces for Joe. I think Hale was a very able deputy for Joe.

SANTANGELO: Was HCFA one of the projects that he took on?

DERZON: He spent time with it, but I think he used to leave the heavy issues to Joe for the most part. I don't think Hale ever tried to impose himself particularly on our shop.

SANTANGELO: We've covered some of the major issues. What were some of the others?

DERZON: One of the very major issues was that the people who had been involved in the development of Medicare were very anxious to make sure

that people understood that Medicare was a social insurance program and it wasn't welfare. They were very concerned. People like Bob Ball and Wilbur Cohen were very concerned that in this blending of the programs that Medicare would not be confused as a welfare program. Even today it's a bit of a problem because there's still some general funds financing Part B. That's unfortunate, because if Medicare was strictly pay-as-you-go through the payroll tax, some of the problems we see before the Congress would not be there. But the framers of Medicare were not happy about pushing together two these programs, because they had tried very hard to make sure that people understood it was social insurance and it wasn't welfare for the elderly. So they were uneasy about it. Bob Ball would constantly caution me a little bit. He wanted us to be careful we didn't get the programs mixed up too much.

The other factor is that the programs were really very different. I don't think Joe or I initially fully appreciated the difference. One program was centrally managed, and it was privately managed through contract management systems through the carriers and intermediaries. The other program was really a state-administered program, and the states had considerable responsibility. And it was very unevenly performed by the states. The issues in managing the states were very different from the issues in managing the private insurance companies that were running Medicare. I think that those differences were very significant. They were much larger than I would have expected them to be.

For example, I thought when I first started that anybody who wanted to provide Medicare service should have to provide Medicaid service. That seems like a simple enough idea, and it would have been a good way to bridge the two programs, but the statute didn't permit that since the states could pick out any provider they wanted, set up whatever eligibility they wanted. Some of the ideas that seemed simple on the face of things could not be accomplished simply because the statutory authority was so different. I felt the same way about nursing homes. A lot of nursing homes wouldn't take Medicaid, but they would take Medicare. But we couldn't really do very much about those issues. Trying to use the leverage of each program on the other would have been a very happy outcome. But a lot of the things one would have hoped for were not accomplished.

SANTANGELO: And this was purely because of statutory reasons?

DERZON: Sure. Exactly. The law was very clear about who could be providers, and the whole licensing system was different. If one were starting all over, one might give HCFA more unifying authority in statute.

SANTANGELO: Let me ask you just a couple more questions. You've alluded to the fact that after about twenty months Secretary Califano decided that he wanted a change at the top of HCFA.

DERZON: I haven't alluded. I told you.

SANTANGELO: Right. Can you tell us a little bit more about how that happened? Was there a specific issue that was raised at the time?

DERZON: I won't be able to tell you too much about that. I don't talk about that a whole lot. I think there were very real differences of opinion, and I respected that he was the boss and ought to have people that he could count on. He sometimes felt that I didn't back him up hard enough, and I didn't always do everything that he wanted to have done. And there were some things that were political in character that I thought should not be done, so we had differences of opinion—strong differences. I was the only one in agency heads group who was as old as he was. I think Joe liked to throw his weight around, and sometimes I didn't respond so well when that happened. So I think that he felt that I was not always pulling for him hard enough. There's a whole series of events, but I'm not going to tell you about those. I don't think that would be productive, and I don't think it's relevant to what you're trying to find out.

SANTANGELO: Fair enough. Can I just ask if there was anything about the specific timing? Was it just, "Now's the time," for him?

DERZON: I guess we were three quarters of the way through the Carter term, and Joe was getting a little impatient with me about some issues. I don't know what the timing was. It was just a few weeks before he was bounced.

SANTANGELO: Did he inform you personally of the decision?

DERZON: Sure. Absolutely. My wife was very pleased about it. [laughing]

SANTANGELO: For any particular reason?

DERZON: She thought I worked too hard, and she didn't think Washington was very much fun anyway.

SANTANGELO: Was it fun for you?

DERZON: Yes. Absolutely. I once had a mentor who told me that if you didn't get fired twice in your career you weren't doing your job.

SANTANGELO: Let's just bring things up to date. After you left the administration did you go directly to Lewin?

DERZON: No, I went to the Institute of Medicine as Scholar-in-Residence for about a year.

SANTANGELO: Is that in Washington?

DERZON: Yes, it's part of the National Academy of Science. I was a member of the Institute of Medicine. Then I went to the University of California health policy program part-time. I did some teaching at Harvard.

SANTANGELO: And then you joined Lewin?

DERZON: Yes.

SANTANGELO: One last question on your time with HCFA. Are there things you would do differently, things you're especially proud of that you accomplished? What are the most important things that stick out in your mind?

DERZON: I think that we formed an excellent team. We had a very strong policy group. Cliff Gaus, Peter Fox, some of the same people who are still there. And I think that we established a policy group that was as good as any, and we did become the reservoir of important data on health care expenditures.

We established a very good journal, Health Care Financing, that gave people a chance to write and publish. We established very good relationships with health policy programs in academia for short term turn around policy development, and I think we built a base of people who could do health policy work. I think that that was a real contribution. And I think that we developed a tradition that HCFA cared about its beneficiaries. That was its first order of business. Initially, we created good relationships with the states, and we developed a good inter-governmental health program at George Washington, experts who would do scans of state health policy. I think that was an important contribution. I think that we began to develop respect for the information that we had about the expenditures of the Medicare program. I think that was going pretty well with the Bureau of Health Insurance. They had a tradition, so I think we tried to bleed that tradition across to the Medicaid program, but we had a very bad problem.

I'm not sure we really solved the state Medicaid data problem. We really wanted to be able to let states do expenditure comparisons, but we had a great deal of difficulty getting states to keep uniform data. They didn't have to. The states could manage programs pretty much the way they wanted, so

I can't say that we really set the pattern. We had pretty clear ideas of what we wanted to do, and I think they're closer now to that at this point. HCFA now has its own data capacity, whereas we used to have to rely on Social Security. So I think we set the pace for that. I felt particularly that many people in the health field would be concerned that HCFA would only be concerned about the financing aspects of health.

I set up a quality program. I thought it was important that we have physicians on the HCFA staff. One of the first appointments I made was Helen Smits who ran the Bureau of Standards and Quality. I felt it was very important that we had that component. I think we set a tradition there that HCFA would examine what it was getting for its money. So I'm satisfied that we started out with a lean organization, about four thousand people in the regions as well as in the central office, and it's about the same size staff now even though the beneficiary population has grown considerably and the expenditures have grown. I think it's been an efficient operation, and I think we set that pattern.

SANTANGELO: I think that's a great note on which to end.

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Telephone Interview with Leonard Schaeffer

Woodland Hills, California on August 17, 1994
Interviewed by Edward Berkowitz

BERKOWITZ: Mr. Schaeffer, I see that you went from Princeton to the private sector and then worked for state government and eventually back to the private sector and then into the Department of Health, Education and Welfare in 1978. How did you make that leap from Citibank to Secretary for Management and Budget at HEW?

SCHAEFFER: I was recruited by Joe Califano and Hale Champion. I had worked at the state level in Illinois. I was Deputy Director of the Department of Mental Health, and then I was Director of the Bureau of the Budget. The Bureau of the Budget in Illinois is the state version of the federal OMB. I had gone back to the private sector, and Califano called me and said that he was concerned at what he saw as the beginning of a conservative trend in American public life, and that many of the social programs that he had been involved with when he was in the Johnson administration were at risk.

The risk came from the allegation or many cases of fact that, while those programs were well intended, they had not been effective. In other words they had not achieved the goals of helping in one way or another people who are ill or at risk. His point was that if we can't manage these programs, take the good intentions and turn them into effective programs, they will be repealed by Congress. Joe felt the lack of effectiveness of these programs would lead to a lack of support for intervention on behalf of the poor and the ill, and that that shouldn't be. He felt that people who were good at management and organization should come back to government and try to make it better. I refused twice, and the third time he got me.

BERKOWITZ: Had you known Califano?

SCHAEFFER: Never met him in my life.

BERKOWITZ: Had you known Champion, maybe from Illinois?

SCHAEFFER: I had had some notoriety inside the government world. In Illinois we were able to reduce the costs of the Department of Mental Health substantially. During the period of time when New York went broke and other states lost their bond ratings, we were able to maintain our triple A rating, even though we had very serious financial troubles. Hale Champion came out of the finance end of state government. He was Director of Finance in California. Somehow he knew people that knew me. When I came to

Washington to interview I spent time with both Joe and Hale, and Hale was the most knowledgeable about my background.

BERKOWITZ: When you were working in Illinois was Dan Walker the governor?

SCHAEFFER: Yes.

BERKOWITZ: So you were a Democrat?

SCHAEFFER: I was a civil servant. I was a civil servant until I went to HCFA. At the Department of Mental Health I was a civil servant. The Bureau of the Budget is a non-civil service job, but I was appointed Director without having worked in political campaigns of having met the Governor prior to moving to Springfield. At HEW, the Assistant Secretary for Management and Budget is a civil service job. HCFA is not.

BERKOWITZ: Had this [the Assistant Secretary for Management and Budget] been there for a while or was this something new?

SCHAEFFER: There used to be a position called Controller, which involved only financial functions, especially budget preparation. Hale and Joe decided to combine several functions at the Assistant Secretary level. There had been someone else in the Management and Budget job prior to my arrival. He had resigned in frustration because Califano wanted everything done so quickly. He just was not prepared to move very quickly. There was a gentleman who was his Number Two whose name was Charles Miller, Charlie Miller. He was the logical guy to become Number One if you went through the civil service process; very good, very effective person. He was in charge of the budget process at the Department. But Hale and Joe had concluded that to get the kind of speed and aggressiveness they wanted on the management and financial side they had to bring somebody new in. I did not realize this until after I'd been there for a couple of months, but their goal was to shake up the whole management and financial process. That was great with me, that was what I wanted to do. The agenda was to become a much more responsive and much more aggressive agency even though HEW was a civil service organization. But I was not brought in as a Democrat, to answer your question. I had no political sponsor. To my knowledge nobody made telephone calls. I never asked for the job.

BERKOWITZ: In that job what was it like dealing with a department which has a budget that is (a) very complicated and (b) had put in a lot of entitlements like Medicare and AFDC?

SCHAEFFER: The Statute of Limitations has run, this is correct? I would say it was a fairly disciplined process. There were three huge problems, though, and they were not staff and operations related. They were entitlement related. The first was Social Security, the second was Medicare, and the third was Medicaid. Social Security is the easiest to estimate. There are actuarial tables, there's a lot of knowledge about how long people live, and there are also assumptions you can make about calculating costs so that while Social Security was the big number, it was knowable.

The difficulty was that Medicare and Medicaid were not. There was an ignorance surrounding the best way to estimate Medicare costs, and there was a long tradition of under estimating Medicaid costs. Prior to the creation of HCFA, Medicaid was in a part of HEW that was totally distinct from Medicare, while Medicare was part of the Social Security Administration. There was ignorance about estimating its costs because they used some of the same techniques they used with Social Security to estimate Medicare costs, and those techniques were totally inappropriate. They looked at the number of people, the age of the people, their life span and that sort of thing. Those factors alone ignore the changes in medical science, all the changes in diagnostic and treatment. So, although it was fairly disciplined, they underestimated the medical costs . On the Medicaid side, Medicaid came from SRS [the Social and Rehabilitation Service]. SRS was nowhere near as professional in the sense of financial controls or organizational effectiveness. It had been fairly brutally politicized during the Nixon administration when they were doing block grants. It was the tradition—it took me a year to find this out—to completely underestimate Medicaid costs.

On the Medicaid side there were not the discipline or the techniques in place to estimate costs. The states were gaming in order to inflate Medicaid costs so they could get the highest federal match. The whole process of estimating costs was probably the weakest in Medicaid. However, from where Hale and Joe sat the issue was that these costs had just gone out of control. The question they were concerned with was: How do we get on top of them? Eventually Joe asked me to go into HCFA because they perceived cost control as the major problem. When I arrived there was a disciplined process for doing the administrative budget which primarily concerned how many people were going to work at the organization and how much money you were going to spend supporting their activities. But there was great uncertainty and a lack of sophistication on how to estimate costs for Medicare, and then, of course, the problems with Medicaid which I just described.

BERKOWITZ: Is it fair to say that in this job as Assistant Secretary for Management and Budget you got more deeply into Medicare and Medicaid?

SCHAEFFER: Yes, I think I delved more deeply into those programs than anybody else had because the previous occupants of that job had felt, without articulating it, that their job was limited to making sure the administrative budget was under control. They had not perceived that the programmatic budget, particularly the ones that were open-ended, was their problem. In the '70s in was assumed that whatever the cost, it would be paid. You should remember that there was a very, very strong culture in the Social Security Administration, a very proud heritage. These were extremely capable people who would kill themselves to make sure that they served their constituents. The creed of the Social Security Administration can be summarized in the following way: "We get the checks to the beneficiaries on time." That was their goal in life, because a Social Security beneficiary is entitled to a check for X amount of money every month. You're successful if you "get the checks out." When you convert that philosophy to Medicare it is an absolute prescription for financial disaster. Because what you're saying is, "When we get a bill, we are going to pay it quickly, regardless of what it costs. Thus our goal is still to get the check out on time." In Medicare this created a dramatically inflationary situation, whatever the doctor charged, the Medicare bureau was supposed to pay.

That was the goal: protect the beneficiary by paying the bill. "You are entitled by virtue of being 65 to Medicare. Medicare means that when you go to the doctor, we pay the bill." Retrospective, fee for service reimbursement was the financial methodology, and it is an absolute guarantee of ever higher costs. That's what they did. By getting those checks out they increased medical inflation and allowed suppliers to over charge and over use, all the while believing they were doing the right thing. What Joe and Hale wanted, however, was to control costs while meeting the legitimate needs of beneficiaries.

BERKOWITZ: By 1978 the, perhaps, glory years of the Social Security Administration were over. Robert Ball was no longer there. With whom were you dealing at Social Security in those years?

SCHAEFFER: Bruce Caldwell was there when I first arrived. He was a very capable guy. He was the head. There was also an individual, Herb Doggette, who was impressive and who stayed around as assistant head of Social Security, and then Stan Ross when he came in. But what I'm talking about is the mentality, the culture, that came from Social Security to HCFA with Medicare. The big intellectual battle with those people was to convert them from believing that protecting the beneficiary meant paying the bills, to understanding that protecting the beneficiary means getting value for our money because there is not an endless supply of money. If all we do is pay every bill the beneficiaries incur, we will eventually go broke. What we ought

to do instead is to find ways to make the limited amount of dollars we have go as far as possible. For many long-time Medicare employees that sounded like we weren't doing our job. My theory, which was put into place when I went to HCFA, was if you combine Medicare and Medicaid you've created the largest single purchaser of health care services in the universe. Nobody spends that kind of money. We ought to be able to leverage the health care system by virtue of being the largest purchaser. That didn't sound real good to the Medicare folks. It also didn't sound real practical to Medicaid because the Medicaid people were constantly getting beaten up by the states. Their deal was: "Send them the money. Who cares? It's not our responsibility; the states decide what they want to cover." And it was not real popular with providers. [chuckling] "Who is this kid? What is he trying to do?"

BERKOWITZ: Let's talk about the transition from Assistant Secretary of Management and Budget to Administrator of HCFA. You mentioned that Joseph Califano asked you to do that. Do you have any other memories of how that came about?

SCHAEFFER: I went through one budget cycle and we had some success. The name of the game when you're in the bureaucracy is to try to make sure you get your increases where you want them. Cutting the defense budget should mean more money for social policy if you are a social policy advocate. That's short-sighted, but that was what worked. So my approach to a meeting with OMB was to say, "Look, we will get control of our expenses, but we can't be an endless source of cuts. You need to reinforce us in areas where we are going to add value." Califano—actually the President—wanted the Management by Objectives, so we put that in and we computerized it and we did all kinds of fancy things, and I think OMB liked us for that. We got a good reputation for financial analysis and things went well. Califano knew that bureaucratically he wanted someone working the Medicare-Medicaid problem that would have a decent relationship with OMB, but he also wanted to get some kind of control. I think he believed that I would attempt to do both of those things, so I did. He did not have that in his mind when I first arrived, but mentioned to me about six months later that I might be transferred. He was clearly dissatisfied with HCFA. I do not know why, but he wanted a management change.

BERKOWITZ: So you became the administrator of HCFA in November of 1978 at age—33 maybe? Was that a problem?

SCHAEFFER: I'd been head of the Bureau of the Budget in Illinois at age 28. I don't think it was a problem. I think it was a tremendous advantage. If I had known then what I know now, I would have been frightened. When you're young and naive and aggressive, you do things that are clearly impossible.

BERKOWITZ: I thought perhaps that the contrast between these hard-bitten Medicare, SSA veterans like Thomas Tierney and a 33 year old person brought in to reform health care finance in this country might have created some conflicts.

SCHAEFFER: Tom was great. My memory is that Tom had gone or was just about to leave when I got there. I believe Millie Tyssowski was the woman that I dealt with, but I liked Tom a lot and he liked me. He was a tough son-of-a-bitch and thought that I was smart and tough and crazy. I presented myself as a career government civil servant and he like that. I had no political contacts and did not behave in a partisan political sense. I got along well with most of the career civil servants. They thought I was crazy because I worked too hard, went to work on Saturday, stayed 'til 10 or 11 o'clock at night, but Tierney admired that. Tierney was not a problem. There were a lot of other problems, but he was not one.

BERKOWITZ: Did you work in Washington mostly or Baltimore?

SCHAEFFER: I moved HCFA to Baltimore. That was my responsibility. Califano will tell you all about that. He thought that was something special. I started out in Washington and concluded very quickly that the organization wasn't working, that we couldn't integrate Medicare and Medicaid unless you physically forced people to sit together, and that we had to literally blast out of Washington because this was an encrusted, imbedded bureaucracy. My idea was to move to Baltimore, actually unhook everybody from anything that was familiar and force them to integrate Medicare and Medicaid. You recall that prior to that they were not integrated and they functioned as separate programs. We sort of did the move in the middle of the night one night. After that, I was supposed to be in Baltimore. The problem, of course, was that Califano and the Congress were in Washington, so I spent my time sort of 50-50. When it started, everybody was in Washington; when it ended almost everybody was in Baltimore and I was trying to be with them.

BERKOWITZ: The Medicaid bureaucracy which had been part of SRS was in Washington.

SCHAEFFER: Right. Everything but Medicare. Medicare was in the big building on the Social Security campus.

BERKOWITZ: Medicare was already out at Woodlawn and you decided that you'd move everybody out to Woodlawn.

SCHAEFFER: Well, there were two problems. The bigger one for me was that I couldn't integrate the programs with people in separate cities, in separate cultures and with different goals. The notion of cooperation and

integration wasn't real. The Department had a space problem, so the conclusion was, "We'll go out to Baltimore." Now the Social Security Administration wouldn't give us any more space, so we had to go find other space in Baltimore.

BERKOWITZ: When HCFA was created the year before, the idea was that there would be synergy between Medicaid and Medicare. How, if at all, was that realized during your term? What did you try to do?

SCHAEFFER: When Joe asked me to move to HCFA, his concern was very similar to when I came to Management and Budget, and that is, "Our programs are moving too slowly. There is bureaucratic resistance and the things that need to get done aren't getting done." No matter how fast you move you aren't getting them done quickly enough—that would be Joe's reaction. But it was true, not much was happening. Bob Derzon was not a manager, he was a very good policy guy. What Bob wanted to do was to design legislative solutions to policy problems. However, Califano felt that legislative solutions were his responsibility. I felt, and still feel, that I'm a professional manager, and I wanted to run the Agency. If you look at the statutory underpinnings at that time, there was so much flexibility that you could managerially achieve results. We had great flexibility and authority within the law. So I wasn't crazy about all the changes that all the policy people wanted because I wasn't sure they would be enacted as proposed. You've got to remember that in the beginning they were trying to do health care reform as well. My view was that in the existing legal framework there was tremendous delegation of authority and there's a lot we could do. Let's just go do it. And Joe loved that.

BERKOWITZ: Do you remember anything specific in terms of trying to manage the two programs together?

SCHAEFFER: Yes, well, we integrated the programs. The idea was that we wanted to leverage our purchasing ability. The difficulty comes when you have a program in which you provide most of the funding but the state provides the administration. It's very hard to make that happen. We tried to get something going in Medicaid but it didn't work. The states wouldn't do it. We did accomplish some things in Medicare where we had control. We did a second-opinion program in Medicare. That was the first time that had ever been done. We also revitalized the end stage renal disease program and tightened up contracting and carrier and intermediary administration.

BERKOWITZ: That was part of the Medicare program, right?

SCHAEFFER: ESRD is a condition that is life threatening and the Congress had authorized a program under which the federal government would pay

for dialysis regardless of age. That was in 1972. It became an automatic entitlement. It was part of the Medicare program, that's where they put it. But it was at that time the fastest growing program in HEW because it was just open-ended. What politicians desperately fear is somebody dying because they wouldn't give them money and with end stage renal disease you will die if you don't get dialysis. So we tried to take action to control costs. What we did was change the way we reimbursed for ESRD. By the way, many ESRD patients were also Medicaid eligible and they were often poor people.

In order to control costs, we moved from a fee-for-service payment to a global fee. That resulted, theoretically, in a reduction in costs because fee-for-service basically says, " We'll pay whatever it costs every time you do it, but we don't decide how many times you do it or the price. Your doctor decides." There were a lot of bad actors in dialysis, it was filled with fraud. So we said, "We're going to pay you a global fee that's actuarially calculated. It's the average amount you ought to get for the average patient. Then you've got to manage your patient load so that your costs are less than that." And there was a huge blow up and a huge fight. It was the beginning of a capitation-like approach in the managed care sense. It was a big deal at the time, a tempest in a tea cup—the ESRD was only a billion dollars or so—but it was the beginning of moving away from fee-for-service reimbursement.

BERKOWITZ: So End-Stage Renal Disease is a step along the way to DRGs [Diagnosis Related Groups]?

SCHAEFFER: Yes, a very primitive step, but these were very primitive times. We were doing research on DRGs at the time. It was considered way, way off in the future.

BERKOWITZ: Who did you take with you to HCFA? Did you have your own team there?

SCHAEFFER: Both at Management and Budget and at HCFA I tried to use the people that were there. The standard procedure that I used was to identify the baddest of the bad actors and nail them very, very early. A quasi-public execution. It sounds terrible, but it's what you had to do. Once people understand the level of performance required, those who don't want to work that hard leave, and those for whom it sounds exciting stay. And then you begin to recruit new people. I don't think I brought anybody to Management and Budget. I remember bringing one guy into HCFA, but at Management and Budget I dealt with the existing staff and posted some jobs. At HCFA we actually had to recruit a lot of people.

BERKOWITZ: Who did you bring to Management and Budget?

SCHAEFFER: A fellow named Phansteil, Howard Phansteil, who had worked with me in the state Budget Office. We a new head of personnel—human resources in the federal government is difficult—so we brought in a guy from the outside who was much more aggressive. And we hired a new facilities manager because we were doing all these moves. We also were trying to upgrade our computer staff. So there were three or four new senior executives. Jack Ebler was there and he was very good. Millie Tyssowski was very hard to deal with conceptually, but she understood hierarchies and understood power. You gave her a direct order, and she did it. She was a thirty, thirty-five year veteran when she retired. I was the cross that she had to bear.

BERKOWITZ: All through this time as you are trying to do your management job at HCFA, there's this discussion of hospital cost containment. One of the themes of that hospital cost containment, I sense, is that this was to apply to all hospitals, not just to Medicare reimbursement or Medicaid, but all hospitals. You say you sat in on those discussions. What do you recall of those?

SCHAEFFER: Carter wanted to do health care reform, and he and Joe worked on health care reform. My earlier point was that that's not where I thought I could add value (in the legislative process). My sense was that I did not know if massive reform was going to be successful in Congress. I thought we could add value in the process of managing the programs that existed. And that's what I wanted to do.

BERKOWITZ: Your main goal was managerial?

SCHAEFFER: You see, at that time Congress hadn't got into legislating everything that the organization did. We had two enormous powers that don't exist any more. We had Section 223 that allowed us to ratchet down reimbursement levels. On August 27, 1979, I sent out an Administrator's report in which I said, "Millie Tyssowski isn't in charge of Medicare any more. She's in charge of Program Operations, and that means she'll run the back office for Medicare and Medicaid." And believe me, that was not popular. I also pulled out Policy from Medicare and from Medicaid and created an integrated health policy shop under Bob O'Connor. In short, I made a whole bunch of operational changes, which had substantial impact on behavior over time. So instead of having a Medicare Bureau and a Medicaid Bureau they were integrated. If you read the Administrator's report it will lay out exactly what we were trying to do and how we integrated.

BERKOWITZ: Califano left not long after you became Administrator of HCFA and the late Patricia Roberts Harris became Secretary. How did that affect your job?

SCHAEFFER: Mrs. Harris was the reverse of Joe. Joe's whole idea was, "Let's get it done fast, let's be innovative. People depend on us. We have a responsibility to make these programs effective." Joe's a very impatient guy for what I believe were very good reasons. Mrs. Harris was a classic government official: "Take it easy, go slow, don't make any mistakes, and for God's sake don't get in the newspaper."

BERKOWITZ: But she kept you on.

SCHAEFFER: Yes. I don't know that she let anybody go.

BERKOWITZ: I think maybe there were some at Social Security.

SCHAEFFER: Yes, that's right. She and Stan Ross didn't get along.

BERKOWITZ: Stan Ross was another friend of Joseph Califano.

SCHAEFFER: Stan was very closely affiliated with Joe. He was very bright and a very successful lawyer.

BERKOWITZ: And your relations were cordial even though your bureaucratic missions were somewhat antagonistic?

SCHAEFFER: At the bureaucratic level there was all kinds of crap, because there was a big turf war at bureaucratic levels down in the organization . Just think bureaucratically for a minute. Here's the Medicare Bureau that used to be buried in the bowels of Social Security. Now all of a sudden it's torn out of Social Security and there's somebody who's heading it who's on a par with the Administrator of Social Security. In Baltimore, the Social Security Administrator is God. That is a big, big, big job. And bureaucratically they didn't like it, but Stan Ross was not a career bureaucrat. He was a very bright guy, and at that time he was very close to Joe. Joe had around him a group of lawyers who probably had more intellectual power than has happened very many times in government. The difficulty was they were all lawyers and they didn't have any managers. They didn't have any people focused on operations, and that's one of the things I think he liked about me.

BERKOWITZ: Do any stand out among those lawyers, like Ben Heineman maybe?

SCHAEFFER: Oh, Heineman was a very, very bright guy. He was close to Joe, yet willing to engage in debate with him.

BERKOWITZ: Danny Marcus?

SCHAEFFER: Yes, I didn't know him as well. There was another fellow, Rick Cotton, also a very smart guy. Heineman was very bright, Cotton was very bright, Marcus too. There were three or four others who weren't quite as visible. Joe really liked smart people and these guys were crackerjacks. And it was fun. It was exciting to be there. The reason I got on so well with him and don't have any negative stories, is that I was not a lawyer and I didn't engage on some of the professional turf issues that arose. I was an operator and Joe liked operations. He loved to see things happen, and in that kind of bureaucratic environment few changed. I could make things happen at HCFA and he loved that, so the reward for performance was less and less oversight—or more and more degrees of freedom. And that was terrific.

If I had tried to take over the policy decisions for the legislative process, there would have been terrible contention. But that was not my interest, so it went very well. Again, we had Section 223 which was the mechanism for ratcheting down on hospitals, reducing hospital reimbursements under Medicare. We also had this huge pot of demonstration money and the ability at that point in time to use our demonstration authority to increase or decrease program money, so you basically had an open-ended research and programmatic budget. You could, under your demonstration authority, change the way Medicare or Medicaid reimbursed, and that wouldn't come out of your operating budget. So we had tremendous flexibility which doesn't exist today.

BERKOWITZ: Could you explain that last bit to me.

SCHAEFFER: There used to be a demonstration authority that HCFA had, or maybe the Secretary had but we exercised it. This authority would allow us in a demonstration project to change Medicare reimbursement principals and benefit levels and therefore to pay either more or less or to change the whole program in order to analyze the impact of those changes in a specific geographic area.

BERKOWITZ: To individual states?

SCHAEFFER: Yes. It wasn't intended to be that broad, but it really was. So we did demonstration projects that didn't require additional appropriations and didn't require further legislation. Now that's all gone. At the time I was there, and frankly it's probably still true although nobody likes to say this out loud, if you are an administrator at a senior level in the government you

have a lot more discretion than people think. The problem is that if you move money around, somebody is going to yell. You have to have a good reason, but you can do it. Which [laughing] is why I was there only as long as I was there.

BERKOWITZ: Which was my next question. I know that you left in June of 1980 which was the campaign summer when Jimmy Carter was running against Ronald Reagan. By June of 1980 when you left, Edward Kennedy was out of the picture or had just been in the picture, and I read somewhere in a statement that you said that you wanted to spend more time with your family, and that you were resigning as head of HCFA. What was—?

SCHAEFFER: What was the real reason? The real reason was Mrs. Harris' communication to me: "Don't make waves. We've got a presidential election. Don't change, don't offend, don't cause any problems. The number one issue is getting reelected, so don't do anything that would cause any kind of upset." And I just had no interest in doing nothing for X number of months. It was a perfectly legitimate request—I understand reelection campaigns—but there are better things to do with your time, so I left.

BERKOWITZ: Looking at your career after you left HCFA I see you didn't work in the government again. Is that right?

SCHAEFFER: I am the only person in recorded history who believed in what I think is the spirit of the Carter conflict of interest policy, that said that you could not represent a private sector entity before the agency you had worked for, for two years after you left that agency. So I felt I had to get out of health care, and I did, and went to Sallie Mae. Sallie Mae is a very interesting entity. It was a quasi-public, quasi-private company at that time. It was chartered by act of Congress. The idea was to use a private sector organization to accomplish a public policy goal, which was to help more kids get educated. So I did that for two years, and then I went back into health care. This was Group Health in Minnesota, an HMO. It is also historically very interesting. It was created out of the cooperative movement, the farmer cooperatives in the Midwest. It was founded as a cooperative and over time developed principles which are now called HMO principles.

BERKOWITZ: So by 1983 you were back into health care. Let me ask you one final question and let you editorialize just a little bit. The idea behind HCFA was that you were better off to have Medicare and Medicaid together and that this might build the administrative capacity for national health insurance perhaps later on, and therefore it was a good idea. It also reflected the President's interest in part, in reorganization. Do you think it was a good idea?

SCHAEFFER: The creation of HCFA was a very deliberate decision that Hale and Joe made as a result of their deep understanding of the government bureaucracy. Their point was that if the biggest cost and the biggest public policy issues are health issues, there's no way you're going to have an impact on them if the operations of those programs are separated and both buried in larger agencies. Medicare was buried inside Social Security, and at the time—it isn't quite the case now—but at the time Medicare was small potatoes compared to Social Security.

As a result nobody was paying much attention to it. Medicaid was buried inside SRS, and although it was the biggest dollar amount, SRS was set up for a different political agenda. Health care was not part of it. I told you a little bit about the Medicare mentality. The Medicaid mentality was, "These aren't beneficiaries, these are clients.

Our job is not to protect them; our job is to protect the federal government from these crazy state operators." But in neither case, neither the "protect the benes [beneficiaries]" Social Security case, or "watch out for the client" in the Medicaid case, was anybody interested in health care or controlling health care costs. They did not think it was their job to intervene in the health care system.

What Hale and Joe wanted was to raise the organizational/operational visibility of health care programs. What I wanted to do was to put those two programs together and leverage the health care system. That was probably even more radical than what they thought in the beginning, but they loved the idea and they wanted to do it too. So, was it a good idea? Absolutely. It was a great idea. Were we able to do all of it? Well, no. We got people nervous, began the DRG development, and made HCFA the center of the universe for health care in this country. When I got into that job, people used to say "HiFCA? What's HiFCA?" [chuckling] Now you say HCFA to a hospital administrator and you see them tremble, because the government was then/is now the largest single purchaser and ought to, I believe, influence both the cost and the operation of the health care delivery system.

That thought, when I got to HCFA, was un-American. "The government has no business trying to influence cost or quality. All the government should do is pay the bill." Retrospective fee-for-service reimbursement, the indemnity insurance principle. What we tried to do was to change that, and I think, at the conceptual level, we were successful. Operationally it's very difficult to dramatically change the world in a short period of time. But the world was different afterwards.

It's amazing how long HCFA has lasted. Gail Wilensky was the first person to change the organization a few years ago, but its goals and philosophy have

stayed in place. If you look at HCFA documents of fairly recent vintage there's always a little mention about mission. I wrote that mission statement in 1978 or 1979, and we beat on that, and beat on that until everybody began to believe it. So I would say yes, it was a very good idea.

BERKOWITZ: I think that's a very good note on which to end.

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Interview with Howard Newman

Chevy Chase, Maryland on August 2, 1996
Interviewed by Mark Santangelo

SANTANGELO: Mr. Newman, thank you for having me at your home.

NEWMAN: My pleasure, Mark.

SANTANGELO: You're not a native of this area are you?

NEWMAN: I'm a native of New York. We actually still live in New York, and this is a getaway place for us. We lived in this house when I was working in Washington, and then we moved to New York in 1988 when I became the Dean of the Graduate School at NYU. I'm still a member of the faculty of what is now the Robert F. Wagner Graduate School of Public Service at NYU. We get down here periodically, but my wife and I are both native New Yorkers.

SANTANGELO: Tell me a little about your background, where you went to school, your early career.

NEWMAN: After public high school in New York I went to Dartmouth College.

SANTANGELO: What public high school did you go to?

NEWMAN: DeWitt Clinton where everybody's father went. I grew up in the Bronx and went to college in Hanover, New Hampshire at Dartmouth and did a master's in business administration at the Amos Tuck School at Dartmouth. Influenced by one of the faculty members at the Business School, I entered in 1957 the field of hospital administration. That was Herluf Olson, a faculty member who had done a study of the field of hospital administration—the Kellogg Foundation had given him some money—and he concluded that this was a field that was going to grow in significance, particularly for people interested in the professional management aspect of large, complex institutions, and for me institutions that had social utility was a general career motivator. So I started my working life at Roosevelt Hospital in New York as a summer intern and prepared to go to the graduate school, the School of Public Health at Columbia, to do a master's in hospital administration which I started the following fall, the fall of '57. I did that while working at Roosevelt Hospital, and the experience at Roosevelt Hospital turned into eight years.

I stayed on and did all sorts of things learning about hospitals, of course in a much simpler day. Peter Terenzio was the administrator. He was my mentor, a wonderful fellow. He is still living, in Florida. He was at one time the president of what used to be called the American College of Hospital Administrators, so he was a national figure and a great friend and helper.

The experience was very broad; I really got involved in every aspect of the operation of the hospital. It was a teaching hospital affiliated with Columbia. In the course of my time at Roosevelt, I had the idea to see if there might be some opportunity to look at the National Health Service in England and actually invented an exchange program which was funded by the Sloan Foundation. They arranged for me to go over and for a British hospital administrator to come to Roosevelt. We spent three months of the summer of 1964 doing that. It was a very good experience.

In general it was an active time for me to really begin to learn that field. I married in 1960, and in 1965 we moved to Philadelphia where I became Associate Administrator at the Pennsylvania Hospital. Pennsylvania Hospital is an affiliate of the University of Pennsylvania, interesting, among other things, as the oldest hospital in the United States, founded by Benjamin Franklin in 1759.

SANTANGELO: So you just missed their 200th anniversary.

NEWMAN: Right. There my job was Associate Administrator with primary responsibility for external community programs. We developed a neighborhood health center, a community mental health center, put a clinic in a housing project for the elderly, somewhat ahead of our time, I think. It was a period when the national direction had great interest in the War on Poverty, the OEO was encouraging some of these kinds of activities. We were in Philadelphia from 1965 to '70, and during that time for one year, 1967–68, I was in Washington as a White House Fellow which was another very interesting experience. I was in the third class of White House Fellows—I don't know how familiar you are with the program. I was the first person from the health field. It was a wonderful program. John Gardner has been given credit for the idea which he gave to Lyndon Johnson who actually started the program, and it was to attract people from a wide variety of backgrounds who were destined for leadership in their chosen fields to come and spend a year in Washington, not for the purpose of becoming career Washington people but to go back out and have the benefit of seeing what Washington is really like. That was a profoundly important experience for me and added to my whole view of things.

SANTANGELO: What did you do for them when you were there?

NEWMAN: There were 16 of us Fellows—Tim Wirth who became Senator from Colorado, and Doris Kearns who was the Pulitzer Prize-winning author were two of my classmates that year. Each of us was assigned to a Cabinet-level officer. I had the great good fortune to be assigned to the Director of what was then the Bureau of the Budget, now OMB. Then it was Charlie Schultz who is well known still at the Brookings Institute. He was the principal to whom I was attached. I spent most of my year there involved with the human resource service group, and within that, the health group.

The Bureau of the Budget was a very thin organization. It was such that the staff was considered to be an elite corps in the government, so you'd have only a couple of people in each area but they were very good. And I attached myself to the health people. The project I remember most clearly was the evaluation of neighborhood health centers around the country. I had some experience and interest, and that was quite good. Of course the whole experience of getting to meet people and see how the White House operated was quite interesting.

I went back to Philadelphia at the end of the year. Philadelphia was another active time for me. In addition to work at the Philadelphia Hospital, I was going to law school at night. When I came back from the White House Fellows year, I got involved in the Wharton School in developing a graduate program in health administration for the Wharton School. So by late '69 I had to make a decision that involved the choice between becoming the first Director of the Wharton School in Health Administration or to go back to Washington where I'd been invited to come and run the Medicaid program. I asked a lot of people, solicited a lot of advice almost all of which was to stay in Philadelphia at the University. I decided to not take that advice, and I'm very happy that I didn't because being back in Washington certainly provided me with one of the most interesting experiences of my life, four and half years or so of being the Commissioner of the Medical Services Administration in what was then called the Social and Rehabilitation Services, the euphemism for the "W" of HEW. This was 1970. You will, of course, realize that was the early part of the Nixon administration. I was not a Republican. It would be fair to say that my own political views were not really those of that administration, but I was anxious to see if I could contribute to the Medicaid program's mission of providing services to the poor.

SANTANGELO: You said you had a lot of advice to stay in Philadelphia. What prompted you to spurn that advice and actually move to Washington?

NEWMAN: Part of it was, having been here for the year, I was not intimidated by the thought of going to Washington. I also had gotten some sense, not all attributed to the White House Fellows experience, that the

federal government was an important institution in our society, and that the opportunity to have a significant role in the federal government at as early an age as occurred for me was something that I felt was worth the risk. The advice not to do it was not so much political, it just was that people felt that this would be a real tough job and a tough place. I remember very clearly the Dean of the Wharton School was one of the people I asked for this advice and he said, "They'll eat you up alive. You won't know what hit you." But I had enough confidence in myself, justified or not, to come down and do it. I remember the first day that I was here I opened the Washington Star, and my appointment was announced on the obituary page! I read that and thought, "Well, that may be some symbolism," but we managed to get past that, and it was quite an interesting experience.

We'll probably get back to that, but in terms of the continuing chronology, I was Commissioner of the Medical Services Administration through the end of the first Nixon term and stayed in for some period of what was his catastrophic second term. There was a change in the leadership in HEW. For most of the time that I was there Elliott Richardson was the Secretary and I had great respect for him, great admiration. Bob Finch was the Secretary briefly when I arrived, and for the last year or so that I was there Caspar Weinberger was the Secretary. The changes that took place under Mr. Weinberger's administration were such that I felt that what I tried to do and what I could contribute was really no longer possible, given the direction of things at that time. There were a couple of specifics—I can get back to that—but there was an issue that was really the straw that ended it for me.

I had the opportunity then to return to Hanover, New Hampshire where I had gone to school. I was then, among other things, a member of the Board of Overseers of the Business School, and so was in touch with the place. The Dartmouth Medical School was converting into full MD program; it was only a basic science program prior to that. So there was a decision made among three separate institutions, the Dartmouth Medical School, the Mary Hitchcock Hospital which was a private, not-for-profit community teaching hospital, and the Hitchcock Clinic which was a partnership among multi-specialty group practice physicians to join together and create the Dartmouth-Hitchcock Medical Center. I was invited to become its first president. I went there in 1974. I worked at that, did a number of things, hopefully moved it forward over a period of six years.

In early 1980, as a result of changes in HHS, the Department had been renamed Health and Human Services. Joe Califano was the first Secretary appointed by Mr. Carter. He was fired by Mr. Carter and Pat Harris came over. When she came over there were a number of changes including Leonard Schaeffer, my immediate predecessor as HCFA Administrator

leaving. Pat Harris asked me if I would be interested in coming down to be the HCFA Administrator. I didn't know her well. She had a reputation for being quite demanding, and, again, there were some people who thought this might be a tough experience. I came down—this didn't start until June or so of 1980—and I thought there were two risks associated with it. One was that I really didn't know Pat Harris. I didn't know whether we'd be able to work together very well. The other risk, of course, was that Carter was up for reelection. On the first, things worked out marvelously well. Pat Harris became a good friend and I had great respect for her and thought she was very capable, and she indicated that she was pleased with what I was doing and I could look forward to continuing to work with her in the second term. We had some discussions about ways in which we would be able to do things we felt needed to be done. And, of course, the second of the risks materialized, so I left government when Mr. Reagan arrived. There's another story there which I'll hold which has to do with involvements that I had with people in California when I was running the Medicaid program and Mr. Reagan was governor.

At any rate I left. I had gotten my law degree, to which I had made some reference earlier, so, finding myself in Washington at a point where my two daughters were growing up—our older daughter was in high school—I felt it was important not to move again if I could avoid it and was approached by a law firm that did health care law, a West Coast firm, to see whether I might be interested in opening a Washington office and practicing law—which was another great experience. This story involves a number of different kinds of challenges. I did that. I had to take the bar exam—I had never taken the bar exam before—and fortunately passed and became a partner in the firm and we practiced here and actually developed a practice that was successful.

But in 1986 the group that I was working with shifted to another firm, and in 1988 I was invited to come up to New York and become the Dean of what was then the Graduate School of Public Administration and a professor of health policy and management. The Deanship was a very interesting experience. I think we had some successes. Among other things we got the school endowed and its name changed in honor of the former mayor, Robert Wagner. So it is now the Robert F. Wagner Graduate School of Public Service. Now in my second year after stepping down as Dean I'm learning something about teaching and enjoying the opportunity to, I hope, convey to graduate students in the school something about managing in public service. So that's where I am and that's who I am. It's been a long and interesting journey.

SANTANGELO: Not a career in which you have likely been bored.

NEWMAN: Absolutely not bored and not all that predictable, but in one way or the other all health-related and almost all public service. I considered it quite challenging and rewarding and not very dull.

SANTANGELO: Let's go back a bit. You were at this hospital in Philadelphia in the '60s, Pennsylvania Hospital. Were you there when Medicare and Medicaid were passed?

NEWMAN: Actually they were passed in '65 and I moved to Philadelphia September 1st of 1965, so the during the debate and discussion which had been going on for years I actually did my thesis at Columbia in the School of Public Health which was about the need for national health insurance. It was something that people had been aware of and didn't actually happen until '65. I was in Philadelphia by the time of the great period of Medicare implementation of SSA Commissioner Bob Ball and Deputy Commissioner Art Hess. Tom Tierney (first head of the Bureau of Health Insurance) was one of the great figures of those days.

SANTANGELO: Is he still living?

NEWMAN: I believe he is. I lost track of him and haven't seen him for many years. I had great respect for him and liked him a lot from the later experience in Medicaid. I was at Pennsylvania Hospital when the initial implementation activities took place, and the selection of the intermediaries was a big issue. Some of the big legislative questions were very prominent just before I came down there. I remember this question about hospital-based physicians—radiologists, pathologists, anesthesiologists—really major issues that were resolved at the eleventh hour. So I was there when Medicare was born.

SANTANGELO: Tell me what it was like at the grass roots level. You were working in a major city hospital. What did these two programs really mean for the hospital?

NEWMAN: I think one of the things that has gotten lost from that period, because obviously it was a big change and there was an expectation of what this was going to do would be to provide the means by which we would essentially have a single class of care—everybody was going to be entitled to services and we would not have the kind of poverty medicine that existed traditionally—was that there was a serious question as to whether or not this thing was actually going to get off the ground. I remember, for example, the concern that physicians would not participate. We forget that. Physician participation is, of course, voluntary. There's nothing that requires a physician to participate in Medicare. It now would be almost unthought-of because it is such a significant source of revenue for physicians, but in those

days the big concern was whether or not they could actually get this off the ground. The commitment was that people would have, essentially, insurance, so the expectation was, "If I get services that are appropriate, then I will get paid back for what I spent," or in the case of the physician accepting was that he would get it directly. But if the physicians didn't participate then there was no program. The idea, for example, of usual and customary reimbursement became the means by which physicians were convinced to participate, and twenty-five years later there was this enormous outcry because it was so expensive. That has to be seen in the context of the concern by the people like Wilbur Cohen and Bob Ball, etc., who were told by the President of the United States, "This thing goes. We push the button and it flies." I remember that you couldn't go to a hospital association meeting for this not to be the subject. How it would work, what we had to do was on everybody's mind. But there were great expectations certainly among those of us who felt it was a very, very important step, that it would in fact provide the means by which we would achieve substantially greater equity in health care.

SANTANGELO: And Medicaid in a similar way, but reaching a different population than Medicare.

NEWMAN: Yes, a significantly different program. The important thing to remember about Medicaid—we're talking about this on a day when the President is expected to sign the so-called Welfare Reform Bill—is that Medicaid was a profoundly different program structurally. My own view of it has always been that it's not an insurance program. It's really a program that provides federal government matching funds to states in order for the states to arrange for the services to be provided to a group of people who otherwise would not have them, so it isn't—at least in my view—defined and developed as an insurance program. It was paying providers for services that states obligated themselves to assure would be provided by participating in the Medicaid program and receiving matching monies from the federal government. What has happened to it over time is, again, a fascinating story, but that was its original intent.

So it was different in many, many ways, and I think that's relevant to one part of your whole history here because the creation of HCFA itself as a means of bringing the two programs together—one, I think, could make a pretty good case for the fact that it was not a particularly wise thing to do if one was assuming that these were programs that were essentially similar, and that it was just a matter of administrative efficiency since they were doing the same things. I would argue that in many respects they were not doing the same things. So with an orientation based on the experience of Medicaid, that period going down to '65 was one in which I think there was a

feeling that what Medicaid would accomplish would be to provide indigents, people eligible for Medicaid—and everybody now realizes that does not include everybody who is poor—people eligible for AFDC and other categories of welfare would no longer be obliged to receive medical services only as charity cases. They could now be accepted into the institutions with payments for the services, and presumably there would be no need for public institutions. Medicaid patients would have their own physicians and they would essentially be treated like private patients. I think people thought that would happen and didn't acknowledge how difficult that would be to accomplish and how the provider community would resist that kind of real integration or achievement of one class of care.

SANTANGELO: Actually I'm interested because it sounds like one of your main responsibilities at this hospital was reaching out to the surrounding community. Did you get a sense of what these programs meant to people that they would cover?

NEWMAN: It really wasn't visible at that early stage. You couldn't really gauge the impact. What was clear early was that the estimate that had been put forward for what the federal government's cost of matching state expenditures were very low. So very quickly Medicaid began to exhibit some distress signals. I would say that it was substantially due to a weak constituency. That's not a very profound statement, but the poor are not a strong political force. So to blame the poor—we are back to today's newspaper—and public policy is based on blaming the victim or the recipient. The costs of Medicaid seemed to be higher than what people thought they would be, and there were immediately concerns about what they would do about that. Since then, as you know, the Medicaid program was structured to give states the option of what the eligibility limits would be and the category of medically needy individuals was available to the states as an option. People who risked becoming indigent by virtue of their medical expenditure and also in terms of the range of services that were required services mandated by the law, and then there were optional services, so a state like New York, which had a liberal tradition, as one might describe it, had a very large program that took advantage of the options to bring the poor people into the program. And so the outcry that this was costing too much money was almost immediate.

It was also the fact that the states were really the administrative agents of the program. The federal government was obliged to try to establish the standards and enforce the standards, to the extent that that could be done in a political system such as ours. The states had this responsibility with regard to administrative activity, so that a federal expectation that reimbursements, for example, to physicians would be such that there would

be an adequate number of physicians available to provide the services to people who were eligible. That was what the state was supposed to do. Well, that might mean that the state would have to pay more than it wanted to pay for physicians services so, again, what would happen was that a few physicians would see an opportunity to make money. And we saw, early on, the so-called "Medicaid mills" established, so that the through-put of Medicaid patients was substantial enough so that people were making a lot of money. Most physicians didn't want to participate in Medicaid because the reimbursement was not high enough. So you did not, even from the earliest days in many states at least, achieve this broadening of service opportunities for Medicaid recipients, and the states were beginning to get under pressure for the costs of the services. So the two programs in many ways were different and remained different. Medicare, of course, has always been tied to Social Security, part of the social insurance contract. Medicaid has really never escaped its origins as a program for indigents and has suffered the consequences of not having strong political support.

SANTANGELO: Let's talk a little bit about your time as a White House Fellow. You worked with Charlie Schultz. What did you learn from him?

NEWMAN: I think most profoundly I learned that the federal government, even at its highest levels, consists of human beings. The best of them were, at least then and to some extent now it's true, highly dedicated, extremely capable people. And I guess I would say that what I learned from Charlie Schultz was to respect the importance of public service and the contribution made by people in it. He was a very down-to-earth, very decent guy, was totally unpretentious and allowed me to roam free and meet and learn and do things that would have been inconceivable had I worked for someone else. So it was a wonderful experience, and it was his willingness to give me the opportunity, in the sense that he defined it for me with very few constraints. There was a man named Sam Hughes who was his deputy, a career civil servant, who really was the epitome of what the career service is all about. And the Bureau of the Budget, as I mentioned earlier, was a kind of elite corps of government employees. The thing that was so interesting to see was the apolitical nature of this organization. I don't think anybody but the Director was a Schedule C—well, I guess maybe there were other Schedule C; but certainly a very thin top layer were political appointees—overwhelmingly the place was career people. Their loyalties were to the President, but in a funny way they were not political people. One of the people—it may have been Sam Hughes—told me the story of the transition from Dwight Eisenhower to John Kennedy. He said that on one day they were working for Dwight Eisenhower and the next day they were working for John Kennedy, the same people, and, to the extent that there were different policies, they didn't miss a beat. Their job was to provide the best analysis,

the best information, to the President and to the Director of the Bureau—to whoever the decision maker was.

Given the way in which the political and the bureaucratic have melded together over the years—so much has been politicized, so much has been a function of personal loyalties—and I'm not talking about either party, I'm talking about the whole process—it has profoundly changed and not for the better. The notion of people being appointees moving so far down into the system and the consequent degradation of career civil servants is something that I think we have suffered from a great deal. The time—my White House year—was somewhat close to what might be considered a halcyon period, a wonderful time when people believed in government, believed in its affirmative duty to make things better, especially for people who needed help of one kind or another. I attribute that year in Washington as giving me a real sense of that. I had feelings about it before, but being in it, seeing and meeting people and realizing that Cabinet Secretaries were human beings and not some other species, was an important lesson to learn.

SANTANGELO: Where were you physically located?

NEWMAN: I was in the Old Executive Office Building. I was literally outside—I don't know what the physical arrangement is now—the Director's suite overlooking Lafayette Park. There was a little cubby hole within that Director's suite where I sat, so the whole world passed in front of me. There was less security than today, of course, so that going across the roadway to the West Wing of the White House was an everyday incident.

SANTANGELO: Did you have specific projects that you were working on?

NEWMAN: Yes, I spent about half of that year on educational programs—very broad—with a lot of meetings and visits, but the rest of the time I was in the Bureau I would attend staff meetings pretty much as an observer. I participated with the Health Group. There was a young man who became quite prominent in a subsequent administration, Paul O'Neil, who became Director of OMB, I think it may have been in the Ford administration. Paul was a young analyst when I was a White House Fellow and we got to be friends, and several others. One project that is clearest in my memory was participating on the team that did evaluations of the OEO neighborhood health centers. I remember also being involved with a small task force that the President had set up with a senior budget person in HEW. One of the senior people in the Bureau of the Budget's health operation co-chaired this task force looking at the spiraling costs of Medicaid. I have a clear recollection of attending a briefing session at which President Johnson was presenting some background on this growing problem—somewhere between the fall of '67 and the spring of '68 was when this work was done—and my

job was to be the chart flipper, not, of course, ever dreaming that two years later I'd be back running the Medicaid program. That was another one of those interesting moments in the White House. Then there was a presidential commission looking at hospital construction programs, looking at the Hill-Burton program, and I remember sitting in on their meetings. It was an open-ended opportunity.

SANTANGELO: Let's fast-forward then to a few years later when you did, indeed, come back to Washington to run Medicaid. Who was it that actually contacted you about that?

NEWMAN: The Social and Rehabilitation Service—a euphemism for the "W" in HEW—had within it six bureaus, three related to welfare programs, and then the rehabilitation program, aging, and juvenile delinquency were the other three bureaus. It was the cash assistance—what one would think of as the welfare program—the social services program and the Medicaid program. Each of them had a Commissioner. Mary Switzer had been appointed as the first head of SRS by John Gardner. She was in the process of retiring. A man named John Twiname had come to government to participate in federal service. He had a business background—I think American Hospital Supply. I can recall this because we have actually become reacquainted during the past few years and see each other, and he's had an interesting life of his own. So he was a young businessman proud to be in government and to be in that administration. He was a good, loyal, moderate Republican, and he was going to be the Deputy Director of SRS with the expectation that he would succeed and become the head of SRS. This all was in the process of happening, and my predecessor, the person who was the head of the Bureau of Medicaid was leaving. His name was Frank Land, a physician. I'm not exactly sure where my name came from, except I know that it related to my prior experience at OMB.

There had been a commission which had been established by the Secretary. So you're talking about Nixon being elected in '68, coming in early '69 and being immediately presented with these spiraling costs of Medicaid. That's what always happens when you have a commission. It was the Secretary's Commission chaired by Walter McNerney, the head of the Blue Cross Association, and a whole bunch of people on it—Nathan Stark, Red Sommers, Bart Seidman and others—and they made recommendations about what needed to be done to Medicaid. One of them was to bring somebody in to direct the program who had a background in health care and who understood government, so I was sort of the product, the result, of that Commission. I knew McNerney and I knew people on the staff of the Commission, and I think that was the way my name was presented to John Twiname. He called me and I came down to talk with him about it. There

is—since this is an oral history—a piece of the story which probably is worth recording in some archive. You understand that I was in Philadelphia, and you also understand that I was not a Republican. You might not realize that this administration became subsequently, I would say, virulently political in its views as to who was acceptable. This was relatively early that I'm talking about, the fall of 1969. So John Twiname had heard of me from people who are on the Commission, not a political commission but a professional commission, and I was at that point, I think, somewhat in the health care field identified**. . .** So John called me and invited me to come down and we talked. He said he'd like some other people to meet me, so I went through a series of interviews with people, one of whom was a man named Fred Malek.

Fred Malek later—he was then in the personnel part of HEW—became the White House political hatchet man. He was the really aggressive loyalty guy. He was also a Harvard Business School graduate, as I recall. We talked about Medicaid. I told him what I thought about it, what I knew about it, what I thought it needed, what I had done. I was never asked any questions about my politics. I went through this series of conversations with people and they were very pleasant. I had, as I mentioned, this other advantage of this not being something I was not desperate about. I had my life in Philadelphia, doing things there. By the way, the best way to have an interview is to be relaxed and not be terribly worried about the outcome. So I get back to John Twiname, and he's gotten back the reports from his interviewers and he says, "Well, it looks like you're the guy and we'd like to have you come." And then he says, as an afterthought, "You're a Republican, aren't you?" And I said, "No, as a matter of fact, I'm not." Then he said, "Oh, well, we'll have to get back to you." I said, "Fine. I'd be happy to serve." And he called me back in maybe a week or ten days, and it turned out that he had had to get clearance on this appointment of somebody not Republican. I know that it involved Hugh Scott, the senior Senator from Pennsylvania—a prominent person in the party, I didn't know him—and they needed to clear this with him. That's the way it happened. In retrospect, of course, it was, I think, part of what I had going for me was that I didn't feel myself a political appointee. It wasn't a function of anything other than, I hope, my competence. That's a little aside that wouldn't be captured any other way.

SANTANGELO: So then you did come on to run Medicaid. How big a staff was there when you first came?

NEWMAN: That's another great fact for the footnotes of history. You're talking about the central office for the Washington staff for the Medicaid Program and there were 60 people—six oh.

SANTANGELO: Just slightly more than one per state.

NEWMAN: Yes, well there was a regional structure. There were ten regional offices. But it was minuscule. Of course, their responsibilities in the early days were only to develop the criteria by which the states could come into the program. There was not much thought as to what exactly the federal obligation was other than to lay out some set of criteria which would put into regulation what the law said the states needed to do. And that pretty much mirrored what the statute said. States were obliged to submit their documents to participate in the program, and that was essentially the role that the Bureau had. Part of the work of this Medicaid task force was to indicate that not only did it need leadership, but that it needed to be substantially expanded. It needed to be restructured to take on tasks that were unanticipated in its first days. One of the incentives, one of the reasons that I thought it might actually be doable, was that there was a commitment made for there to be a supplemental appropriation which would include some substantial increase in the staff. In these days, one never thinks in those terms. That doubled the size of the staff, still not very large, but relative to what we were, and we restructured so there was an Office of Planning and Evaluation, there was an Office of Innovations.

An interesting footnote to all of this is that the first arrangement with a pre-paid health plan for Medicaid was back then, 1970 or '71, with the Group Health Association [GHA] in Washington. This was, I think, the first contract of what would now be called managed care, HMO. We did that on a kind of experimental basis. The fact that there were new slots gave me the opportunity to recruit people.

I would say that, for me, the story of my Medicaid experience and what I took from it, was the great respect that I had for the people in it and the sense of commitment that our group had doing what our mission was. It was a wonderful experience and a wonderful group of people, many of whom I remain in touch with and they have gone on to do various things, some of which are of great significance. It was a wonderful time and wonderful group of people. We knew exactly what we were there for, and that was to represent the interests of the people who were receiving Medicaid. It was totally unambiguous and it motivated everything that we tried to do.

Although, I have to say, it was a period in our history, even then, when you were dealing with a program that provided services to the poor, you measured your successes by the bad things that you prevented from happening. You still weren't able to make a whole lot of good things happen—although there were some things that we did, implementation of Early Periodic Screening Diagnosis and Treatment [EPSDT] program for kids, some nursing home reforms and some development of the early management information systems.

SANTANGELO: What about the issue of costs? That was one of things that the task force was talking about. How was that discussed during the years when you were there?

NEWMAN: I said earlier that the costs were a problem partly because they had been projected—probably consciously, I guess I'd say, to convince the legislators to pass the law—lower than they turned out to be. But the other part of this, which really needs to be said, is that to the extent that much of the focus has always been on some notion that the people receiving care were over-utilizing. I've never understood what it means to say that people will seek out medical services that they don't need because they're free, that a poor person who has to travel on three buses to go across town to a public hospital and sit in the waiting room for six hours will go because it's free. Basically there's no question that throughout the whole health care system, including Medicare, the need to somehow control costs in a world defined by fee-for-service has been needed, and the fact that we're now moving in such a swift fashion to permit the market to determine how costs will come under control does reflect the fact that we had reached the point where the cost structure was unbearable and that changes needed to be made in the structure of the way in which the system provides care. Now, to blame Medicaid—and particularly to blame the people who receive the care—for that escalation of costs, has always seemed to me to be wrong. And yet it is a wonderfully convenient way of sticking it to somebody and avoiding the real task of reforming the delivery system or determining what we wanted to expend to provide the marvelous technologically advanced services.

But in those days, states were, in one sense, unable to resist the temptation of securing the federal monies, and then found themselves spending more themselves than they had anticipated. In later years, well beyond the time that I was there, there was the whole development of medically-related interest groups—nursing homes, for example—influencing state legislatures in ways that served their interests. So costs have always been prominently in the picture. We haven't, unfortunately, ever got beyond the cost issue in Medicaid. If we are committed to a single class of care and some achievement of equity in access to care, we haven't made a whole lot of progress.

SANTANGELO: How much oversight really was there for the states? You had a fairly small office here and there were people out in the regions. Someone in one of our interviews said, "We thought we had a lot of oversight, but the states really pretty much did what they wanted to do." Is that a fair assessment?

NEWMAN: I think that's absolutely a fair assessment. I think that any expectation that the federal government in this relationship could seriously

force states to do things was not only not achievable bureaucratically, it wasn't achievable politically. I mentioned earlier differences with the state of California under Governor Reagan where the state wanted to secure a waiver to develop the so-called "Medi-Cal" Reform Program. That was based on the idea that the mandated services of Medicaid, which the law said had to be provided without any co-payment—if you think about that, it seems entirely reasonable to say that an indigent person might be defined as one not having disposable income and isn't able to have a co-payment for medical services. But they said, "We're spending too much, having too much over utilization, and the way to control that is by having co-payments." I think that's probably a correct thesis when you're talking about people who (a) over utilize and (b) have the money such that the co-payment is a deterrent to unneeded care. They (California) wanted to do this, and they needed a waiver from us to vary from the regs and the law, and we at the Bureau level said no and we were supported through the Secretary's level. Richardson supported us. The White House decided to give them the waiver. My understanding was—this was somewhere early in 1972—that the White House wasn't interested in Reagan's being a competing candidate in 1972. So he asked for the waiver and they gave a waiver, and we then at least insisted that there would have to be an evaluation of this, which was done. My recollection is that somebody from UCLA, who was a well-known academic, did the evaluation and the evaluation showed exactly what we said it would show. It showed, "Yes, you saved money, but you saved it at the expense of people who needed the care not getting it."

To that extent costs have been an issue and attempts to deal with it have tended to focus on the victim. On the other hand, it's also interesting to note, and California is an example of this too, that one of the things done in California early on was to redefine as a covered service under Medicaid schools for the retarded by designating them as intermediate care facilities. So once they became intermediate care facilities, they were eligible for 50% Medicare matching. They were the same institutions doing exactly the same thing. That concept of "how do we maximize the federal share" began to motivate states and, in recent years, got wildly out of hand. The states were almost drunk with the idea that since there were no or almost no other sources of federal support for state activities—over the years they dried up—Medicaid became one of the few open spigots. So the challenge for the states was to "medicalize" as much as they could. An obscure loophole was created by having hospitals contribute to the state and have that as part of the state share, which then the federal government is obliged to match by law, and then using the matching to repay the institution—really obscene types of things—which resulted in a great outcry, "Oh, my God, the Medicaid expenditure is just absolutely going through the roof, it's uncontrollable." And yet, in some strange fashion, at the same time the number of people

uncovered with insurance rose. The number of people on Medicaid actually decreased. Some of the roots of the current health care crisis go back to these early and much simpler days.

I think, all of that notwithstanding, that that period of my four and a half years of service in Medicaid doing some things, getting enforcement efforts in—a set of standards for nursing homes was an important achievement, the screening program for kids was very important. That, by the way, was an issue on which I finally decided it was time to leave. What had happened was that we had put out regulations saying that the states were obliged to provide these Early Period Screening Diagnosis and Treatment programs for kids.

SANTANGELO: And when exactly was that?

NEWMAN: We put the regs out in '71. It was the first issue on the table. I came to this position when I was 34 and I was a hospital administrator, and I can literally remember that the first thing that I had to deal with was the EPSDT regs which were two years overdue. They had worked their way through the system and I was presented with them. One of the people who had been there when I arrived was the acting commissioner, Tom Laughlin, and he said, "Here are the regs. Here's where you sign." And I said, "Do you think I could read them first?" and he said, "Well, yeah, if you want to." So I took them home and read them and came back and said, "I actually have a couple of questions about them," and he looked at me quizzically. I don't remember what they were, but his answer was, "We're doing this because the General Counsel said that's the way we have to do it." I said, "Has anybody spoken to the General Counsel about the possibility of doing it some other way?" He said no, and I said, "I'd like to speak to the General Counsel about maybe doing it the other way." He responded, "Well, I guess so, if you want to." I had a conversation with the General Counsel—in fact we became pretty good friends—and he said there was a way of doing it the other way. And I said, "I really think we should do this the other way," and we went ahead with this. After a couple of other incidents like this, finally Laughlin asked me, "Why are you doing this? You're only going to be here for a short time." Actually, by the time I left, I was the senior person in HEW in terms of this policy level. He said, "You're here to have a good time for a year and a half or so. You have all these opportunities to go out and travel and speak. Why in the world would you spend your time reading the regs?" And I said, "To tell you the truth, that's what I thought I came to do. That's why I'm here."

It really was a realization of who I thought I was and the nature of a system that really wasn't used to somebody who felt that way. And there were others joined me. Karen Nelson is a person whom you may have heard of.

There was a man named Al Richter and others—Barney Sellers, Joe Manes, Lucille Reifman, Jim Rice, Kevin Sexton, Jack Ebeler—these were all wonderful people, committed to this issue that we had which was not the way most of the people viewed things. That's a diversion from my story. So that was the point at which I decided it was really time to pass the baton.

We move forward to '74 and there's new leadership in HEW. Caspar Weinberger has brought in Jim Dwight as the head of SRS, from California without any social service/Medicaid background at all. His only qualification was that he was a Weinberger loyalist from California. What had happened was that the law said that states were obliged to provide screening services to kids eligible for Medicaid. There was no problem, of course, with providing screening services because you're not dealing with sick kids. They don't appear for services in the emergency room of the hospital. So you've got to find a way to find them. So I went to the Headstart program which had a similar population and said, "I think we should get together because you're a good case finder." And he said that was good, so we sent out a joint memo nationally to all of the Medicaid offices and all of the Headstart offices saying, "You guys should connect locally because that's the only way we're going to find kids who need these services." The guy who had come in to run SRS, Jim Dwight, rescinded the joint letter. He pulled it. I asked him why and he said, "Because it's going to cost money. We're going out to find kids, and when we find them it's going to cost us money. That doesn't make any sense." I thought, "I think the time has come. I think I've done all that I can do here." Because, I explained to him, "That's exactly why we did it. We're obliged to find those kids." That was the issue that was the decisive one for me.

SANTANGELO: It sounds like a real sea change between the Richardson people and those that followed.

NEWMAN: Yes, I thought it represented a substantially more conservative view. It was a view that was inimical to my sense of what we were trying to do and what I felt we were obliged to do, what the law expected us to do. I just felt that I wasn't able to contribute very much more.

SANTANGELO: Let's go to this period in the later years. Who contacted you about the HCFA position?

NEWMAN: I had actually spoken with and gotten acquainted with Pat Harris earlier on when she first came and she was going to fill the Undersecretary position. I spoke with her about that, and she called me and said that it had been a choice between me and Nathan Stark. Nathan is a wonderful person and a good friend of mine. I was invited to come down and talk with her about the Undersecretary's position. She called me—I was back in Hanover—

and said that it was a very difficult decision, and she had selected Nathan who was a very well-known and very well-regarded person—that's my statement, I'm describing him that way—and she felt that he was the person she wanted to do that job, but she would have hoped to have the opportunity to have two Undersecretaries and she would have wanted me to come as well, still wanted me to come, and asked me if I would serve as the Assistant Secretary for Planning and Evaluation. I declined that because I didn't think it was a position that I was well-suited for, but I said that I would be happy to help her in any way I could. And in the course of the subsequent year, there was a big problem in New York involving the Brooklyn Jewish Hospital. It's a piece of history which eventually got to the Secretary and became a major issue. It was a hospital in a very poor area and it was about to fail. The question was could the federal government allow this to fail. The state and federal government went into a complicated dance as to how this could be done. She asked me to come down and advise her on how to deal with this, and I did. And it worked out, I think, reasonably well for her and for the Department, and there was a resolution to that problem. So when Leonard Schaeffer left sometime later, Randy Kinder, who was her special assistant, called me and asked if I would be interested in coming down. It was late in the term, but they knew who I was, they knew of my experience in public service and the Department. They thought I might be interested. I decided that I would do it.

SANTANGELO: And you were actually administrator for approximately a year?

NEWMAN: Well, it turned out to be less than that. I came down in, I think, June. Even at that point there were things that had to be done; there was machinery that had to keep turning. I came down, taking it seriously, to try to get hold of the organization. Leonard had his own style, and mine was quite different I think. My history with Medicaid made me particularly sensitive to the organizational questions of what had happened to Medicaid in the creation of HCFA. It had been a separate entity that had been merged into HCFA, and there was some feeling that it had been Medicare-ized. So I had to pay some attention to that, although it turned out to be that it was to be quite a short time because, effectively, when the election took place in another half year then it was just a question of preparing for the transition to the new administration. But it was a time that I don't regret. There were no big initiatives undertaken, but I think there was a serious effort made to stabilize it. I think the move to Baltimore was one that was still reverberating around. The early history of HCFA had a lot to do with Califano's strong interest in creating the merger, not just forming HCFA but merging. Bob Derzon was an old friend and I was aware of his experience. I talked with both Bob and Leonard about what they had done and thought

that there was an opportunity to try to focus on the programmatic objectives rather than the administrative. So we began to do that, and we began to try to do the things that one does, and I was gearing toward there being major efforts around national health insurance. They were going to try to revive what had been attempted earlier in the Carter administration in health care reform. But it was a brief period where we began but didn't have much of an opportunity to follow up.

SANTANGELO: Were there still some people working in the Medicaid part that you knew from your previous experience?

NEWMAN: Yes. There was a secretary in the administrator's office—in fact, she may still be there today, I saw her not more than a year ago—who was a young woman who had been a secretary. That was '74 and this was sixteen years later, and we're sixteen years after that now and that woman was still there as secretary. There were some professional staff people and there were a couple of people who were prominent and important in HCFA who were there, too, who were and continue to be good friends and colleagues. Ken Sexton is one and Jack Ebeler is another. They were actually very helpful to me in terms of my coming in and, as they say, "land running." I felt comfortable and didn't need a whole lot of orientation. As it turned out this was all pretty much a blink of the eye. But I was comfortable and, again, have a good feeling about the quality of the people who were there, and that was that chapter.

SANTANGELO: Let me ask you a wrap-up question, if I may. You've had a really varied career and, as you said, most of it focused in some degree around health care and making better policies thereof. When you look back on this long and varied career, what would you say? Do you feel like you've left a legacy; do you look back on any important things you're glad you were a part of?

NEWMAN: I think that's two separate questions. I have no regrets whatsoever about the various challenges that I responded to and opportunities that I had and what I tried to do. The idea that public service is a noble profession is something that I believed strongly in, so, in that sense, I am happy to have had the opportunity to do the things I did. In terms of legacy—I'm not quite comfortable thinking in legacy terms yet—I think that I feel comfortable in saying that I've had some influence on some people. There are people who, by virtue of our relationships, have thought that public service and helping other people, especially people who are vulnerable in a variety of ways, is a worthwhile way to spend your working life. I feel pretty good about it, and it's part of the reason that I am enjoying the opportunity to do some teaching and work with students to try to convey some of that. I also have a feeling that the pendulum swings and things

move in ways that one doesn't always appreciate, but I think things will come back in time to our society in ways that we don't see very well today.

SANTANGELO: Thank you very much.

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Interview with Carolyne Davis

Washington, D.C. on November 8, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: Let me begin by asking you about your background. Where is Pennyan, New York?

DAVIS: [laughing] Pennyan is on Keuka Lake. New Yorkers go like this [holding up hand with all fingers extended] to indicate the Finger Lakes. Keuka is this one [pointing] right here. Pennyan is a tiny little village that sits at the top of Keuka Lake. It has nothing to redeem it other than it's on Keuka Lake.

BERKOWITZ: I notice that you went to Dickinson College in Carlisle, Pennsylvania. How did you make that move?

DAVIS: The reason why I went there was that my mother, during World War II, worked in the Navy for the Chaplains' Corp, and the head chaplain who set up Sampson Naval Base up in New York State was a man by the name of William Edel. He later went to become the president at Dickinson College. He wrote to her when he was offered the presidency and said, "Please come and be my secretary because I need an executive secretary." At that point she was married again and had some little children and toyed with the idea of going back to work. She didn't take the job, but she kept in touch with Dr. Edel. (I was 12 when she got remarried. He [Edel] had met me. I had stayed at his home with one of his daughters when I visited the Sampson Naval Base. When I graduated from college, my mother wrote him a letter and said, "Here's her transcript and here's her grades. What do think she should do?" He wrote back and said, "Here's a Presidential scholarship. Have her come here." So I ended up going to Dickinson.

BERKOWITZ: Were your parents divorced?

DAVIS: Yes.

BERKOWITZ: The other thing that sticks out about your resume, compared to other HCFA administrators, is that you had a background in nursing. Did you want to be a nurse when you were a girl?

DAVIS: Yes, I wanted to be a nurse probably from the time I was about six or seven. My parents were divorced when I was five, and I was brought up by my maternal grandmother. Her husband, my grandfather, was ill. He had cancer of the bladder and he was blind and was pretty much bedridden. The

first year I stayed with them I think he was up more, but then he gradually got to the point where cancer moved into his bones and he was really not in good shape at all. He was cared for at home and my grandmother needed help nursing him. We were on this farm out in the middle of nowhere, so she looked at me and said, "Well, it's you." So when I was seven or eight years old I was giving bed baths and doing injections of morphine—his total care. I thought that was what nurses did, and so I just always wanted to be a nurse.

BERKOWITZ: Was it unusual when you went to college that somebody who wanted to be a nurse would go to college?

DAVIS: Yes. At that time, most people who wanted to be nurses went directly into a program in a hospital. I think there was one other girl at Dickinson the same time I was who was going to be a nurse. She went to some place in New York, and I went to Hopkins. The reason I went to Hopkins was that the second year I was at Dickinson I lived in the president's home. His wife had been a nurse and she was bound and determined that I should go to her nursing school to become a nurse. I was trying, tactfully, not do that. I went and looked at it at her request and decided that was not where I should go. On the way back from there—it was here in Washington—somebody said to me, "Drop by at Hopkins." So I dropped by at Hopkins and I was impressed with that program. They said, "Yes, you should come here." They had a "two plus three;" you did two years of college and then went there for the next three years. And that's the program I chose. It was highly thought of. My biology instructor at Dickinson had done his educational programs at Johns Hopkins.

BERKOWITZ: What was his name? Was it Herber?

DAVIS: Yes, how did you know that?

BERKOWITZ: Because his son is an historian and works at GW.

DAVIS: Isn't that something! It's been so long since I remembered that name. That's great. Do tell him what an influence his father was on me.

BERKOWITZ: He'll be delighted to hear that. So you went two years to Dickinson and then three years to Hopkins. Who was the head of the nursing program at Hopkins at the time?

DAVIS: Anna Wolfe.

BERKOWITZ: She was quite a formidable figure, wasn't she?

DAVIS: She was extremely formidable. I can remember her still marching down the hall in her totally gray uniform—gray silk stockings and gray shoes—and her little white hat, the only white thing on her. She'd go marching majestically through the corridors, as she did her rounds. We were all scared to death of her, I'm sure. I can remember very clearly one night when I was working evenings and she came around, as she was wont to do. At Hopkins you usually had yourself and a couple of aides if you were lucky, and one of the aides hadn't shown up, so there I was with little help. I was running down the hall to do something when I saw this majestic figure carrying a bedpan. In those days we were supposed to carry a bedpan with a cover on it. I thought, "It's just my luck to have her arrive at this time," and I went running up to her. "Please let me take that from you," and she said, "You're busy. Go do your duties. I was a nurse first before I was an administrator. Don't you ever forget it." And it taught me something, it really did, when I thought about it afterwards. Scared though I was of that particular encounter, I thought of it after I got my degree and left. When I got to be a supervisor, all I could remember was that lady making rounds and taking the time to do those things for the individual patients and telling me never to forget that she's a nurse first.

BERKOWITZ: As a nurse at Hopkins did you get to rotate through all the services, from OBGYN to psychiatric?

DAVIS: Yes. I started out in surgery, actually neurosurgery, probably a strange place to start, but it was part of the surgical rotation. Then I went through pediatrics, psych, internal medicine. Towards the end GYN and OB. I didn't like obstetrics much as it was not as exciting as medicine and surgery.

BERKOWITZ: What years were you at Hopkins?

DAVIS: I went there in the fall of '51 and graduated in '54.

BERKOWITZ: In 1954 you actually went into nursing yourself. Where was that?

DAVIS: I got married while I was still in Baltimore, in my junior year. My husband was in the Navy, stationed at Philadelphia. When I finished they wanted me to stay on at Hopkins, but I was more interested in going where my husband was. So up to Philadelphia I went and did a couple of interviews. Lankenau Hospital had just moved from the inner city out to City Line Avenue. It was run by German Lutheran sisters and they had moved out to City Line Avenue. It became a lay organization. We had some interesting times. When I walked in for my interview, they were searching for an evening supervisor. To show you how naive I was, they looked at me and said, "We need an evening supervisor," and I said, "OK." I remember

leaving there, not thinking much about it. The Director of Nurses had read this wonderful letter Anna Wolfe had sent saying it was OK, I could do it, and I thought, "I guess that's fine." When I told the first couple of people, they looked at me and said, "You're doing what?" "I'm the evening supervisor." They said, "How large is that hospital?" and I said, "I think it's 350 beds." They just looked at me! [laughing] But you learn from something like that. I wouldn't necessarily suggest you take the plunge, but Anna Wolfe had enough confidence in me to say, "She can do it," and I think probably it was a very big growth year for me personally. It was a private hospital. At Hopkins students were never really allowed to be on the private service. We were mostly with what would now be Medicare and Medicaid and charity case patients. You didn't take anything like a piece of candy or fruit. They had to call me into the front office [at Lankenau] and tell me that I was offending the patients and their families because they kept trying to give me fruit or candy or something, and I would look at them with this horrible imbued implication that I could not do that. I was just coming from a different point of view. Two difficult things I guess happened at Lankenau. One was the school of nursing that they had there went on strike, a most unusual happening. They had a German Lutheran sister in charge of it and she left and the German Lutheran sisters got a little upset. They all decided to go pray, I guess, and they left turmoil in the place. So we had about a week of not much of anything, because we really depended on students back in those days. There would be about one nurse per unit, and traditionally there would always be a couple of students. All of a sudden we didn't have any students, so we had a rough couple of weeks. Learning how to cope with something so odd as a strike in my first work experience was a little unusual.

The next big thing that happened was that we had a hurricane, and the hurricane blew out all the windows in the hospital. It all happened while I was on evenings. About the time I got the fourth phone call from one of the units that all the windows were blowing in, I said to myself, "I don't think we can keep the patients in the rooms." I couldn't find the hospital administrator; I couldn't find the architect who had planned the hospital. I'd thought since I couldn't find the CEO that maybe the architect who built the place would know what to do. There should be something we were supposed to do. Finally I had to order patients evacuated from their rooms. We put them all out in the hall for that night. It was an interesting experience. About 2 o'clock in the morning I finally located both the CEO and the architect who had been at the same party, never dreaming that they ought to call anybody and find out what the wild winds were doing to the place. By then the hurricane had smashed in just about every front window. It was a beautiful location. They had built it up on a hill and the whole front of the

building was one solid wall of glass, so that when you walked in you had a spectacular view from every patient's room.

BERKOWITZ: That's an interesting story. I know that you also went to Syracuse after a while. I'm sure there's a big break of years here. Did you remain in nursing up until then?

DAVIS: Not totally. I did the year at Lankenau and then my husband and I moved to New Jersey. His mother had bought a business for his sister and then she walked out on it. We took it over to try to resurrect the family funds, and I worked with my husband three years in private business until we decided that one of us was going to have to leave or else our marriage was going to go. It was not too healthy to be together 24 hours a day every day, particularly when both of us were strong-willed enough and each one wanted to run things. So I left and went back to work—I started teaching—at Mercer Hospital in Trenton, New Jersey. I stayed there for three years until I had my son, and then I stayed home for a couple of years and did a little bit of teaching part-time but nothing to speak of until we moved up to Syracuse in '63. Then I said to myself, "I guess I really ought to go back to school if I'm going to teach." I went over and interviewed at the Syracuse University School of Nursing. I found that the dean had been a Hopkins graduate also, so we had a little chat and I left and thought, "What I'll do is apply for a year from now," because I was in need of a scholarship and that would take a little while. I heard back in no time that I was given a federal stipend and a scholarship for that fall. So my husband and I had to sit down and decide what to do at that point, and he said, "If someone is going to pay your full way plus give you a stipend, how can you afford to not do it? You'd better got back now instead of next year." So with that I enrolled my son (age 3) in a full-time nursery school program and I went back.

BERKOWITZ: And you studied both nursing administration and higher education administration? Was that common?

DAVIS: No, it wasn't common. I couldn't make up my mind what I wanted to do. I liked administration and knew I'd been fairly good at it, and started out thinking, "I'll do the dual degree because then I can either go into administration or I can go into teaching." Then, as I got a little further along, I had a blank semester on my program because someone had decided I should take a lot of credits in a hurry, and then forgot to plan a teaching schedule. All of a sudden they looked at me and said, "You don't have anything to take next term." So I took that term off and I was going to go back to work, but the university needed somebody to teach pediatrics so they said, "We've got a better idea. Stay here and teach pediatrics." I said, "I'm supposed to be a student," and they said, "That's all right. Stay and teach pediatrics." So I taught pediatrics for one semester. The second

semester of that year was supposed to be my practice teaching. It was a big joke around campus that I was a faculty member first and a practice teacher second. And I stayed on in the educational arena then and decided that since I was going to be in education I needed to know more about higher education. About my second year there at the school, the director of the undergraduate program left, and everybody said, "You go direct the program." I said, "Pardon me, folks, but I have a nine-credit teaching load," and they said, "That's all right. We'll help you. You go do it." So I suddenly found myself trying to run the whole undergraduate program for about 400 students and I-don't-know-how-many faculty. I got into a few difficult situations, needless to say, throughout the year, so I discovered that I really needed the knowledge that higher education administration would bring. I started in taking a couple of courses, not with any idea of getting a PhD. I just needed—desperately needed—the knowledge. About the third course, the chairman of the program came up to me and said, "You're not going to take any more courses until you get matriculated," and I said, "What do you mean?" He said, "You're not registered yet for your doctoral studies," and I said, "I don't want to be. I just want to take this course." He said, "No, no, you don't understand. You are not going to take another course until you get matriculated." I was the first woman that went into their higher education program. Most of the men in the program were saying they were going to be a college president. I said, "Why do you think I want to be a dean if they want to be a college president? I'm as bright as they are, so maybe I should aim a little higher, too." At that point I guess maybe I wanted to be a college president, too. [laughing]

BERKOWITZ: So you shifted from the field you were in, nursing administration, which was heavily female to another field that was predominantly male. Was that hard?

DAVIS: It was in some ways, and it wasn't in others. It was hard in that you were constantly being tested as to whether you really knew anything. But in another way, once you proved that you knew something, I think it was very easy to be accepted. You sort of stood out. You could never hide. You were the lone woman. So if you knew enough to dig in and do a lot of work in a hurry and really knew your subject so that when you spoke what you had to say meant something, then I think after that it was relatively easy. But you had a testing ground of the first few weeks in a course or the first few weeks in a new position. I remember when I went to Michigan and got to be associate vice president, I think there was a whole cadre of folks at that point who figured you got it because you were female. I think among our generation there was still that tendency to view women in these roles as a little unusual, and you must have had some other reason for getting there other than your own will power and brain power.

BERKOWITZ: When you were taking your PhD were you simultaneously teaching at Syracuse?

DAVIS: Yes.

BERKOWITZ: Was it just a coincidence that you went back to that Finger Lake region?

DAVIS: Yes. My husband and I had both been brought up over in that region, and when we moved back up to New York state we actually had moved to a little village called Cazenovia, which is where I had spent some of my teenage years. We lived there for a year and the commute was really terrible in the wintertime. I was commuting with a three-year old beside me going in to spend his day at the nursery school. That kind of a drive, an hour each way in the middle of snowstorms, was not fun. So at the end of the year I said, "I've got better things to do with my time than spend two hours a day in the car," so we moved closer to Syracuse. We moved into a suburb called Fayetteville. Right about that time a little place on Cayuga Lake came up for sale. It was about a mile from his family's lake property—which is how we found out about it—so we bought it. We used it only for the summer for years and gradually put heat in and remodeled it, but it wasn't until I left the government in 1985 that we had a chance to buy some more land. What we'd bought initially was a little saltbox built in about 1824 and had four acres of land. We've now got 160 acres. We've gradually put the pieces back together from what the original farm was.

BERKOWITZ: What year did you go to Ann Arbor?

DAVIS: '73.

BERKOWITZ: Was that directly from Syracuse?

DAVIS: Yes.

BERKOWITZ: In Ann Arbor your initial job was the Dean of the School of Nursing?

DAVIS: Right. It was one of the largest schools of nursing in the country. They had been looking for a dean at Syracuse as well as in Ann Arbor, and I interviewed for both. A very wise gentleman, who was a friend I respected, one of the faculty at Rochester, had given my name to the people at Michigan. He and I were at a conference together. I told him, "I'm really in a quandary because I'm being interviewed by both." He just looked at me and said, "It's time you and I had a little chat. You should realize that you need to go to Michigan. If they offer you that, you get yourself out there right away. They've got so many more resources than they do at Syracuse that

you'd be ever so much better off. They've got more money, it's a bigger program, it's excellent." Consequently, when the job offer came it didn't take me too long. I thought about it for about a week and then said yes.

BERKOWITZ: Did you get a chance at Michigan to meet with the other deans?

DAVIS: Oh, yes.

BERKOWITZ: Did you get a chance to meet Wilbur Cohen?

DAVIS: Wilbur was my next-door neighbor.

BERKOWITZ: Really? You lived on Oxford Street?

DAVIS: Yes. He lived right across the street from me. In fact, the first person that welcomed us was Wilbur. When we moved in it was about 10 o'clock at night. The doorbell rang. When I opened the door, there stood Wilbur with a chocolate cake in his hands, he and his wife. We were good friends and neighbors. We used to be back and forth across the street, in each other's homes for dinner fairly frequently. As a matter of fact, the day that I got offered the job at HCFA—by then Wilbur had moved to Texas but he had a habit of dropping by once in a while on his way through to Washington—my husband and I were sitting around the fire and talking about this opportunity that had suddenly been offered to me, trying to make up our minds whether I should take it or not, when the doorbell rang at about 10:30 at night. I went to the door and standing there was Wilbur Cohen. I said, "Wilbur, my God, you are really like a sign from heaven. Come in this door right now. I have great need of your counsel." He's really one of the ones who helped me think through what the impact was going to be on my life if I did take the job. How did you know Wilbur?

BERKOWITZ: I wrote a book about Wilbur, and I've been to that house on Oxford Street. They still own the house on Oxford Street, although the university is going to take it over eventually. It's very pretty, that neighborhood there in Ann Arbor. But what I wanted to ask you about your Michigan years was, here you're all involved in the delivery of care and teaching people how to deliver primary care. In the '70s it looks as though you make a transition. You are concerned with health care, but now with health care in a policy setting. Did that transition occur at Michigan?

DAVIS: Yes, it did. It was probably twofold. One is I was Dean for two years, and then I got a request to go across and be the Associate Vice President for Academic Affairs and where I had to cope with all the health science schools and the hospital, so suddenly I went from nursing to all this

other group and the bigger constellation of health care services and began to really worry about the bigger picture items. Probably about a year after that the federal legislation that was providing a lot of funding through capitation began to be in serious jeopardy. All the deans started telling me how much money they were going to lose, and I began thinking, "We've got an incredible amount of money through the federal government." We had a whole office that was state affairs. We must have had seven people in the state affairs office that went up to Lansing and talked about their needs. When I added up the amount of money that we were getting from the various federal government sources, nobody was looking at it. So I went in to see the president one day and I said, "Something strikes me as very odd." He said, "What is it?" And I told him, "You must be spending a lot of money on earning two hundred million—whatever the state share was—but we have nobody watching the federal scene. Here's this report, and this is just the medical side, in terms of how much money there is now coming in both through NIH and capitation..."

BERKOWITZ: Can we stop for just a second? Through "capitation"?

DAVIS: During the middle '70s the federal government through HHS was giving out a per-person amount of money for each individual that you educated, and they did it for medicine, dentistry, nursing, pharmacy and public health in order to increase the number of health care professionals because there'd been an acute shortage of all of them. It started when they passed Medicare and Medicaid. Congress was afraid there weren't going to be enough doctors and nurses to take care of the newly entitled patients, so they implemented this idea of paying the educational institutions to increase enrollments.

BERKOWITZ: I see, so there was some danger of them losing that money.

DAVIS: Yes. So all of a sudden the deans of all the schools were coming in and saying I'm going to need X million because I'm going to lose this. And I was saying to myself, "I don't have that kind of money in my budget." Then the next thing that hit me was, why does nobody care? There was this whole apparatus in the university running up and down to Lansing, and nobody was looking at the federal side. So when I posed the question to Bob Fleming who was then the President at Michigan, he said, "What do you think you ought to do about it?" I said, "I think somebody should start organizing." And he said, "That's a great idea. Why don't you do that?" [chuckling] So I got one more job, which was the beginning of a group that would watch what was going on federally.

BERKOWITZ: Did the University of Michigan have an office in Washington?

DAVIS: At that point they had one person who did student financial aid through the Department of Education. That was all. So they had sort of an office, but not a big one. Later on they moved two people in and kept one doing health care and one doing student financial aid and some other things.

BERKOWITZ: The interests of the University of Michigan were considered distinct from the interest of, say, Michigan State or Western Michigan?

DAVIS: Yes, definitely. There were only three medical schools in the state, so those three—Michigan State and Wayne State and the University of Michigan—could claim some degree of affiliated interest in capitation and NIH grants, but Michigan State did very little with any kind of research at that point. They were truly into primary care and not doing much at all in terms of research areas, so they probably didn't pay too much attention to what NIH was doing. Wayne State had its own organizational problems at that point. They wanted to cope with surviving before they coped with what else was going on.

BERKOWITZ: I guess they might have been as much concerned with aid to Detroit as anything else.

DAVIS: Yes.

BERKOWITZ: We know that you got to be the head of HCFA in 1981. That is a presidential appointment. Did you at some point in the Michigan job make the contact that led to that appointment?

DAVIS: Yes, at some point. Probably in '78,'79. Again, it was hooked up to this capitation fight. I thought, "OK, if I have to worry about the University of Michigan's representation, I guess I'm going to look broader than just the fact that we've got one Congressman and two Senators, because after all Michigan is Michigan, so we ought to claim all of the Congressmen as our representatives." So I suddenly started using all of our Congressional offices, figuring that half of them probably had their educational experience at Michigan, so therefore they should all be loyal to us. And those that hadn't, I assumed they were interested in basketball or football, so it was not difficult to figure out a way to get to see them. But along the way I met up with Congressman Dave Stockman, who was then on the Energy and Commerce Committee. Dave quickly realized that because I was sitting where I was, I could get contact easily with all five health science schools. He needed a white paper on something and he'd call me and I could usually produce it in a couple of days' time. So I sort of adopted Dave Stockman's office as a second-step office to always keep in touch with. When they were having their big fight on trying to prevent Carter's total cost control from passing, he asked me to come down and testify. Partly he asked me because we'd

been acquainted, and secondly I was a nurse, and the American Nurses Association had come out in support of Carter's program. He wanted a nurse to come out and say, "I'm not in support of it," so I came down and did the testimony. While I was there, he introduced me to [Congressman Jim] Broyhill, who was then the ranking minority member of the Ways and Means Committee, and he was also engaged in this big push against Carter on the cost controls. As you know, the total cost controls failed. After that the Broyhill office knew me and every once in a while they'd call me.

BERKOWITZ: Can I ask why you were against the cost controls? Were you against them because it would have meant less money for the University of Michigan? Were you against them because they were a form of heavy-handed regulation?

DAVIS: I thought it was heavy-handed regulation. I never did look at what it would do to the University of Michigan, but I was dreadfully against heavy-handed regulation, not believing in having all of your money controlled by one federal source and having that much power in the federal sector. I preferred to see the private sector go its own way and do its own thing rather than being so terribly controlled.

BERKOWITZ: So you and David Stockman really were in agreement on this?

DAVIS: Yes, philosophical.

BERKOWITZ: Would you have always termed yourself a conservative politically?

DAVIS: Truthfully, you know, until I started coming to Washington, I would never have thought about it one way or the other. Probably. When I was at Syracuse I was on the School Board, and I guess you say I was one of the more conservative members, yes. I wouldn't have openly put a label on myself at that point because I didn't know enough to, but clearly I was headed in that direction.

BERKOWITZ: So, if you were a conservative, certainly Robert Fleming wasn't a conservative? And certainly not too many of the folks there at Michigan?

DAVIS: Oh, no, not at all. In fact, they all looked at me with great astonishment when I ended up going into the government. It was a pretty liberal place. How did I fit in? [laughing] The Vice President for Academic Affairs, who's long been the President of Cornell, Frank Rhodes, was very

definitely influential, and he was conservative. I think we probably encouraged each other in our conservatism, as I think about it.

BERKOWITZ: Let me bring you back to the story about David Stockman. We know David Stockman eventually became head of OMB. We know you became head of HCFA. We don't know how this all happened.

DAVIS: What happened next was that because I had gotten involved with David Stockman on the battle over total cost controls, I had been introduced to Broyhill, and I had been introduced to Bob Michaels, who was then on the Appropriations Committee. He wasn't yet running for minority leader. This was back in about '78 I guess. Then in 1980 when things changed, Bob Michaels decided to run for minority leader, and he was having trouble getting any freshmen because the Congressman from Grand Rapids, Michigan, had been in charge of the Republican's Congressional kitty. He got to hand out all the money, so all the new freshmen had an IOU to him because he was the one who dispensed all money, and he was running for the minority leader position. Bob Michaels was trying desperately to get through to the new people.

I walked into our Congressman's office one day—that was Congressman Carl Pursell from Michigan, the district that contained Ann Arbor—and I was dealing with his staff over a couple of issues. All of a sudden he walked in, and he said, "Hey, Davis, do you know any freshmen Congressmen?" and I looked at him and said, "How would I know? I don't even know who got elected." (This was the week after they'd been elected.) He said, "Come here and take a look at this book." Pursell had just been to a meeting with Bob Michaels, and Michaels had been saying to him that he couldn't get in to the freshmen. So I was leafing through this book, not knowing anybody, when I came across somebody who had won the election in Syracuse, New York, who had been on the American Heart Association's board with me. We had been vice presidents of the local Heart Association together and had lunch together every week. I said, "My God, there's George." Pursell asked, "Do you know him well enough to go to lunch with him?" and I said, "I went to lunch with him once a week for almost a year." And he said, "Do you know him well enough to take Bob Michaels with you to lunch?" And I said, "Of course." So I put the two of them together. Michaels was so grateful to get to a freshman. It turned out that George was a very staunch conservative Republican, liked the idea of helping, and he corralled a bunch of the folks.

You know the history. The vote was taken and Bob Michaels was elected minority leader. He considered that I had helped him greatly in doing this, so he wanted to do something in return. By that time Reagan had just won the nomination, and people were telling me to put my paperwork in to be something at HHS. I said, "Sure, me and five hundred thousand others." And

they said, "No, seriously, we're going to need people in all these places. Put your paperwork in." So finally—they kept at me—I put in the paperwork and literally forgot about it. About a month went by and Bob Michaels called me one night and told me that the reason I hadn't heard from anybody was that they had to appoint the Secretary first, and Secretary Schweiker had just been announced. Michaels told me, "You'll hear next week." I had no concept that this would work, that I would really be considered. I was down here for a meeting, and I went back to my hotel and there were phone calls all from everyone, trying to find me. Secretary Schweiker wanted to see me. I called his office and made an appointment for the next day. I went in and Secretary Schweiker and three or four other people were there. We talked for a little while.

The night before I had had a phone call from Congressman Broyhill who had said to me, "Never go for an interview with anybody who's been in Congress without knowing everything you can about them. I'm having my staff pull together all of the bills that Schweiker ever had any connection with or introduced, and I'm sending them over to your hotel. I want you to read them tonight." It was a big stack, but I slogged my way through it all. One of the more interesting things I found was that he had introduced a bill which forbade medical schools to ask—about abortions—what your religious belief was before you could enter medical school. I knew that a litmus test in the Reagan administration was where you stood on abortion, so I said to myself, "This is going to be interesting." They came around to that question and I said, "My religious beliefs are my own. I believe firmly that if I were to take a position here I would uphold the law.

By the way, if I recall, in 1977 you introduced the bill that eventually led to the law that forbids medical schools from asking this question. Is that not right?" His eyes twinkled. Several times I was able to interject a couple of things. Towards the end he got up and went out and came back with this big book. I later learned that it was the organizational chart. He didn't know, he'd been there probably two days and had no more idea how many parts there were to H.H.S. than nothing. He leafed through this book and at one point said to me, "How much do you know about Medicare and Medicaid?" I said, "Not very much. On the hospital cost containment panel, I dealt a little bit with those issues for the physicians' group, but I can't say as I have a huge amount of knowledge about it." At Michigan we had just closed two programs, and Schweiker and I spent a fair amount of time talking about what I'd learned from closing two programs.

As you well know, on an academic campus closing a program is not a wonderfully great thing to do. We had had a couple of bad years at Michigan before anybody else did, and I had talked a lot about that. After the

interview was finished I went back up to Michigan and said to myself, "Well that was interesting. I can tell my grandchildren about it, but that's about as far as that goes." I literally didn't think any more about it. But the next day I thought about how rumors have an awful way of getting around, and I ought to tell the president (of the University of Michigan) that I was interviewed. So I called down and was given an appointment for that afternoon. About noontime my secretary came in and said, "I don't think you want to take this call, but there's a man on the phone who says he's Secretary Schweiker. You don't want to talk to a secretary do you?" And I said, "This is a different kind of secretary. I'd better talk to him." Of course she had no idea what was going on. All I could think of was, "I wonder what question he forgot to ask me." It never dawned on me that he was going to offer me a position. After we exchanged pleasantries he said to me, "I want to offer you a job," and he started describing the HCFA job. All I could think of was, "I don't think the man heard me yesterday. He surely must not have heard me." He described the whole job and he got done and asked, "What do you think?" And I said, "Mr. Secretary, I don't think you understood me. Yesterday when you asked me how much I knew about Medicare and Medicaid I said 'not a whole lot' and I tried to describe for you that my contact was fairly minimal, and yet here you are offering me this particular position." He said, "No, I heard you. But you are bringing a different ingredient. You know how to downsize, you've had experience with it. And that's what we're going to have to start doing. I'm after your management expertise. You'll have to learn the other.

About four or five thousand people already know Medicare and they'll teach it to you. I'm after what I don't think I can get overnight, and that the management expertise. How about it?" I said, "I can't tell you yes right now. I haven't even talked to my husband. I haven't even told the president of the university anything about this." He said, "You can't tell anybody about it." And I said, "I do really have to discuss this with my husband,"—he could understand that—"and I also have to discuss it with the president of the university. I'm in responsible position. I can't just go flying out the door someday and say good-bye." He said, "OK, those two, you can discuss it with and that's all." So that's how I got to be HCFA Administrator. I was at a point at Michigan where I was looking for a college presidency. I had decided I'd been in my position long enough, six years there in the vice presidency, and I thought I should go out and look for something else. I was in the midst of doing interviews around the country for college presidencies when this came along, and it seemed like a good thing to do, particularly because several of the places questioned my ability to handle large sums of money. They weren't really sure I could handle a budget of a large scale operation. I think that was still in the days when there was still a feeling at that point, in the early '80s, that they weren't very sure a woman could run a whole academic institution.

BERKOWITZ: Even in the Reagan administration you were one of the higher-ranking women.

DAVIS: Oh, yes.

BERKOWITZ: Were there women members of the Cabinet?

DAVIS: Elizabeth Dole and later Margaret Heckler.

BERKOWITZ: So then you were in charge of HCFA, in charge of Medicare and Medicaid, and you had to learn about them.

DAVIS: What I did first was to interview all the former HCFA administrators. I figured they'd been there and knew what the lay of the land was and could teach me something. Frankly speaking, Bob Derzon was a huge help. He outlined a lot of things. Probably because he'd been the first one, he had a pretty good grasp of some of the major issues and some of the strangeness of what was going to happen within the context of HHS itself. I found as many difficulties working within HHS structure as I did just handling the programs. As you well know, in most of these political appointments, everybody is trying to climb on everybody else's back in order to get to the top floor. And that's not my mental set at all. Secondly, I'd come from an academic environment where my entire life had been built on asking other people and trying to reach a consensus, and all of a sudden I'm in a position where staff don't really tolerate your asking for consensus. They don't want consensus. They're after your telling them what to do and they'll go do it, but they don't want to be saddled with this idea of having to make part of the decision. So we had a very uneasy few months in the beginning. They looked at me and they thought, "Can't the woman ever make up her mind? She's always asking us what we think instead of declaring what she thinks."

It took me about four months of working with the staff. I realized at about two months that they were not going to tell me what they thought. They just were not going to do it. So I would get them alone, individually, and I would say to them, "You know last week in the meeting we discussed so-and-so," and they'd say, "Yes," and I'd say, "You let me go on the assumption that everybody believed that we should do thus-and-so. Didn't you ever see the pitfalls? You're a very high-level SES person, and you're frankly being overpaid to 'yes' me, because you're not really helping me at all if all you're going to do is say yes. That is not helpful." It took me about three months of one-on-one, behind-the-scenes discussion with them to get them comfortable in disagreeing with me. It was an odd six months, because I realized that they were extremely used to somebody coming in at the top—it's very hierarchical, it just goes right down the chain of command. So for

them getting used to me trying to get some degree of consensus by trying to elicit what they really thought, made it a very tough beginning for me.

Secondly, I think, just learning about the programs was equally difficult. I would spend hours every night. I probably averaged about four or five hours of sleep a night for months on end. The second thing I did was that I asked for a lot more detail than most others did. I tend to learn best if I can really get into it. If I'm going to learn, I want to know all about it. They'd send me in a briefing paper and it wouldn't be nearly enough. I'd have a page full of questions. A lot of it I would be doing the night before for a meeting the next day. I was never able to do much more than stay abreast of whatever the next issue was. I finally got into the habit of saying, "Whoever prepares this briefing paper has got to put their name and telephone numbers on it, because I'm doing a lot of this either in the evening or at home and I'm going to want to call. I can't wait until the next day to call and say I've got a question. I need to know who I can call." I began getting much better briefing papers once people had to identify themselves. I really did use that system a lot. I would call them and say, "You said thus-and-so and I don't understand this, and I've got five more questions." I probably developed the reputation of being a great detail list because by the time I left people were saying to me, "We've got to learn to rewrite memos briefly because we know that you are into every detail, but nobody else has ever been and probably nobody else will be. So now we've got to go back to the other format."

BERKOWITZ: Did you also try to go visit the principal carriers and intermediaries? Maybe go visit states?

DAVIS: Oh, yes, absolutely. I went out to do all of that. The first time I got ready to go out, I had this whole entourage that filled up my office that were into planning and public relations and all that. And they said, "Who's going with you?" I said, "I beg your pardon?" And they said, "Who's going with you?" And I just looked at them and said, "Nobody's going with me." And they said, "Oh, no, you have to have somebody with you." I asked, "Why? We're cutting two billion dollars out of the budget this year. How can I run around with somebody with me when we're cutting budgets like crazy? That's not the right move to make." They said, "No, you don't understand. You have to have somebody with you." And I said, "Why? Tell me what that person is supposed to do." They said, "Well, they make sure you get on and off the airplane, and they check all of the logistics and keep notes." I just looked at them and said, "You want to know something? Somebody thinks I've got a brain, and that's why they hired me. I hope they thought I had a brain. I can probably figure out how to get on and off the airplane. If I get the wrong one, you're going to know about it and chances are I'll probably be all right. If I say the wrong thing, you're going to know about it, and if I

say the right thing, you don't have to worry about it. So that's the end of the discussion. We won't have anybody going with me." So I never traveled with anybody with me, but it was the bane of their life that they let me loose and they didn't know what I was going to do because they couldn't be with me. But I learned more that way, I really did, because I didn't have anyone that somebody else would be talking to. I'd get the straight scoop.

BERKOWITZ: How did you handle the peculiar nature of the Baltimore-Washington part of the job?

DAVIS: Not easily. Most of my time was spent in Washington. I had an office in Baltimore and I tried to get there two days a week, but inevitably somebody would call me back. It got to the point where it was silly. I was spending more time driving back and forth, so I finally sat down with Secretary Schweiker and said, "I have an office in Baltimore with 4,000 people in it. I've got to be there at least one day a week. Every time I get there you call me back for a meeting." He said, "OK, let's figure this one out." So we set up a day, let's say Tuesday, where they guaranteed they wouldn't call me for a meeting, and they tried to stick to that. Or if there was a meeting it would be at 4:00 in the afternoon so I could have most of the day in Baltimore. They were pretty good about that once we said, "This is really a problem, I've got to be seen out there." But mostly it fell to the Deputy Administrator to be out there, because he didn't usually have to be hauled back for the same meetings I did.

BERKOWITZ: Who was that for most of your time?

DAVIS: Most of the time it was Dan Borque. He's now with the VHA. Later it was Jim Scott.

BERKOWITZ: Was that your hire?

DAVIS: Yes.

BERKOWITZ: Where had you met him?

DAVIS: He was up in the secretarial office where they did all the paper work, made sure that everything got through, made sure the briefings got to the Secretary. He had actually worked for Schweiker over in the Senate.

BERKOWITZ: When you would report, on paper Schweiker was your boss. Did you actually report to him, or did you report to somebody else?

DAVIS: I actually reported to him. He was very thoroughly into that. He had four operating divisions, and those four operating divisions reported directly to him. That was Social Security, Public Health, myself and Social Services.

BERKOWITZ: So you would see him once a week?

DAVIS: Yes. At least, if not more. Usually in between that I would see him too, because we had a little joke that my phone calls were always trouble. [laughing] He said to me one day, "Davis, HCFA is a major source of trouble for me,"—and he meant it jokingly—and I said to him, "Well, you know, when you're taking billions of dollars away from hospitals and nursing homes and doctors, for some reason they don't really like you a whole lot. And secondly, the beneficiaries get upset, too, about all these things. So, yes, I can't usually tell you I've got some nice, wonderful thing that we're going to do, because there's very little joy where I am." And he said, "I never really thought about it that way. Dorcas Hardy has always got these wonderful things where I can go see this and see that," and I said, "That's not ever going to be me."

BERKOWITZ: I notice you stayed when Mrs. Heckler became Secretary. What were the dynamics of that?

DAVIS: I stayed because we were in the process of implementing the DRGs, and you can't leave in the middle of a time like that. I just couldn't. She was an entirely different Secretary, obviously, than he had been despite the fact that they had both been political. I think his management skills probably were honed differently than hers. They were certainly sharper in many ways, and he had great political instincts too. He taught me a lot about politics just from being with him. For example, when we got ready to put the DRG idea in front of Congress, he had the Congressmen down to brief them in small groups at breakfast. When he first took the package up to them he said, "It's too complete." And I said, "Pardon?" I was feeling thrilled as if this thing is my baby, I've done everything I can do to make it complete. He said, "What do you want Congress to fix?" and I said, "Excuse me, what do you mean?" And he said, "Don't you know you should never, ever put anything in that you don't give Congress something they've got to fix or they'll find something to fix anyhow. So what is it you want to hold back for them to fix?" That was very enlightening. I'd never thought about it like that before.

BERKOWITZ: That's very much a Wilbur Cohen-like thing too.

DAVIS: Yes. Schweiker was different, obviously, because he was a conservative Republican, but many of his political instincts were true Wilbur Cohen. I had known Wilbur closely enough during our years at Michigan that I could feel some of that.

BERKOWITZ: Let's talk for a bit about the DRGs. DRGs in some ways is a policy issue, not an operational issue about who should be handling Medicare in Iowa. It's a quantitative issue, a policy-related issue. Schweiker

apparently was very interested in this himself, and he also had ASPE [Assistant Secretary for Planning and Evaluation] which was into that kind of thinking, had in fact been thinking about Medicare reimbursement, hospital reimbursement for some time. I wonder how this played out between the Secretary, you in the operational side of things, and this sort of intellectual arm in ASPE.

DAVIS: Uneasily. ASPE, I think, was involved in the fix of Social Security, so I got a head start because, when they were figuring how to fix Social Security, I'm off figuring what we're going to do to get Medicare shored up. So we started working on the DRGs.

BERKOWITZ: They borrowed $14 billion dollars from the Medicare Trust Fund to cover Social Security. This would have been in 1982?

DAVIS: Yes. December of '82. I remember when Schweiker called and we talked about it. He said, "I really need to borrow $14 billion." That sounded really odd, and I remember saying to him, "Mr. Secretary, I'd really like not to give it to you, because our [Medicare] trust fund is going to be bankrupt in 1995," and he said, "I can appreciate that, but you don't understand that I have to send Treasury checks out next month to Social Security beneficiaries and we don't have the money, so I have to borrow it from you even though I am sympathetic to the fact that you've got a problem. But we'll fix it." That was my first acknowledgement that they were going to fix it, and then we talked later about the possibility of hurrying up and getting the DRGs done in time to get it off to Congress so they could wrap it in with the Social Security fix. And that way it would for sure go through. And that was pure Schweiker strategy, I'm sure. I'd never thought about that. He called me two or three times and said, "If we promise them we can do it, you've got to do it," and I said, "I will." So after we had the hearings I came back and said to the staff, "Hear me out. Make no mistake about the fact that we are going to get this done." The staff were running around saying, "If we..." and I finally decided we were having a serious problem. I called all the senior staff together and said, "Let me explain something to you: we will get this done this fall. If there's anybody here now who thinks we aren't going to, you should be prepared to leave now and give your place to somebody else, because I'm telling you that we will work weekends, we will work evenings, I'll move cots in so we can work all night if we have to, but we are going to get this done."

BERKOWITZ: I'm getting confused on the chronology. In the fall of '82?

DAVIS: This was in the spring of '83. I jumped ahead. Once we sent the original legislation up and they passed it in April 1983, we had from April until October to get it implemented.

BERKOWITZ: In terms of the creation of DRGs, was that really not HCFA's baby?

DAVIS: Yes, it was HCFA's baby. It started out in Research and Development. They had been doing this experiment with people in New Jersey, so a group of us went up to New Jersey and sat with them for a couple of days to find out how their system worked and what wasn't working so we could fix those things that weren't working. Then we came back and had a whole series of meetings. Patricia Feinstein was my Associate Administrator for Policy, and under her was Larry O'Day who ran the Office of Reimbursement with Chuck Booth, who's still there. The others I mentioned were political appointments. They would get this information out weekly to me with a decision memo. I've got four boxes of decision memos about how we created DRGs. I gave them to the University of Michigan library, but I've got another whole set of them.

BERKOWITZ: Give them to the HCFA library.

DAVIS: That's true if they have such a thing.

BERKOWITZ: They have a nice new library.

DAVIS: Oh really. We never had such a thing. I never thought about that. I'm glad I did it, because it will provide a trail for the decisions that were made. I've since discovered the whole world thinks they did the DRGs.

BERKOWITZ: I've noticed that too. I've had several people tell me that they did that.

DAVIS: That they were the father and mother and all. So when we once sent the DRGs up to the Secretary's office, ASPE then got involved, because ASPE got involved with everything that went to the Secretary's office. They were the brain power behind analyzing to see whether something was right or wrong.

BERKOWITZ: Plus, wasn't Mr. Rubin particularly interested in medical things?

DAVIS: Yes, he was. So he got into it, and some of his staff and he probably made several decisions. I wouldn't say they were major, but they were certainly part of the process. I'd have to go back to the boxes of stuff and see which things they actually questioned and how we worked it out. I remember meeting with him once or twice to explain a couple of things. The Inspector General's office got into it because they had to track things. Every office got into it. You had to meet with each office separately to see what they were going to be able to add to it. Then we got it in to the Secretary's

office, and right about that time, after the Secretary had made the decision that we were going to go with the DRGs and we were going to drop it into the Social Security fix, he left. So Secretary Heckler came in and all of a sudden I was faced with briefing her on the complexities of DRGs which had been passed by Congress. She was met with a fait accompli, something that she knows nothing about but which is a very major policy. I remember very clearly that Bob Rubin and I scheduled a series of briefings with her, but Margaret wasn't real good at keeping track of time. She would sometimes schedule a meeting and then let it slip. A number of times meetings would be canceled because something else had come up. I think we probably had about two meetings with the entire staff—his staff, my staff—to brief her.

Maybe we made it through chapter one and two, and it was getting to the point where we were under a terrible time deadline. I knew I had to get this over to OMB because they had to read it for regulatory language. Meetings kept getting canceled. I finally went up to Margaret one afternoon and said, "You simply cannot keep breaking these meetings. I've got to get this briefing done. It has to be over in OMB next week." She looked at me and said, "What are you doing tomorrow?" This was Friday. I was planning on going home, but I didn't tell her that. I said, "Would you like to be briefed?" and she said, "Yes." I went back over and sat down next to Bob Rubin and said, "Bob, she wants to be briefed tomorrow." He said, "I'm not coming in tomorrow. She won't do any better tomorrow than she has any of the other days. I'm not going to waste my Saturday here." So he didn't come in. I went to the meeting with her, the two of us alone, and we worked our way through the entire document and finished up about five o'clock in the afternoon. And she said, "That wasn't so bad, was it?" And that's how we got the document out of there.

BERKOWITZ: When was this did you say?

DAVIS: One Saturday in May 1983. It had to go to OMB and they had to read it, and it had to get out a proposal in June with comment time so it would be final by October 1 in order to be implemented. It may have been a couple months earlier than that, June maybe, because we had to give them 30 days turnaround time and then do another version.

BERKOWITZ: Let me ask you one last question. You left in 1985. Why?

DAVIS: It's a very tough place. It takes a lot out of you. I found I couldn't run it unless I was there from early morning to late at night. I by then had tried to take a couple of vacations, and you'd get about one day of vacation and spend the next few days on the phone, and then you'd get up and go back. After five years, I said to myself, "I think there's a better life than this. The next big issue that has to be tackled is the doctors, but if you do what

you need to do with the doctors, you'll have to stay four or five years. You can't just suddenly toss a new program out and leave. I don't have the physical stamina to do that," so I decided I should leave. Having decided to leave, I interviewed at a couple of places for college presidencies in medical centers and was just appalled at how nobody wanted to see where things really were going—"Don't change the way things are now,"—and after a couple of interviews I said to myself, "I don't think I fit in the academic world."

It stunned me that I suddenly realized—Wilbur Cohen had told me I would have a terrible difficulty going back, and I didn't believe him. At the time I remember saying to myself, "That's not right. Of course I'll go back." He said to me, "I must warn you, you must think pretty hard about this because you will never be the same again. You will find extreme difficulty going back." So with that, I thought to myself, "What in the world will I do now that I can no longer be an academic?" First, I went on vacation. I was exhausted. I went to Hawaii for two weeks and just laid on the beach and did nothing. When I came back I started interviewing with various firms and Ernst & Young offered me the opportunity to be a consultant. I said to them, "I don't know how to be a consultant," and they said to me, "Sure you do. You've taught. You understand all about it. You just don't think about it as being that. It's not that difficult." So we agreed upon what I would do, and I've been here ever since.

BERKOWITZ: That's a very good note on which to end. Thank you very much.

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Telephone Interview with Dr. William Roper, MD

Roseland, New Jersey on August 29, 1995
Interviewed by Mark Santangelo

SANTANGELO: Dr. Roper, will you tell me a little bit about your background?

ROPER: The short version is I'm a native of Birmingham, Alabama. I went to college in the state and then medical school in Birmingham as well. I did a residency in pediatrics at the University of Colorado and have had a long-standing interest in public policy dating back to high school and college days. When I was in medical school I learned about the field of public health and saw that as an opportunity to merge my interest in public policy with medicine. I went to the University of Colorado for three years where I did a residency in pediatrics after medical school, and during both my medical school senior year and then in my middle year of my residency I took time out and served as an intern on the staff of a Congressional committee in Washington.

SANTANGELO: Which committee was that?

ROPER: It was then the Subcommittee on Health and the Environment chaired by Congressman Paul Rogers.

SANTANGELO: What were your responsibilities for the subcommittee?

ROPER: The first time around which was in January-February of '74, I was a very low-level staff intern Xeroxing and collating and stuff like that. When I came back in the fall of '76, I did a little bit more substantial things, but I wouldn't try to convince anybody that I was making major national policy decisions. It was an opportunity to see pretty close at hand the legislative process, and I knew even more so that I was interested in government and public policy. After my residency in pediatrics, which finished in 1977, I went back to my hometown, Birmingham, Alabama, and was appointed Director of the County Public Health Department there. Health Officer is the title. I did that from '77 to '82, five years, and then was selected as a White House Fellow.

I went to Washington in the fall of '82, supposedly to stay for one year—I'll come back to elaborate on this—but the one year stretched into about 8 years. I served that year as a White House Fellow in the Office of Policy Development, which is the domestic policy staff to the President, and worked for a person named Roger Porter who was Deputy Director of Domestic

Policy for President Reagan. My responsibilities were health policy, broadly speaking, and focused on not only public health policy but health care financing policy issues. I learned a lot about Medicare and Medicaid and HCFA, and had an opportunity to get to know and work with Bob Rubin who was Assistant Secretary for Planning and Evaluation of HHS, Carolyne Davis who was then HCFA administrator, Ed Brandt who was Assistant Secretary for Health, Secretary Schweiker and a number of others in the Department. At the end of my tenure as a White House Fellow in the late summer of '83 I and my wife moved back to Birmingham, and I resumed my former job with the Health Department there, but within a matter of two months the people in the Reagan White House called me and said that they realized that I had demonstrated the need for a full-time health staffer on the White House staff and asked if I would consider coming back yet again to Washington to do that. We thought about it for about five minutes and decided to take the plunge.

SANTANGELO: So that position was created for you?

ROPER: Yes. So I resigned my job in Birmingham and we sold our house. My wife left her position there. She's a pediatrician, a pediatric oncologist, and she was on the faculty of the university medical school there. We moved in late 1983 back to Washington, and I went back to the White House and served as Special Assistant to President Reagan for Health Policy doing many of the same kinds of things I had done as a White House Fellow but as a permanent appointee with more authority or responsibility, however you'd put it. I did that until early 1986, a little over two years, and at that point President Reagan nominated me for the job of HCFA Administrator, Carolyne Davis having resigned in August of September of '85.

The usual confirmation process took a while, and I started as HCFA Administrator on May 16th of '86 and served there until early 1989 when, at the beginning of the Bush administration, Roger Porter, the guy I mentioned earlier who was Deputy Domestic Policy Advisor to President Reagan, was named the top domestic policy advisor to President Bush, and he asked me to come be his Number Two, Deputy Domestic Policy Advisor. So in February of '89 I went back to the White House as Deputy Assistant to the President for Domestic Policy. I know I'm past your window of interest, but I served there for a year and was appointed Director of the Centers for Disease Control. I went to CDC March the 1st of '90, served there three and a half years until June 30th, '93, and left to join Prudential.

SANTANGELO: That's a good outline of most of the things I want to get back to. Let's start, if I may, with your experience as an intern for the House subcommittee. Although as you said it may be a snail's eye view, what from

your experience was the relationship between the House and the federal governmentally aligned agencies at the time?

ROPER: The Democrats were in control of the Congress and Paul Rogers was the chairman of the subcommittee. It was a substantially different environment than it is today, a much greater difference than just the political party difference. The staff of the Congress overall and the staff of the subcommittee was much, much smaller than it is today. I think at the time I was there the staff was one person, his secretary and me as an intern. I don't know what it is today, but at its peak under Henry Waxman who succeeded Mr. Rogers, the subcommittee probably had 25 staff. A much, much different environment. It was more top-level review of things, not nearly so much Congressional micro-management of the executive branch as has been the case recently. That was during the Nixon and Ford administration, and despite the fact that the Congress was in Democratic hands and the executive branch in Republican hands, there was a pretty good working relationship between Mr. Rogers and the folks in the administration. I would not describe it as adversarial but constructive.

SANTANGELO: Before we get to your experience as a White House Fellow in 1982, can you tell me a little bit about what the Jefferson Country Department of Health was like in Birmingham?

ROPER: It's an urban county health department. Not quite the same as the D.C. Health Department here in Washington, but much the same kind of thing. The county has a population of 650,000 and the Health Department had a staff of some 200 odd employees and a budget, when I came, of about eight million dollars and programs ranging from aid to the neighborhood health centers to restaurant inspection and water fluoridation and air pollution control, mental health—the usual range of public health services.

SANTANGELO: Did that expand over the five years?

ROPER: Yes. When I left the budget was almost twenty million dollars.

SANTANGELO: Is it correct also that in '81 to '83 you worked on some state health organization?

ROPER: Right. I was one of the principal ones working on a reorganization of the State Health Department that divided the state up into six public health areas or districts, and in each of those there was a person named as an Assistant State Health Officer. I was the one for central Alabama public health area.

SANTANGELO: What kind of responsibilities did you have?

ROPER: I was a part of the State Health Department and had responsibility for State Health Department programs in six counties in the central part of the state, including Jefferson County where I was also concurrently local health director.

SANTANGELO: Now we can move on to your experience as a White House Fellow. Can you tell me about some of the responsibilities you had there, some of the issues that you came across?

ROPER: I was the person on the White House staff who had health credentials and health interests and involvement, so there was everything from health care financing issues—meaning Medicare and Medicaid—to public health issues like immunization and AIDS (the epidemic began during that time period), just a variety of issues like that about which the President and his senior staff needed to know something. I prepared a whole host of briefing notes and was involved in briefing more senior officials and involved in meetings where policy was discussed.

SANTANGELO: Were you involved in meetings directly with the President?

ROPER: Yes.

SANTANGELO: Let's specifically look at the health care financing question. I would think that one of the big issues that you would have been talking about during that year would have been the lead-up to the DRGs. What can you tell me about how that came about? Was it something that HCFA came to the administration with and said, "Here's an idea we have," or did it come the other way? What do you know about how the idea came about?

ROPER: There had been a series of preliminary work efforts underway for some time, maybe back into the 1970s, worked on by the folks at Yale and a demonstration effort in the state of New Jersey.

SANTANGELO: I assume that Alabama's was similar to most of the other states, that they didn't have a demonstration project?

ROPER: Right. In the fall of '82, right after I got there as White House Fellow, the President's domestic policy advisor, Ed Harper, called me into his office and said that the President and Ed Meese and some of the senior people around him wanted work to be done on a comprehensive health care reform package that the President could propose the following year. (You've probably heard those words before, health care reform.) So I began work as a part of a committee representing the White House and other parts of the executive office of the President, HHS and so on. Others were Bob Rubin,

Assistant Secretary for Planning and Evaluation at HHS who was sort of the spearhead of it for Secretary Schweiker, Ken Clarkson who was Associate Director of OMB for Human Resources and Labor, David Henderson who was Senior Staff Economist at the Council of Economic Advisors. Don Moran, who was Executive Associate Director of OMB, was involved in what we did but not in a day-to-day fashion.

Again, Carolyne Davis was involved in what we did, but she had then HCFA staff who primarily served as staff support to the work that this committee was doing, and primarily the work that Bob Rubin was doing. The relationship within the department was that Schweiker looked to Rubin to guide these kinds of things, and he asked for technical assistance from HCFA. We worked intensely over a period of several months.

SANTANGELO: What was your specific charge? Was it just, "See what you can do," or was there more specific direction?

ROPER: It was to come up with a comprehensive package of proposals, a market-based system with Reagan's overall policies, save money—the usual kind of stuff. Early on it became clear that one of the things that had to be done was to slow down the growth of Part A of Medicare. There was this proposal to institutionalize the DRG system in paying hospitals that made sense. I don't recall a whole lot of discussion or debate about that concerning DRGs for hospitals as an element of a program.

SANTANGELO: One thing that's always been unclear to me in discussions about DRGs is were there other options that were brought up and were projected, or did this just seem that it was the most obvious action?

ROPER: More the latter because it was so far along as far as the technical work that had been done on it. Another element of the package, and this was a thirteen-point proposal including malpractice reform (it wasn't a thousand pages long like Ira Magaziner's was, but it was a comprehensive package) was a substantial push to put Medicare beneficiaries into managed care plans. We put it all together, it was released by the White House as a Presidential initiative. I guess it was announced at the State of the Union in January or February of '83. With all the accompanying documentation it went forward to the Congress and in just lightning time, specifically because of the leadership efforts of Chairman Rostenkowski of Ways and Means, it passed—the DRGs I mean—and that was the only element of our 11 or 13 point package that passed.

SANTANGELO: How closely were you involved in the efforts to get Congressional support for the DRGs?

ROPER: Only a little bit. Again, Bob Rubin was the person directly and continually involved in that. I wasn't much involved with it.

SANTANGELO: So the DRG initiative passed and shortly after that you left to go back to Atlanta.

ROPER: Yes, but we began this crash program to implement the DRG system. That was across the summer of '83. I can recall delaying our leaving actually to stay for a meeting with Dave Stockman to go over the details of its implementation. There was a lot of pulling and tugging around the writing of the regulations and the specifics of what was going to be put in place as far as the actual DRG rates the first time around. How were the rates going to be determined? What would be done, if anything, if the estimates for spending for the coming year were overrun? There was a lot that I was involved in up until literally the day I left which was August 31st of '83. And then I came back, at least on a part-time basis, beginning in November of that year and once again was involved in it.

SANTANGELO: Was there any kind of real opposition to the program after its initial announcement? It seemed fairly easy, the early going.

ROPER: Opposition within the administration you mean or general?

SANTANGELO: Either.

ROPER: Not much. But more recently people in the conservative movement have castigated it as an administered price system that does not have much of anything about free market competition as a part of it, however those kinds of considerations really didn't get debated, despite that being quite a concern of a Republican administration. In retrospect that seemed a little odd to me that it sort of breezed right through.

SANTANGELO: And in retrospect of the tenures that you had, do you think the DRGs were successful meeting their goals?

ROPER: Absolutely. Unquestionably the answer is yes. I think it can be viewed as a transition though, not as a permanent way of administering the program. A transition of movement of the same thing I was advocating 13 years ago, which is the movement of Medicare fully to private health plans.

SANTANGELO: Let's move on to your work as a Special Assistant for Health Policy. I don't actually know very much about what the major health care initiatives would have been during those years, so perhaps you can summarize them for me.

ROPER: During that period before I went to HCFA, I was involved in yet another major exercise to review health policy for the Reagan administration. I chaired the Working Group on Health Policy and Economics which was an interagency policy committee at the Assistant Secretary level. That was constituted in the summer of '84 and it really continued—the name was slightly changed later on—until I left Washington in 1990. It was a standing committee at the White House and was a part of the domestic policy apparatus focused on health care beginning in '84 and continuing on.

The main activity we engaged in, in the latter half of '84 and throughout '85 was a rather intensive series of meetings in focused discussions around a series of health policy issues—everything from what's to be done with the VA hospitals and what's the Department of Defense health care system about, to further reform of Medicare, to what's the future of Medicaid, the role of prevention in all of this—leading to a compilation of a series of white papers that were born of the working group to the President that we rendered in late '85.

It was never publicly published, but was, I thought, a good overview of this series of problems and issues that we dealt with and a range of options. In addition to that, I was very much involved in a White House monitoring of HHS and what the department was doing, particularly around health care financing, HCFA issues, but also public health issues. The AIDS epidemic was much more substantial, and we had a series of discussions and debates about what administration policy on that was to be. Also discussions about childhood immunization policy and a range of other things, but I'd say I spent probably 65% of my time on health care financing issues.

SANTANGELO: Can you comment on what it was like in the Reagan White House at that time? Was it a cohesive group, particularly on health issues? Were there any factions?

ROPER: I don't think there were so much policy factions as the usual bureaucratic back and forth of who was in charge and who had more authority. It was clear that OMB was very much in charge of things in budget policy. "Drove health policy" was the oft-repeated phrase, and it literally was true, probably is still true. Dave Stockman and Jim Miller who followed him were very powerful and influential OMB Directors, and their Associate Directors, first Kent Clarkson that I mentioned, then John Cogan and then Debbie Steelman had an awful lot to say and do about health care programs, particularly Medicare/Medicaid. The Council of Economic Advisors was of greater or lesser importance. During the time that Marty Feldstein was Director of the Council it had more clout, and I had the delight of getting to know him and working with him during that period. Our group, the domestic

policy group, was a player—I wouldn't say an important player—but it was clear, as I've already said, that OMB was the dominant player.

SANTANGELO: Would you say that health policy was one of the administration's top, say 3-5, priorities during the three years that you were in the White House, or was it a lower priority?

ROPER: I'd say it was in the medium category of importance, particularly because of its budgetary implications, but it wasn't as if the top tier of folks in the White House went around worrying about health care reform. Finally, one other thing, in his State of the Union message in '86, President Reagan once again proposed the broad notion of health care reform. In the run up to that speech, around Christmas time in '85, I was again involved in a briefer but intense effort to put together a series of proposals for the administration.

SANTANGELO: Was there a strong effort within the administration to get them passed?

ROPER: They were put forward as the President's legislative agenda, but not much happened after that.

SANTANGELO: Was there Congressional support for any of these initiatives?

ROPER: No. By that time there was broad hostility between the Democratic-controlled Congress and the White House so there was not any support.

SANTANGELO: You mentioned that in the '70s the staffs were small and there was a good relationship between the Executive and the line agencies and Congress. Would you say that that had changed by many degrees by then?

ROPER: Yes.

SANTANGELO: To what do you attribute that? Is it a partisan thing?

ROPER: Part of it is surely the partisanship of one party controlling one body and the other party another. Another part of it is just the sheer dynamics of bureaucracy. When you get that many people, meaning the Congressional staff, sitting around at their desks, they've got to do something. What they end up doing is looking for work, and it's just very tempting to try to micromanage the administration.

SANTANGELO: What were the circumstances of your being nominated as Administrator of HCFA?

ROPER: I was picked as the nominee.

SANTANGELO: Who actually told you that they were going to make the nomination for HCFA?

ROPER: I think the actual official notification I got from the fellow who was the Assistant to the President for Presidential Personnel. He called me up and said, "You should know that I've just been in the Oval Office and President Reagan signed the document that will transmit your nomination to the Senate." There'd been a lot of preliminary discussions about it, but that was the official notification.

SANTANGELO: Was it unusual that the position of the Administrator was open for that long? As I recall Carolyne Davis had left in, was it August of '85?

ROPER: Yes. The delay was because shortly after she left, in September I believe, was when Ms. Heckler was encouraged to go and be Ambassador to Ireland, so there was a vacancy on the secretarial level. That was not filled for probably six to eight weeks when Otis Bowen, the former governor of Indiana, was chosen. Governor Bowen, then Secretary Bowen, came on around Thanksgiving. In the December and early January period there was a series of discussions that I had with him and his staff, and that they had back and forth with the White House, around the number of appointments that needed to be made to repopulate the department for the new secretary.

SANTANGELO: When you took over as Administrator, which would have been in May of 1986, did you go in thinking that there were some specific priorities you had as Administrator?

ROPER: I sure did.

SANTANGELO: Did you articulate them?

ROPER: At the beginning and over the three years I was there, I said, "My three priorities are first, to improve the quality of the Medicare/Medicaid programs; two, move the programs, especially the Medicare program towards greater reliance on private health plans to deliver services; and three, to improve the management of the Medicare and Medicaid programs."

SANTANGELO: Let's start with the third, the improved management. What were some of the things that you thought were necessary to be done there and how successful were you?

ROPER: I'd say I was modestly successful with HCFA. It was, during the time I was there, a bureaucracy of about 4,000 employees of central and

regional offices. The staff were hard-working federal employees, but we suffered from the same problems of encrusted bureaucracy that other parts of the federal government and other governments suffer from. What I was trying to do was a series of things to improve the efficiency and productivity of our organization, and I had some modest successes.

SANTANGELO: How was the relationship between the central and the regional offices? I've heard, especially from some people in earlier years of the creation of HCFA, that there was some friction, that some of the regional offices and some of the regional directors had difficulty with moving Medicare and Medicaid, that some would be better at organizing than others.

ROPER: Not really. During the time that I was there, the people who were regional administrators—I think there were 10 of them—were, and I don't mean to be deprecating about this, were largely functionaries in carrying out the decisions that were made in Washington and Baltimore. It wasn't as if they were independently managing the Medicare and Medicaid programs out in the regions.

SANTANGELO: Let's move to your second initiative, the greater privatization. What steps did you envision and how successful were you?

ROPER: During that period we were successful in promulgating regulations to allow Medicare beneficiaries to enroll in private health plans, the competitive medical plan, the HMO option that remains available for Medicare beneficiaries. During that time period, if memory serves, there were probably 4% of the total thirty million beneficiaries enrolled in private health plans. They were generally successful, but that was a small sliver of the population. The largest of those plans was one known as IMC, International Medical Centers of Miami. A significant part of my time at HCFA was taken up with monitoring and then trying to deal with the problems of IMC which, as we progressively learned more about it, we came to realize was run by a bunch of crooks. Ultimately I took my decision to kick IMC out of the Medicare program.

SANTANGELO: When was that decision made?

ROPER: We began to focus intently on the problem in the summer of '86, and the actual termination of IMC was the summer of '87.

SANTANGELO: Was there a substitute found?

ROPER: Yes. Humana Health Plan was the successor to IMC.

SANTANGELO: And was it successful?

ROPER: More successful. They've had a few problems but nothing like the substantial problems of IMC. Later, after I left HCFA, I was a government witness in a criminal trial of one of the senior officials of IMC for fraud, and he was convicted. The Chief Executive Officer of IMC, Miguel Recari by name, fled the country and—I didn't actually see it but I am told—was on "60 Minutes" some months ago from either Spain or Venezuela. He's still on the lam, and all of that is a major black eye attached to this notion of using private health plans to deliver services to the Medicare population. Notwithstanding that problem, I would continue to argue that it's what needs to be done, and I've been involved over the last year or so working with the new Republican leadership in the Congress to persuade them to do the very same thing.

SANTANGELO: Did this problem with IMC have a role either with the administration or Congress to put the brakes on your ideas of greater privatization?

ROPER: I think it gave people who were otherwise disposed to be opposed to it a reason to be opposed to it. Maybe it changed some minds in the margin, but people who were inclined to be supportive of the notion, like me, would say, "You've got to have police to arrest crooks anywhere in society, and that's true in the Medicare program as well as in the Defense Department or wherever else." People who were inclined to be opposed to this notion were horrified and they gave lots of speeches and they all went to press conferences about what a terrible thing this was.

SANTANGELO: Who were the major opponents?

ROPER: Pete Stark, the California Congressman who was the Chairman of the Ways and Means subcommittee, Henry Waxman to some extent. He was Chairman of the Health Subcommittee of Energy and Commerce. Senator Kennedy to some extent though this was not a major issue one way or the other for him. But despite those things, I had good working relationships with those people. I was a Republican appointee at a time when the Democrats controlled the Congress. I had to work with them, and I did work with them, I think professionally.

SANTANGELO: And you, I assume, during this time you testified frequently in front of the various Congressional committees.

ROPER: Many, many, many times, probably thirty times, forty times.

SANTANGELO: Let's talk about your first initiative, the quality of Medicare and Medicaid. Were there specific things you tried to do?

ROPER: Sure. That came about in a very planned way related to some good advice I got from a friend of mine not in the government. If you recall, we were just talking about the DRG system having been implemented in 1984, and by the time I was about to go to HCFA in the spring of '86 the DRG system was implemented largely and had already lead to lots of hand-wringing by hospital administrators and some by doctors and some by patient advocates—so-called—who were using the so-called "quicker and sicker" issue, meaning patients being discharged earlier than they otherwise would have and to their detriment, as a tool for attacking not only the DRG system, but HCFA and Medicare and everything.

The advice that I got was rather than be dragged before committees of the Congress and attempt to argue that things were not quite as bad as people said they were, that I should rather turn the issue around and say that quality is our most important agenda item and that we will be doing a whole host of things to not just maintain but improve the level of quality of the Medicare program. I did that.

Among the things that were a part of that agenda was, for example, publishing the hospital mortality statistics for Medicare hospitals, a variety of quality measurement activities related to that, substantially improving, I believe, the PRO [Peer Review Organization] program—they are the quality-monitoring organizations for the Medicare program—promulgating new regulations for nursing homes in the Medicare program, publishing information on the comparative quality among the nursing homes, a variety of issues targeting this notion of quality improvement.

SANTANGELO: Who were some of your deputies when you were working as the HCFA Administrator?

ROPER: My Deputy Administrator was Glen Hackbarth. Glen's an attorney who had worked before in the federal government. At ASPE, the Assistant Secretary for Planning and Evaluation's office, he worked for Bob Rubin. He went off to Intermountain Health Care in Salt Lake City and worked for them for a time and then came back again to be Deputy Administrator. He served extremely well during that time period and left in the fall of '88 to go to Boston to Harvard Community Health Plan and has remained there in progressively more responsible positions. Today he is President of HCHP. In addition to Glen there were at the next tier down several people who carried the title Associate Administrator. They were key operational people. Lou Hayes who was Associate Administrator for Operations, Bob Strimer, Associate Administrator for Management.

SANTANGELO: Didn't Lou Hayes later become Administrator?

ROPER: Yes. He was Acting Administrator after I left. Let's see Ellen Shillinglaw was Associate Administrator for Communications and Legislation. There was an Associate Administrator for Program Development, Ross Anthony.

SANTANGELO: Let me ask you about one other thing which I think would have been an issue at the end of your time as Administrator, which would be the Resource-Based Relative Value Scale. My information is that you were fairly critical of this. Is that correct? Perhaps you could describe a little bit about how it came about and then what were your criticisms were.

ROPER: Like the DRG system, RBRVS has a history down in the bowels of HCFA that goes well back before it popped up to be an item of concern.

ROPER: HCFA had funded a several-year effort by Professor Bill Hsiao at Harvard School of Public Health working on the notion of a resource-based relative value scale, and at the time that I generally became aware of it, it was almost a fully formed work product, and the question was, "Do you want this or do you not want it?"

SANTANGELO: The late '80s at this point?

ROPER: I was Administrator until early 1989, and in that time period it was well along in its production. The position that I took at the time was that an RBRVS is an administered price system for doctors, and it goes counter to the general direction of my number two priority, which was moving towards private sector market forces driving payment for and delivery of health care services for the Medicare program. So I wasn't inclined to be warmly receptive to RBRVS. I did like the notion of redistributing the money, so to speak, taking money away from the procedural list of surgeons in particular and giving more to primary care specialists. I'm a pediatrician myself, and I like that. That's simple social justice, but doing it using the government administrative power doesn't strike me as being a very good way of doing it and not a very efficient way, whatever its policy or political merit.

After I left and went over to the White House in the early part of '89, the issue got to be even more important, and during 1989 the issue of Medicare physician payment reform was a major item of debate. HCFA, after I left I believe but just shortly after I left, presented a report to the Congress on that issue. Maybe that was before I left because I think maybe my name was on that. Anyhow, there was major debate with the Congress, House and Senate, around Medicare physician payment reform and RBRVS. I was then again Deputy Assistant to the President for Domestic Policy and I and Tom Scully, who was then Associate Administrator of OMB, were the principal negotiators on the part of the administration with the Congress around the

issue of Medicare physician payment reform. To make a long story short, we took a rather pragmatic approach to things and said, "In the final analysis, we can swallow hard and go along with RBRVS if there are real cuts in the rate of growth in Part B of Medicare and substantial controls put in place over the long term to prevent unwarranted escalations in the cost of the program." We didn't get all that we wanted as far as volume controls, as they came to be called, but we got at least some steps in that direction.

SANTANGELO: Were you fairly satisfied with those?

ROPER: Fairly satisfied. The side product of all of that was the creation of the Agency for Health Care Policy and Research, which is an agency of the U.S. Public Health Service to do health services research. I don't know how much you've followed this, but they are in some jeopardy right now with their budget. But that was part of that legislation.

SANTANGELO: That brings us to when you were Deputy Assistant to the President on Domestic Policy. Am I correct that you were not just focusing on health issues?

ROPER: No, there was also clean air, and I was the White House negotiator on the Americans with Disabilities Act, which passed in '90.

SANTANGELO: Were there health-related issues that would come across your desk?

ROPER: Oh, yes. I was still spending 40% of my time, maybe 50% some days, on health care. That was a busy time. Just before the end of the year in November and December, Dick Darmon and I spent a number of sessions together working on a proposed framework for a Bush health care reform which we presented to the President and senior White House officials in December of '89. I'm sorry that the decision at that point was not to press forward with it vigorously but to wait.

SANTANGELO: Do you recall what the broad outlines of that were?

ROPER: Sure. It was once again pushing Medicare and Medicaid towards private managed health care plans.

SANTANGELO: Looking back now what would you say, especially in your role as Administrator of HCFA, were things you had accomplished when you left and things you felt still needed to be done?

ROPER: Let me just say in preface to that that I have a great deal of affection for HCFA and the people at HCFA. It's a great organization despite its being daily vilified by people in the health care industry, particularly

physicians. It's an organization that has contributed a lot and continues to do a lot. Looking back I'd say I'm most pleased with the quality and effectiveness agenda, meaning medical treatment effectiveness, that I institutionalized. I probably felt least successful, relatively speaking, as far as the managed care initiative that we were trying to get institutionalized.

SANTANGELO: Thank you. I think that's a good place to stop.

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Interview with Gail Wilensky

July 2, 1996
Interviewed by Edward Berkowitz

BERKOWITZ: We're talking with Gail Wilensky. I see that you are from Detroit, Michigan and your Dad was a pharmacist. Did you have any inclination to go into the health field when you were growing up?

WILENSKY: No, my brother was always planning to be a physician. That was always his interest, and I think my father's sorrow that he didn't go to medical school, which he had thought about briefly. So there was some interest in health in our family, but it wasn't mine. My intent had been to perhaps go to law school, but I ended up after my senior year in college deciding to go into economics. At that point I was planning to go into experimental psychology, but I had no interest in going into health. In fact I actually had a negative thought about going into health because I was married to a physician. I was analytically and quantitatively oriented.

BERKOWITZ: So you decided to stay in Ann Arbor to do your graduate work.

WILENSKY: That was a necessity because I got married when I was an undergraduate, between my third and fourth year as an undergraduate. My husband was already in medical school at the University of Michigan, so that limited my options for graduate school.

BERKOWITZ: What was your field in economics as a graduate student?

WILENSKY: Public finance, which is government tax and expenditure theory.

BERKOWITZ: Who was your professor?

WILENSKY: Harvey Brazer. At that point public finance was mostly a study of federal tax policy. He had been a Deputy Assistant Secretary in the Kennedy administration. But I was more interested in the fledgling areas of government expenditure analysis—which was indeed fledgling in the mid 1960s—as an area of study.

BERKOWITZ: Did you meet Wilbur Cohen when you were at Michigan?

WILENSKY: I didn't meet him when I was a student at Michigan. After I was a graduate student and then had been in Washington for several years working, I went back and taught at the University in 1974-75 and I met him

during that period at a couple of dinners where I sat next to him. So we had a chance to get to know each other, but I didn't know him until the '73-'75 period.

BERKOWITZ: And then you got a job working on the President's Commission on Income Maintenance. Was that the one headed by Benjamin Heineman, which had a staff of people that actually went on to become quite influential figures on the negative income tax?

WILENSKY: Right. Most of the people from the Heineman Commission went directly to the Urban Institute and worked on welfare reform. I was living in Baltimore during the time I was on this Heineman Commission and had the first of my two children while I was at the Commission, and decided to try to work in Baltimore rather than commute to Washington. But I decided that the job I had taken as Executive Director of the Maryland Council of Economic Advisors really wasn't what I wanted to do, so I ended up going back after a year and a half of working in Baltimore, to the Urban Institute where the rest of my colleagues had gone.

BERKOWITZ: Were you working on the labor supply problems?

WILENSKY: I was working on the micro-simulation model that estimated the effects of negative income tax programs. It was the forerunner of the model that the Urban Institute and Mathematics had on micro-simulations that looked at the effects of negative income tax and welfare reform on labor supply. That was my major job when I was at the President's Commission on Income Maintenance, to get that done.

BERKOWITZ: That was sort of a growth business in the 1970s. But you didn't pursue that?

WILENSKY: There's an interesting story as to what happened that shows the serendipitous nature of life. I went to the Urban Institute with the intent of working in welfare reform, to continue in that area. At Michigan I had worked on an income-related children's allowance. That's actually how I initially got interested in the whole welfare reform area. After I had completed my dissertation, I had six months until my husband got back from Vietnam, and I decided to spend it in Ann Arbor working on this project. When I went over to the Urban Institute, I ran into Stuart Altman whom I had known a little and who was working at the Urban Institute, and he said that there were all these people working on welfare reform from the Heineman Commission that had ended in the fall of '69 and there was nobody there working on health economics.

Why didn't I come join him? This was around January of 1971. I had thought that because of the fact that I had had this interest in government expenditure analysis—it was clear that health care was accounting for a large amount of government expenditure—that maybe this really did make some sense. There were a lot of people in welfare reform, and I was hired to work on the micro-simulation model as my major activity. So I said sure, that sounded like a good idea. Little did I know that shortly thereafter just as I was commuting—I was now pregnant with my second child—that he would run off and go to HEW to be Deputy Assistant Secretary, leaving me to figure out what in the world one does trying to be a health economist since there had been no such program when I was at Michigan as a graduate student and I had never taken courses like that. What I ended up doing, after a very brief pause to have my second child, was to work on a contract from Senator Pell, one of three, to look at the cost and distribution effects of national health insurance. I thought that would be fun, to try to adapt the micro-simulation model that I had left, to introduce a behavioral equation, looking at people's expenditure on health as a function of their deductibles and co-insurance payments, etc.

So I started working on that. I heard that John Holahan, who was just finishing a PhD at Georgetown was interested in coming to the Urban Institute. I encouraged him to work with me on this project, which we worked very hard to finish by November. The reason I came back so quickly after the birth of my second child was that I was convinced that if we didn't hurry up and get this project done, we would miss the train before national health insurance was introduced. I thought I'd better hurry up and get back; she was born on May 5 and I was back before May was out in 1971. My predictive power was not quite as good as I would like to have thought, but it did start me working in health. I then, after that project, didn't do any further work in health until 1974 when I was working at Michigan. We returned to Michigan in 1973 where my husband was doing a plastic surgery residency. I arranged for a joint appointment in the economics department and in the Institute of Public Policy at the university. Some of my research time was bought by Paul Feldstein (an economist then at Michigan and now at the University of California, Irvine) who had a joint appointment at that point in the School of Public Health and the economics department. I had been working during the summers, at Harvey Brazer's suggestion, with Tom Juster who was at the Social Research Center—just retired now—on a revenue sharing project and had been learning skills of survey research. I decided that it would be an interesting economic problem to look at physicians' location decision-making, since we were at that point; during the second year we were in Ann Arbor, and thinking about where we wanted to locate.

So I started doing a study of physician location decisions. I sent out a survey to three years' worth of Michigan medical school graduates and to all of the people who were residents and fellows as one of particular year, all of which I did for $10,000. I had received a grant from the Deans of the Michigan medical schools for $10,000 to let me do this study and try out my fledgling knowledge of survey research. That was the first health economics project, other than the micro-simulation model on costing out national health insurance that I had done.

BERKOWITZ: Did they locate where they could make the most money?

WILENSKY: It was a little more complicated than that. They locate according to where they think they can practice their specialty but also where their spouses can do what they want to do. Living arrangements are important, as are cultural and educational opportunities. What was the most interesting, and this had been noticed before and I confirmed it, was that the likelihood of staying in a place where they had only medical school experience was actually negatively correlated with location decisions and it indicated that all of those states that were heavily subsidizing medical school tuition for in-state residents on the groups that they would stay, were really not investing their money very wisely. A physician has a far greater likelihood to stay in an area where he or she had graduate residency training, although it was unclear whether people chose their residency location because they thought they might use that as way to break into practice or whether there, for three or four years, they are more likely to stay because of the contacts they make. This has interesting policy ramifications for areas that are trying to lure physicians, which at that point states still thought they might want to do. What stage of a person's medical training should a state choose to subsidize? The typical state maneuvering to subsidize medical school tuition made no sense whatsoever.

BERKOWITZ: An important political shift occurred in 1968 — 69. You work seems to be very technical, not political.

WILENSKY: It was not political.

BERKOWITZ: So where were you politically in the 1970s?

WILENSKY: I was a registered Democrat until '83. The only campaign I worked on was in 1968 when I was a graduate student at Michigan and had been a part of the "Clean for Gene" brigade, going around knocking on doors and sleeping in churches.

BERKOWITZ: So you were a typical Democrat: urban, Jewish, educated. It was expected that you'd be a Democrat.

WILENSKY: Actually we didn't know that there was such a thing as a Jewish Republican. My husband was from upstate Michigan and the members of his family were not particularly partisan Republicans but Republicans. I had thought that we were very conscientious voters so we could go and cancel out each other's vote. I was not very active at a partisan level or a political level. I was always interested in applied issues in economics—welfare reform, health care, tax policy—but more at a technical, analytical level. My areas of interest were policy oriented. What I thought I brought to the table was a good analytical mind with a quantitative bent and the ability to understand the implications and ramifications of bringing these analytical tools to a policy-oriented question.

BERKOWITZ: So you might differentiate yourself from a real partisan Democrat like Ted Marmor whose background was somewhat similar to yours. He was in that income maintenance commission for example.

WILENSKY: I thought that the tools that I brought were being able to understand the analytical implications of various policy choices and allowing policy makers and decision makers to better understand the ramifications of their choices. I thought that was an extremely important tool to bring to the public arena, but I did not regard myself as appropriate to be making those decisions and in fact viewed it as important that whatever my personal views, that they basically be invisible to anyone reading my analysis. If my beliefs were to be reflected in my work, then I had not fulfilled what regarded to be my obligation as an objective analyst. I had a strong feeling that my obligation was to remove in any way my own preferences for particular policies. My interest in policy drove me to particular areas, but my knowledge and skills as an analyst, as an economist, were such that I thought they ought not impact that analysis and that no one reading my work ought to be able to discern my own political views.

BERKOWITZ: I take it that in the 1970s you made the break toward being identified as more of a political figure.

WILENSKY: Ultimately what happened to me—as most things are—was a gradual evolution. The Carter period most affected me, although there was no particular reason because I was not active politically then. Sometime in the late '70s, I began to notice that many of the government interventions that I thought would help, didn't really seem to be doing what I thought they ought to do. I began to be increasingly disillusioned with the use of government regulations as an effective way to change things and became more convinced that using incentive structures to change behaviors was likely to be more effective; that if you had incentives that impacted behavior and change, you would need less of a regulatory structure. And that if you didn't have appropriate incentive structures in place, there was no

regulatory structure that this country was likely to adopt that in the end would overwhelm the incentives pushing in another direction.

Also, I became increasingly disillusioned that the Democratic Party did not seem to have a role for personal accountability and personal responsibility. It seemed to me that these were key ingredients to getting the change in behavior that needed to occur. So from the mid to late '70s, I found myself becoming increasingly disillusioned with the national Democratic party. Had I been in an area other than the District of Columbia where the Democratic Party had been of a different nature, I might have divorced myself from the national party and just identified with the state party. There certainly were states with different attitudes. Some of the states where the DLC (Democratic Leadership Council, a group that ultimately became a much more market-oriented, moderate group of Democrats) grew up for example, had a less regulatory attitude, but I was living in the District of Columbia. We had moved back to the area in the mid 1970s, in mid '75.

BERKOWITZ: The year, in fact, that it became clear that there was not going to be national health insurance.

WILENSKY: It was also the year that my husband happened to finish his residency, but it certainly was an important period. The only contact other than the national Democratic Party that I had was the Democratic Party in the District, which was (and is) a very unusual Democratic party. It made me even more conscious of the fact that I was feeling alienated both at a national and a local level from a party which seemed to look to increasingly regulatory structures, not looking to try to induce behavioral change and which had no role, as best I could tell, for including notions of personal responsibility and personal accountability. I found myself very alienated, particularly in health care, which I think is left of center in the Democratic Party. Had I remained in tax policy or education, I might have felt slightly less alienated.

So I was feeling, when I thought about it at all, which—since I had two children, a husband, a career I was trying to move forward—was not a lot, but when I did think of it, I was thinking that being a Democrat was less and less comfortable for me. I just didn't believe where they were, and I was uncomfortable where they were. I was also uncomfortable with Carter because of his born-again Christian influence—that made me uncomfortable as a Jew. But what actually led to my changing my registration was that I got particularly angry one day when Marion Barry was caught in one of his antics of being out with someone other than his wife, and I walked into the registration area and said I did not want to be registered in the same party as Marion Barry, so I changed my registration. I had not actually had any particular reason to change my party affiliation because of feeling

disenfranchised; I already was disenfranchised. Living in the District of Columbia and being registered as a Republican is about as disenfranchised as you can be. Living in the District and not being a registered Democrat is disenfranchising but not as much so. This was a formal recognition of my alienation from the Democratic Party, but it was also that I just did not want to be in the same party with the Mayor.

BERKOWITZ: Is there a reason you chose to live in the District of Columbia?

WILENSKY: I have always been a person who liked urban environments. When we lived in Baltimore for five years we actually lived in Baltimore.

BERKOWITZ: Where did you live in Baltimore?

WILENSKY: Near Sinai Hospital, on the edge of Mount Washington. I grew up in Detroit. We lived in the city. So except for the Ann Arbor period, we've always lived not only in urban areas but actually inside the boundaries of the city—although I have to admit if I were making the move now I would not do that.

BERKOWITZ: Do you still have any relatives living in the city of Detroit?

WILENSKY: No, most of them died or moved away. The relatives I have live in Southfield.

BERKOWITZ: So you came back in 1975 and you worked for the National Center of Health Services Research.

WILENSKY: This was my first formal identification that I was a health economist. I came initially to work there because I hadn't quite finished the study on physician location decisions. Paul Feldstein was a friend of Jerry Rosenthal who at that point was the Director of the National Center for Health Services Research. I said that I was coming to Washington and asked if they had any way that someone like me could spend a year there finishing my study. He said yes, they were just starting a program modeled after the Health Service fellows that NIH (the National Institutes of Health) had in order to bring in people from academia for up to four years. I didn't have any intentions of staying the four years but this would let me finish the study.

The first year I was there, a very large health expenditure survey called the National Medical Care Expenditure Survey was started. I remember when Jerry said, "Is anyone interested in doing this?" I had been acutely aware of how pitiful the data was in terms of utilization and health expenditures, and because I had learned about all these survey research techniques when I

was at Michigan, I stuck up my hand and said, “Oh, yes, I’d be interested in that.” Another person, Dan Weldon, a career employee put up his hand, I put up my hand, and a third person who had been one of the health service fellows, a sociologist from Purdue, put up his hand and the three of us started to work on this survey. Ultimately, the third person decided that there was too much job uncertainty and decided to take a job elsewhere because it wasn’t very clear what would happen when the four-year limit on our health service fellowship ran out. It soon became very obvious that this was going to be a long-term investment because it would take several years just collecting the data. My attitude had been, “If I’m going to be as important to this effort as I think I’m going to be, they’ll find a way to keep me.” Each time a year rolled up, we never knew what was going to happen, whether we’d get a renewal, and I had no idea what would happen when I hit our four years. It was clear that we would not really get much out of this survey relative to what had been put in, but I was confident that somebody would find a way to keep me around. While I was there I started teaching a course at GW in the evening, a health economics course that Richard Scheffler had been teaching.

BERKOWITZ: So that was in the Business School?

WILENSKY: It was in the Economics Department. Richard went off to Berkeley and had recommended they call me. I decided that if I was going to work in the health economics area, I needed to learn the literature, which I didn’t know except for the few areas where I had worked. I thought teaching would be a good way to force myself to read the literature.

BERKOWITZ: So you had your two kids, had your job and also went back to teaching.

WILENSKY: Right, ‘76 to ‘78. That is why when people want to know how politically active I was, the answer is that I had no time to be politically active. I had more than enough with what I was doing professionally.
The survey is what really made me as a health economist. I was the head of the analytical area; I was co-director of the study. My job was to plan the analyses, particularly the economic analyses for this large survey. In the 1970s, $26 million dollars worth of data collection represented a lot of money, but the survey took a long time. The data didn’t start coming out until around 1980, and sure enough, NCHSR found it useful having me as the first person who would hit the end of their health service fellowship period. They really didn’t want me to leave. I was much too involved as the co-director of this major investment, and I was probably an easier person to get converted to permanent appointment because they could write a position description that would be very hard for other people to fill. I represented an unusual combination of economic analysis and survey research.

The analyses from the survey made my name as a health economist. I did a lot of the early work on the volatility of the uninsured. Previously, analysts hadn't had a full year's worth of data, where they could look at movements in and out of insurance coverage. Some of the early work, in terms of how volatile Medicaid coverage was, had people at HCFA very angry. They didn't believe that people who were on Medicaid were frequently only on for four or five months of the year and that as many would become uninsured as became insured. Nobody had been able to look at this issue because they hadn't collected longitudinal data for a year's time. Because I had directed the data collection efforts, I was able to do analysis early. The reports didn't have to be very fancy, in terms of the analysis done, to come up with insights that people had never had. This was information that was important at a policy level but was still in the role of providing information without imposing your own positions. Because I was a civil servant, I thought it was important that I not cross that line, that this was information that people in a decision-making mode needed to have, but my role was to provide it in a useful way and to indicate the implications: if you wanted to do this, here's what it suggested; if you want to do something else, the data suggested you'd better go some other direction. I continue to have very strong feelings that when you're doing research, you have an obligation as a researcher to differentiate your role from being an advocate. People are entitled to be advocates but they have to be very careful, to be scrupulous to not mix up these roles.

BERKOWITZ: This was a 1970s kind of thing, it sort of requires that you believe that there's going to be national health insurance, but in the '80s it was hard to find that kind of stuff because no one thought there was going to be any national health insurance.

WILENSKY: I don't know if it has to be national health insurance, but you need to have some sort of national policy. There was a reason why I started micro simulation modeling in the late '60s and that had to do with the availability of cheap enough computers that allowed you to manipulate large data sets. This was what I had done while I was at the Heineman Commission, building a micro-simulation model. We were able to look at the implications of the negative income tax programs and to think about how you would build in labor supply and labor participation equations to interact with changing people's income as a result of their behavior. We could run those because of the advances that had been made in computer capabilities and the availability of micro-data sets, individual data files that started becoming available in the late '60s, which weren't useful until we had computers that could handle them at low enough costs that allowed this type of analysis.

So a lot of what happened was a reflection that we could now provide decision makers with the answers to "what if" questions. You look back at what happened in the mid-1960s and you had members of Congress making huge policy decisions about Medicare and Medicaid, absolutely flying blind in terms of what they were likely to be spending. We've heard repeatedly the fact that Part A of Medicare was estimated to cost nine billion dollars in 1990, but in fact it cost ninety billion dollars in 1990. What we don't hear as much is that Medicaid, which had four lines attached to it in the Title 18/Title 19 legislation, was estimated to cost six hundred million dollars when it was full-blown. That was in part because the Kerr-Mills bill had been much less to the States than Medicaid would turn out to be. I don't know whether we could have or would have done a better job of estimating the future costs of Medicaid, but there was no attempt even to look at the "what ifs." That changed dramatically in the 1970s when the country was considering the Family Assistance Program, the Catastrophic Health Insurance, welfare reform and food stamp reform, in large part because we had both the computing facilities and the micro-data sets that allowed analysts to pursue these questions. In fact, that continued in the 1980s. There wasn't a lot of money for new data collections, but you have the 1980 National Medical Care Survey and the 1987 Survey. There was, I think, some data collection in the Reagan years, but not an interest in doing a lot of investment in data collection, which only had a long-term payoff and also some sense of not necessarily wanting to know the answers to some of these questions that might result in further government spending. The latter doesn't make much sense since you can use the data to argue against new spending as much as for new spending.

I'll give you an example. I was involved in a study just as I was leaving the National Center for Health Services Research. I was beginning to get a little bored at NCHSR and wanted to see whether I could put together a good research team if I didn't have twenty-six million dollars of data to offer as an inducement. I got involved in a study that looked at the issue of an insurance program for the unemployed, which was becoming a major policy issue around 1983–1984 because of the 1982 recession. Myself and several analysts looked at individuals updated with the '82–'83 population survey who were insured and uninsured. Although our findings were used in very political ways, I thought it was important to alert policymakers to the implications of their potential decisions. We found that the people who were unemployed and uninsured in 1983 were frequently people who had never been insured when they were employed. This meant you might find yourself doing something unintentional, which is to make it less likely that the unemployed would go back to work because they would not only lose their unemployment compensation but they would also lose their insurance coverage. Because so many of the unemployed uninsured were people who

were uninsured before they lost their jobs, you could make a better case for subsidizing the employed insured than you could the unemployed uninsured.

BERKOWITZ: They would lose their health insurance because they were getting Medicaid?

WILENSKY: If you set up a special program, which Senator Riegel (D, Michigan) was very eager to do and which looked like it would pass in '83–'84, that provided catastrophic insurance to the newly unemployed who were uninsured—what you would do would make it more difficult to induce people to go back to work. Many of the people who were unemployed and uninsured were uninsured when they were employed. If they went back to work, they would not only lose their unemployment compensation; they would lose their insurance as well. This was not a way to encourage good work effort. You could make an argument that the people that you ought to help first were the employed uninsured rather than the unemployed uninsured if you wanted to keep work effort up. We didn't know when we started this analysis that this would be our finding. We were actually kind of surprised when we observed this, but once we realized what the data were showing, those who had clear agendas took it and ran with it. It was a long time before people on Riegel's staff would talk to me. Again, my view was that I was ready to argue for providing subsidies to employed uninsured first and not to the unemployed uninsured unless you were very careful about how you did it. This program was likely to produce serious unintended consequences.

BERKOWITZ: It seems to be a common factor with all of these large social experiments in the late '60s and 1970s; there's this profound conservatism in the actual results.

WILENSKY: You get yourself into a position of saying, "We have a program but we can make it better." The analysis that was done in the late '60s and early '70s indicated how difficult it was to help the poorest of the poor without spending enormous sums or putting in place very high implicit marginal tax rates. For income support programs, the trade-offs are setting the floor low enough so that you don't do quite as well as you'd like for the poorest of the poor or having some pretty bad incentives as income increases. The less consolidation or the less you take account of other concurrent income-related programs, the more you can get into trouble.

To my mind, this produces wiser choices because you have a better sense of what's likely to happen, but I can certainly see why somebody would say that it has a profoundly conservative effect. It shows the difficulties with some of the objectives that you have to deal with. My view is that economists, particularly in the social areas that I have worked in, could and should bring to the table better information so that people who were in a

decision-making role could understand the implications of their decisions, and could understand "what if we did this" or "what if we did that" so that it could help them factor, along with the political factors, the implications of certain decisions. I was very pleased that when I ultimately went into a political position, which was a very serendipitous event, most people were very surprised that I was a registered Republican. I had regarded that as probably the highest compliment they could have paid to me: people who I worked with for years had no idea what my political party was. People on the Hill who had used my analysis and for whom I had testified as a technical expert in the 1980s had no idea about my party affiliation. From my view that was as it should have been.

BERKOWITZ: So you go to Project Hope in 1983. What was the story behind that?

WILENSKY: John Iglehart, who is the editor of Health Affairs is somebody that I met coming back from Albany because our planes were late. He was there for some other reason; I was there to talk with Jim Tallon. John and I were waiting around in this small airport. I had known his name, but I hadn't known him. I was working on a manuscript on the uninsured. He was sitting next to me and happened to notice it, so we started talking. We got to be friends, and about six months later he called and said that the person who had come to Project Hope to help develop their Health Policy Center had been there less than a year and was leaving to go do something else. They were looking for somebody to try to develop a Health Policy Center at Project Hope and would I be interested. I said I'd be interested in doing that, and he arranged for me to sit down and talk with Dr. Walsh, the founder of Project Hope. In the 1950s he'd been one of Eisenhower's consulting cardiologists. He set up the SS Hope hospital ship to provide American training in health care to people in developing countries. That was mostly what Project Hope had done until around 1980, and still the bulk of the money is spent on health education and training programs in developing countries. John came to Hope around 1981 to set up Health Affairs as a journal. Dr. Walsh was eager to find somebody to run the center since he was about to go away for several weeks. We talked a couple of times between Thursday and Saturday. I had learned enough about what mattered being in government, so I said, "I have two requirements. I want the right to hire and fire, and I want the right to determine the distribution of salary and bonuses, not necessarily the total amount but the distribution." I knew if I had those rights, it didn't matter if I had a chance to even meet the people already at the Center.

After seven years in government, I knew that if you can't do that, then you don't have a lot of authority. We agreed to that, so after two days of talking

I said, “OK, I’ll need a couple of months to make the transition but I’ll come.” I had heard—I didn’t know him before—that he was an active Republican, but I talked with John who said Dr. Walsh in no way influenced what John was doing in setting up the journal, and John had complete editorial control and authority over the journal. He assumed that if I indicated the same intent, that it would not be an issue for me in the Health Policy Center. I was very concerned that the Center not be regarded in any way as partisan. I wanted the same assurances, which I got immediately, and, in fact, I have never known it to be an issue.

BERKOWITZ: How is it that you met Vice President Bush?

WILENSKY: No, this was ‘83.

BERKOWITZ: When did that contact start?

WILENSKY: It started around ‘86—because I was now at Hope, trying to grow a Health Policy Center and we were looking for money like everybody else at HHS. I was guess that was at the end of Carolyne Davis’s tenure. I think I knew of her because she was female, she was from Michigan, and she was head of HCFA. I had seen her a couple of times when I was testifying before the Congress. I knew of her and we probably met, but not immediately, maybe not until later. I’m not sure. My connection with the campaign resulted from my meeting Debbie Steelman around 1986 when she was at OMB. She was the PAD (Policy Assistant Director) for Health, and Project Hope had a technical assistance contract with HHS to work on the catastrophic insurance legislation. There were about 10 people on the contract and I was heading the group—it was most of our analytical staff—trying to provide assistance to HHS in terms of understanding the implications of various ways to structure the catastrophic legislation, working with the people in the Department who were more directly actively involved in proposing the policy. I had gotten to know Debbie because OMB had questions about some of the implications of the catastrophic insurance analysis, and I had done some of the work. My main involvement in the ‘88 campaign occurred because I had met Debbie and been helpful to her. According to Bill Roper, when the campaign was pulling together some analysts to talk about health care, I was invited to be in the room to talk about issues of manpower shortages, uninsured etc., and I think it was clear that I was a limited-government person. I don’t think anybody had any particular knowledge of my political affiliation but that I was a limited-government type and that I was a good analyst and I knew a lot about health care and I was a good numbers person. I was somebody that they’d occasionally call and say, “What are these numbers?” or “What are the implications of doing some policy or other?” Occasionally I would get a call saying, “Can you write four or five bullets about proposals for insuring the

uninsured? Or a Medicaid issue?" They were all basically technical policy question of this is why it's a problem, these are your choices, this is what's going to happen if nobody intervenes, these are the kind of interventions you can consider. I'd usually ask them, "Do I have an hour, two hours, or half a day to get back to you?" and usually it was, "You've got 20 minutes." I'd say, "All right, I'm not actually positive that these are exactly the numbers, but they're within the ballpark."

I would sit there and type out something and fax it over. I never knew what happened. I'd say, "I'd feel better if you'd give me another half day," and they'd say, "Oh, no, no, twenty minutes." And I'd say, "I'll do the best I can, and I'll give you some idea about how uncertain or certain I am of the numbers and how much difference it might make if I were wrong." I never knew when they would call, and I tried very hard to respond. After awhile, people besides Debbie (she was the issues campaign director for the Bush campaign in '88) would call me to ask what's with something, and sometimes I'd say, "I don't know, but here's somebody who does know about the problem. Here's the telephone number. If there's a problem, get back to me, and I'll go get the number and give it to you, but it might be easier if you talk to the person directly," or other times it was, "I'll get you the best I can. Tell me how much time I have." But it was all technical policy issues that I was doing. I would occasionally turn on the television and see myself, but that was really the only involvement I had in the '88 campaign. It was actually more involvement than I had except for 1968, which had been at a very different level.

BERKOWITZ: When Bush won the election did Debbie Steelman get to work in the White House?

WILENSKY: She never had an official position in the Bush Administration, although she chaired a commission on social security. She was quite young, maybe 35. I started to get some calls about whether I might be interested in ASPE (Assistant Secretary for Planning and Evaluation at HHS), and I went in to talk with the White House personnel—as much out of curiosity as anything. I said, "I'm not really interested in ASPE." I think I might have gotten even a second call. Initially Sheila Burke had been the presumed HCFA administrator—

BERKOWITZ: Sheila Burke—the one who worked for Senator Robert Dole?

WILENSKY: Right—for the Bush administration, and I think one of the times when I was talking to White House people I said, "I don't think I'm interested in ASPE." One position I'd always been interested in had been HCFA, because it was where the action was, by virtue of directing Medicare and Medicaid, and it intrigued me because of its combination of operations

and policy. But at that point I presumed, along with everybody else, that Sheila already had that job. After awhile, an issue arose about Sheila's husband, he was a Vice President at Aetna—he had been in the Reagan administration—so she withdrew—or whatever one does. And then Drew Altman popped up frequently as the second name; he had been Tom Kean's health and welfare person in New Jersey.

BERKOWITZ: He was working at the Robert Wood Johnson Foundation at that point?

WILENSKY: He may have been. He was still, I think, in New Jersey. I did think that was a little odd, and the reason I thought it was a little odd was, although I didn't know very much about Drew—I vaguely knew his name—I did know that he was an active proponent of employer mandates, or had been during his time in his New Jersey position, which was not consistent with the general administration position. So I had thought, "This is not the most obvious choice."

BERKOWITZ: He wasn't a Democrat, was he?

WILENSKY: No, but he definitely didn't seem like someone that that you would expect to see running a major social health programs in a Bush administration, so I was just watching and wondering how this one was going to play out. My interest was getting a little piqued as to whether or not this was really going to happen. After several months it was clear that, whatever he was being told, Sununu was not going to have this nomination go forward in the White House and over to the Senate, and it was just a question of at what point would it become clear that this was not going to happen. At which time I thought, "I have no idea how one goes about getting considered, so I made some calls—asking if I'm interested, if this comes up again, how does one do this?" I was someone who had not been involved at this level before. There were Members of Congress that I had helped, like Bill Gradison and Dave Durenberger, along with a lot of Democrats that I had testified for, like George Mitchell and Lloyd Bentsen. But I was thinking of some of the Republicans, and I called them asking for their assistance.

BERKOWITZ: You were well placed enough to be able to call a Senator on the phone?

WILENSKY: Yes, because during the '80s people who had been involved in health care had gotten to know my name and knew me. Their staffs would call me to ask if I would testify as an expert on issues regarding long-term care or health insurance or something about Medicare. Usually they tended to be more market-oriented Democrats and the moderate Republicans. In

part, it was the people who were involved in the health committees that were relevant and where I would be asked to testify. When the position came open again, I tried more actively at least to get under consideration for the position. Ultimately, it was Lou Sullivan, who as Secretary had the right to send a name forward. I found out that I was on a list of several people who the White House had indicated, were they chosen, would be acceptable, people they thought ought to be under active consideration. I probably had the most similar background to his—quasi-academic, a member of the Institute of Medicine as he was—so it in some ways was very fortunate that he was doing the choosing. I was acceptable to the political people, but I didn't give anybody any chits by being the choice. So if you were trying to help somebody who had done you a favor, you weren't going to get any credit by having chosen me. But I was somebody who a number of congressmen and senators had worked with, had a high regard for—I was regarded as a very good policy analyst, knew health care—they were comfortable with me. I was at the time very surprised when the appointment happened, although, again, it was very fortunate for me that it was Sullivan who was doing the choosing. I'm inferring this into his choice of me, but given that he had come from the environment he came from, as a college president and not as a political person himself, it was probably the most fortunate position that I could have found myself in.

BERKOWITZ: So you got to be head of HCFA in 1990. There had just been legislation in 1989.

WILENSKY: At the very end, while I was waiting to get confirmed, the Congress passed the RBRVS.

BERKOWITZ: So there was this notion of changing reimbursement under Part B of Medicare. Was that the lead thing in your mind that you would have to deal with?

WILENSKY: It was certainly the first thing I would have to deal with. There was another big issue about how to bring capital expenditures under DRGs, which had gotten torpedoed twice. I don't think I knew at the time about the provider tax and donation issues in Medicaid. I soon discovered that that was going to be a very hot issue while I was at HCFA, the very high rate of expenditures for Medicaid, particularly when the states found this bottomless pit they could tap into. What turned out to be as interesting was that, because I brought a health financing background to an administration that didn't have very much expertise in health care financing among its political appointees, I soon discovered that in addition to my role as HCFA Administrator, I began to play a second-level role as a political appointee with expertise in health care policy financing.

BERKOWITZ: So that meant that you were involved in creating the Bush administration health care policy?

WILENSKY: And in working with the Department on issues that went beyond HCFA, working with OMB on health financing issues, and ultimately working with the Bush White House on these issues. Unlike the Clinton administration where there were many people interested and knowledgeable about health care financing, both in HHS and at the White House. Dick Darman had in his very broad background some knowledge about health care financing and general policy analysis and a little about health care but there was very little expertise in health care financing otherwise in HHS. Martin Gerry, who was the Assistant Secretary for Planning and Evaluation, had a very different background.

BERKOWITZ: He was a civil rights lawyer.

WILENSKY: Right. So the Bush Administration was unusually lean in terms of people who were political appointees who understood issues of health policy and financing.

BERKOWITZ: What can you say was a Bush initiative in health care from these years?

WILENSKY: One of the major changes that occurred had to do with the actual implementation of RBRVS, another with limiting the use of provider taxes and voluntary donations as legitimate ways for states to finance their share of Medicaid spending.

BERKOWITZ: Can you say a few words about that? That's a little bit obscure.

WILENSKY: It involved a lot more money than people understood. It started to become clear that states had discovered a way to increase Medicaid spending with solely or almost exclusively federal dollars. We knew states were feeling fiscally hard pressed. They were experiencing a slow down in their own revenues and Medicaid was becoming one of their largest expenditures. This "creative financing" started with West Virginia. Basically, what happened in the late '80s in West Virginia is that the state ran out of money. So the state approached West Virginia hospitals and said that if they, the hospitals, would front the money for the state match—which wasn't very high, West Virginia has one of the lowest requirements, maybe seventeen cents on the dollar—the state would return the money to the hospitals after they got the federal match. So it was basically, "Loan us the money—donate—the money to us. We'll return it to you so you'll be made whole and we'll be able to get the other eighty-three cents on the dollar

which otherwise we're just not going to have, and without it, we won't be able to run the program."

BERKOWITZ: How is that different from what usually happens?

WILENSKY: The idea under Medicaid is that it is supposed to be financed with matching grants, and the states are supposed to put up their share of the money. The state puts up its share, which along with the federal dollars increases spending in Medicaid. It's not supposed to be, "We'll put back in your pocket what you gave us, this is just a temporary loan to us." State matching grants are supposed to increase the total, so that the additional Medicaid spending is more than just additional federal dollars. It's supposed to be a real addition of state dollars. The presumption was that state funding wouldn't come from provider taxes, but would come out of the general revenue of the state. It could be income taxes or sales tax revenue or whatever. Early on—at least initially—there were no prohibitions about having taxes on providers. No one thought that this was going to be gamed. The assumption was that the state would come up with its share, the federal government would come up with its share which was at least 50%, frequently more, and that would produce more money for Medicaid. It was a way to induce more spending on Medicaid. That's usually what matching grants do. They basically lower the price of spending on health care in an area. And it would be a greater inducement for poor states than for wealthy states since their match is higher. The major cost constraint in Medicaid is that states have to put up their own money, which meant that once states discovered they could get additional federal money without putting up any of their own money, there was really no limit as to what you ought to expect states to provide. That makes it only the aggressiveness of the state or its "chutzpa," that limits how much a state can ask for. During the period I was at HCFA, we were noticing that states were using the money for all sorts of activities. The states began to feel compelled to tell other people what they were doing.

BERKOWITZ: It's similar to the situation in the seventies in which there was uncontrollable spending for social services.

WILENSKY: It was just a bottomless pit, really a sink hole. I worked very hard with Tom Scully who was at OMB—we had developed a very good working relationship between HCFA and OMB—to try to get legislation to shut this down, to limit what could be done. I was able to get Tom's confidence because I didn't try to end run him on HCFA's budget allocation but I had strong feelings about how the money ought to be allocated and where the savings ought to come from. I would push for more money for HCFA but I wouldn't try to play games.

BERKOWITZ: The way this usually ends, this kind of thing, is that there is legislation passed holding the states harmless that have done it and then changing the law. Is that what happened here?

WILENSKY: Ultimately, what happened is that the states were held harmless for a period, giving them a couple of years after which they couldn't spend more using these strategies. Some of them had to cut back. There were limits as to how much they could use provider taxes, voluntary donations were no longer allowed, and disproportionate share spending was capped. That had been the other vehicle that had been used along with those financing strategies.

Another piece of legislation, which was very important, was to bring hospital capital expenditures into the DRG system. The split in reimbursement had induced very peculiar spending patterns with operating expenditures being reimbursed under one system and capital expenditures under another. This does not lead to good decision-making. Regulations had been proposed previously but had been blocked by the Congress. My deputy and I spent a lot of time working with members of Congress, trying to develop a regulation that involved the provider community, especially the hospitals. I think I met at least twice with every member of the Ways and Means Committee and the Finance Committee, both before the proposed regulation came out and again before the final regulation was released.

BERKOWITZ: Everyone had a hospital in their district?

WILENSKY: Yes. It took a lot of intensive work, first to try to get members to listen to what was being proposed and not just do a knee-jerk response to block the regulation, as they had in the past, and then once the proposed rule was out, to help us work to modify it to the extent that it needed modification but, again, not to shut it down.

The implementation of the RBRVS was the other major activity facing HCFA when I was Administrator. It was very difficult legislation to implement in part because it was very micro-prescriptive. It was internally inconsistent, which we discovered in the proposed rule when we tried to follow literally the legislation. Implementing the RBRVS required a mobilization of HCFA staff. Another area I worked on was shortening waiver times and regulatory preparation times. Before, because I had known a lot of people at the state level, because I had been involved in something called the user liaison program while I had been in the Public Health Service, a lot of them approached me when I was named to HCFA to say, "You have to do something to make it easier to get waivers. The waiver process is just endless in terms of paper and endless in terms of time." I mobilized a group within HCFA to try to come up with ways to shorten the waiver time, to try

to make the renewal process far shorter, and to put together a group that would work with the states to help them get through the process.

BERKOWITZ: A good Republican initiative.

WILENSKY: Absolutely. Another thing happened during the first month I was at HCFA. I had helped—I did not know what I was getting into—push out the proposed rule for CLIA (Clinical Lab Improvement Act). The Act was passed following the fiasco with pap smears, including some serious mistakes and misreadings in laboratories. The Act and resulting legislation attempted to regulate for the first time all laboratories involved in clinical practice, not just the 13,000 that were involved in Medicare and interstate commerce. When I came to HCFA, the staff had been trying to put together a regulation implementing this difficult piece of regulation and it was at least a year overdue. I had pushed in meeting with Jim Mason, the Assistant Secretary for Health, and Bill Roper at CDC, that we needed to get out the best proposal that we had, which I had not been involved in preparing. It was now February or March of 1990, and this was 1988 legislation. Everyone knew that the regulation was going to cause a lot of consternation, but they needed to get it to a point where they could start getting useful feedback. I had no idea of the firestorm that was about to be released. What I did remember was in March having a hearing before Barbara Mikulski's Senate Committee—when she was pounding the table and pointing her finger at me on television and saying, "When are you going to start obeying the law, Dr. Wilensky?"

I might have been a little more cautious about pushing to get the regulation released if I had any idea about the firestorm that would be created. The opposition offices just went absolutely crazy about this. And, in retrospect, there was some cause, although, again, the best way to get a proposed rule moderated or changed is to have something to look at, to respond and to force reconsideration. There were 50,000 responses or so that came in. It frustrated me that when I would go out and speak to rural groups they could say, "How could you put together such a stupid regulation?" And the answer is, "The regulation is consistent with the law. The law allows for no trade-offs involving access or costs. In fact, it explicitly says there should be no change in the standards because of geography or population density or the sophistication of the lab. The only reason there should be any change has to do with the complexity of the test being done and whether there is any potential of doing harm if it's done incorrectly or if people aren't properly trained. I don't pass the law. I try to implement them consistent with the law."

BERKOWITZ: Another example of what you were saying about a regulatory response that is not always appropriate.

WILENSKY: Right. When you get inappropriate legislation, it's very hard to write a regulation that is going to give you a good outcome.

BERKOWITZ: Let me ask you one more question. What about the management side of HCFA? Did you get involved in that, or was your strength really the policy side?

WILENSKY: I'm a very hands-on manager, and I think that how the agency produces regulations, how HCFA runs, impacts policy. You can't talk about policies in the abstract when you're running an agency. I did some reorganization as soon as I came. I created the Medicaid Bureau because I thought Medicaid for too long had been the stepchild of HCFA.

BERKOWITZ: There's a historical irony here, because HCFA was explicitly created essentially to end that kind of separate bureau.

WILENSKY: I understand that, but it seemed at that point what had happened was Medicaid just always got short shrift. So I wanted to pull together the elements relating to Medicaid and try to focus attention on them. I also wanted to make organizational changes that helped managed care—I believed that there ought to be more choices for seniors and that we ought to try to strengthen the role of managed care as a viable option under Medicare.

BERKOWITZ: For both Medicare and Medicaid?

WILENSKY: For both Medicare and Medicaid, but particularly Medicare because the states were already, through the waiver process, trying to bring managed care into Medicaid. But also that the whole regulatory structure was so slow and cumbersome, the production of regulations and the issuance of regulations, that it was unfair and unreasonable to the people being impacted, to the provider-supplier community being impacted. Fixing this process was as important as producing any specific policies. It was very much a hands-on management position, which I liked. I'm not adverse to making decisions. It was a feeling that you were really running an agency.

BERKOWITZ: Although it must be very hard when you are dealing with the guys in Michigan that are paying the Medicare bills and the guys in Utah running the Medicaid program.

WILENSKY: It is a very diffuse, removed process because of the whole contractor relationship. I got involved in how to streamline that, trying to reduce the number of carriers and intermediaries, facilitating a movement toward single carriers and changing the software structure to accommodate a single carrier mentality in terms of making it transparent whether there

were multiple carriers or a single carrier. I spent a lot of time and was actually involved in trying to reshape that part of the agency. I was very impressed by the quality of the career staff. I thought there were times when, as a political appointee, you had to make very clear your role in making policy decisions and be knowledgeable enough so that if they were not the decisions that the senior career people would have chosen, that they understood your right to make them anyway. I had a few such battles. Once those were done, I had what I thought was very strong support from the civil servants, the career bureaucracy at HCFA. It helped a lot that I understood how HHS worked and I understood how HCFA worked and I understood how the bureaucracy worked, more than some political appointees. I didn't know the political process that well, but I understood the bureaucratic process very well.

BERKOWITZ: Great. Thank you very, very much.

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Interview with Bruce Vladeck

New York, N.Y. on August 7, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: August 7th, 2002 and I am here in New York City with Bruce Vladeck, V-L-A-D-E-C-K. And I want to ask him some questions about his life. Did you grow up in New York City?

VLADECK: Yeah. I was born here and lived here till I went away to college.

BERKOWITZ: Which was at Harvard.

VLADECK: Yeah.

BERKOWITZ: Did you go to private school in New York?

VLADECK: No, it was public school all the way: P.S. 87, Junior High School 44, Stuyvesant High School.

BERKOWITZ: Stuyvesant High School, I see. And at Harvard did you major in political science?

VLADECK: Majored in government, which is what they call it.

BERKOWITZ: Government. And went to graduate school at the University of Michigan.

VLADECK: Right.

BERKOWITZ: In political science.

VLADECK: Right.

BERKOWITZ: When you went to graduate school at the University of Michigan, which would have been, what, 1970, I guess?

VLADECK: Right.

BERKOWITZ: So you went quickly. You must have graduated early or something.

VLADECK: Well, in New York City public schools at that time they had a program to keep the white kids in the school system in which you did three years of junior high in two.

BERKOWITZ: I see.

VLADECK: And I was born in September so I actually was not quite 17 when I started college. And then when I got to Michigan I had fellowship support for three years and I had an advisor—John Kingdon, you may know of him.

BERKOWITZ: Famous for agenda setting.

VLADECK: And who had gotten his doctorate wherever he had gotten it in three years. And he said, "You know, if you go year round you can do this." So I did.

BERKOWITZ: So when I think about John Kingdon I think of public policy. I don't necessarily think about health care though. Is that something that—

VLADECK: I had no educational activity background in health care whatsoever. My principal sub-field in graduate school was political philosophy, or theory, you know, as they called it. And my other two fields were public policy and American politics. And then my cognate field was economics. But my dissertation was on Rousseau and Marx and 20th century Marxist theorists, stuff like that.

BERKOWITZ: So it wasn't related at all to health care.

VLADECK: No.

BERKOWITZ: So what's the hook? How did you get involved in health care?

VLADECK: I was looking for a job. The real story of how I got into health care, to try to do it succinctly, the Columbia School of Public Health denied tenure to the guy who had been teaching their health policy courses. And I was working right after graduate school at an organization called the New York City-Rand Institute, which was a joint venture of the City of New York and the Rand Corporation, and one of the greatest exemplars of catastrophic cultural conflict I have ever encountered in my life. But it was a doomed place. And anyway, someone I had met at Rand who had been an employee and was then a consultant had gone up to Columbia and was building a research center there and arranged for me to meet the dean. And after about 40 minutes of conversation the dean of the Columbia School of Public Health offered me an assistant professorship. And I said—this is a true verbatim story—I said, "I don't know anything about health care."

And he said, "That's all right. You can come on faculty in the fall but you won't have to teach till the spring." And I needed a place to land, so I took it and began my on-the-job training in fall of '74.

BERKOWITZ: I see. I see. So who was the dean there at that time?

VLADECK: Jack Bryant.

BERKOWITZ: Jack Bryant. And who was the guy from Rand who had gone over there?

VLADECK: A guy named Alan Ginsburg. Jack had—in the early '70s when there were all these political pressures, community pressures on the medical schools, and many of them started departments of community outreach or did other kinds of outreach. Bryan raised a ton of money at Columbia from foundations to create something called the Center for Community Health Systems, which they never quite knew what to do with. And they recruited Ginsburg from Rand to run it. And it was a sort of a not-terribly-successful enterprise that ran through its additional initial foundation money and a few grants and then went out of business in the early '80s. But that's where a bunch of my funding came from.

BERKOWITZ: I see. So were you also in the political science department at Columbia?

VLADECK: Not at first, but I was. I got a joint appointment a couple of years after I had landed in the School of Public Health and remained in the political science department for the rest of my time at Columbia, although the primary appointment was in public health.

BERKOWITZ: I see. So the other thing that really stands out about your vita is that you went from this academic track to sort of a quasi-administrative track at some point. You became assistant commissioner for health planning for the State of New Jersey, which sounds very impressive. Did you know someone? How did that happen?

VLADECK: No, believe it or not, I answered an ad in the New York Times.

BERKOWITZ: Really?

VLADECK: That's how I got that job, yeah. And just to show what a small world it is and how everything goes in circles, the job was open because John Reiss, my predecessor in that job, had been recruited to HCFA to be associate administrator and created that vacancy. So they put an ad in the paper and I responded and they interviewed a bunch of people and I got the job.

BERKOWITZ: Well, what did you do there as assistant secretary?

VLADECK: Well, it's interesting because my expectation, my understanding was that I was going to run a state health planning agency. Those were in the days of health planning, and New Jersey had a very good, very strong program, including a very strong certificate of need program. But I knew that they were engaged in experimental developmental work in hospital reimbursement. But I was assured that everything was in good hands and that was a relatively autonomous project under control. And I got there in March'79. And on my first day I had to sign all this paper in which I'd become principal investigator on a $7 million contract with HCFA (Health Care Financing Administration) to implement DRG-based, all payer reimbursement (diagnosis related group). And then I find out—this was March—that under our contract with HCFA we are supposed to begin paying hospitals under this new system October 1st and we don't have any regulations. We haven't even decided how we are going to treat uncompensated care, how we are going to pay for capital, how we are going to pay for bad debt expense, a whole bunch of other things. They just haven't been dealt with yet. So the first thing I did was go down to Baltimore and get an extension. But I spent a large fraction of my time, three years I was in the health department, putting the new payment system in place, getting it up and running.

BERKOWITZ: That was one of the states that experimenting with alternative hospital reimbursement systems.

VLADECK: Yeah. In '75, I guess, HCFA issued—well, it was still SSA (Social Security Administration) in '75.

BERKOWITZ: Right.

VLADECK:—a Request for Proposals for states to experiment with alternative payment systems. And they funded seven or eight but New Jersey was the second with the Medicare waiver after Maryland. And we were one of, eventually, five all-payer systems under that authority.

BERKOWITZ: Did you also work with some kind of a consultant like Abt or Mathematica or something? Did they have some sort of contract to evaluate that or to—

VLADECK: Well, there was an evaluation of all of the rate-setting projects by HCFA. I don't remember who the contractor was.

BERKOWITZ: Abt Associates?

VLADECK: Probably. We did have—the New Jersey project had—a very large consulting relationship with the firm of—called—at the time it was

Puter Associates, which was the Yale folks who had done some of the early work on DRGS.

BERKOWITZ: John Thompson?

VLADECK: John Thompson. Who was largely phasing out at the time and primarily Bob Fetter and Rich Averill were the principals in Puter during the time the New Jersey system was being developed.

BERKOWITZ: So at that point you became an expert in Medicare reimbursement.

VLADECK: I learned a lot, yes.

BERKOWITZ: And you learned about the way DRGs worked.

VLADECK: Yes.

BERKOWITZ: Variances in them and so on.

VLADECK: First-hand, up close and personal.

BERKOWITZ: One of the stories that is told is that it was a great success and that's why eventually the whole nation got DRGs. Is that true?

VLADECK: Well, I think it was a good system. I think it was very successful. I think there were three things to remember. One is, the New Jersey system was an all-payer system and therefore philosophically in some ways it was critically different from PPS (prospective payment system).

Second, and critically, the folks in HCFA, particularly the career folks, were really smart and really sophisticated. And when it came time to put together a national system, they picked the best features of the New Jersey system. They didn't make all my mistakes. They made some new ones.

And the third thing is to remember that while the system is perceived as being successful—and I think it was and I think it was for a bunch of reasons including some that had nothing to do with DRGs—the fact was that there was no formal evaluation at the time it became national policy. There wasn't enough time. I mean, the system in New Jersey was phased in over a three-year period. So it wasn't till the spring of '82 that every hospital in New Jersey was on the system. And that's about the time Congress passed the law calling for the report to Congress, that became the recommendation in the spring of '83 and became the law later in '83. So there was no formal evaluation of any sort available at the time. There was just a general anecdotal perception of a success story. And it turned out to be pretty

accurate but interesting commentary on how we keep raising our standards for evaluation.

BERKOWITZ: So by all-payer system, does that mean like Prudential also received that same reimbursement?

VLADECK: Everybody paid the same except for regulated payer discounts that were established by the New Jersey Hospital Rate-Setting Commission on recommendation of the health department. So, yes, in fact the payer issues turned out in many ways to be much more complicated than certain of the hospital payments.

I mean, we never anticipated how much trouble we would have when there were coordination of benefits issues, when there were various kinds of internal limits on health insurance policies. The most complicated part of getting the system up and running was dealing with vagaries of and the differences among private insurance plans. And that was just a nightmare, continuing nightmare.

BERKOWITZ: Who was governor at the time?

VLADECK: Brendan Byrne.

BERKOWITZ: So it was a Democrat?

VLADECK: Yes.

BERKOWITZ: Was that considered a political job, your job?

VLADECK: No. Actually, historically it was only relatively recently in New Jersey that the commissionership would have been considered a political job. And the world was becoming more political at the time. But I actually had feelers from the (Governor Thomas) Kean transition team after the election in November of '82.

BERKOWITZ: That's K-E-A-N, by the way, Kean.

VLADECK: Tom Kean. But I was ready to go anyway, so I left.

BERKOWITZ: I see.

VLADECK: The day before Kean was sworn in.

BERKOWITZ: And so, did you live in New Jersey at the time?

VLADECK: Yes.

BERKOWITZ: Work in Trenton?

VLADECK: Yeah, I worked in Trenton. We moved to East Brunswick, a long, not entirely relevant story.

BERKOWITZ: I see, I see. And that's why you went to Robert Wood Johnson Foundation?

VLADECK: Yes. You know, it was almost a classic case where for three and a half years I drove by there every day. "If you worked here you would be home by now," kind of thing.

BERKOWITZ: And this job with the Robert Wood Johnson Foundation was a brief job. Who was the person in charge there?

VLADECK: Dave Rogers was president.

BERKOWITZ: David Rogers.

VLADECK: And I was an officer of the foundation. We were all parts of this faculty. I loved David dearly. We became very close after he left the foundation. But it was the most centralized decision-making organization I have ever been part of.

BERKOWITZ: It also is the hardest to get a grant from, I think. And they seem to have a stringent cost accounting and sort of annoying oversight.

VLADECK: Well, there's a history there that goes back to Johnson & Johnson. The General, Robert Wood Johnson, who created the company or took the company over from his father then made it into an enormous success,—had a practice—which we all would have been a lot better served in recent years if all American corporations had observed—in which the comptroller of the corporation reported directly to the chairman of the board. And so there was an independent financial control of—not an ex post audit function but actual controlling—function reporting directly to the chairman. And the guy who was the comptroller for much of Johnson's tenure at Johnson & Johnson was the first chairman of the board of the Robert Wood Johnson Foundation after it went national. So he always had a dual power structure and the chief financial officer of the corporation, at least when I was there, reported—of the foundation, reported separately directly to the chairman of the board.

BERKOWITZ: I see.

VLADECK: And so there has always been much greater control on the part of the financial side of the house relative to political matters.

BERKOWITZ: Right. So you only stayed for a little bit of time there.

VLADECK: Yes.

BERKOWITZ: And then went to the United Hospital Fund in New York.

VLADECK: Right.

BERKOWITZ: So you moved back to New York City?

VLADECK: Yes.

BERKOWITZ: And the United Hospital Fund, does it raise money for hospitals? What does it do?

VLADECK: It did originally. It was created as the nation's first federated charity in 1879 to do joint fund-raising for the hospitals in the city. That's a role it largely, but not entirely, abandoned when it participated during the '30s in the creation of the United Way system in New York City. And made a deal as part of that in which it gave up its direct fund-raising from corporations and various other places in exchange for a pro rata share of the United Way. It still distributes general philanthropic support to hospitals, but going way back the original fund-raising distribution function spun off into standardization of reporting and then some research and then some shared educational activities. And so by the time I got there in the mid-'80s it was more an organization with sort of a broad and vague mission and endowment. So the question was, you know, how do we do business from where we sit? And we sort of followed a threefold strategy of putting more of our charitable distribution into grants and using grants for program purposes, doing much more policy-focused research and using our role as an organization that was connected to the provider community but not representative of the provider community. We had to be sort of a convenient neutral party for addressing health issues.

BERKOWITZ: So that meant Jews, Catholics, Health and Hospitals, the whole gamut?

VLADECK: Not Health and Hospitals because they are public.

BERKOWITZ: Only private hospitals.

VLADECK: Yes.

BERKOWITZ: But Jews and Catholics both?

VLADECK: Actually, the original name of that hospital fund in 1879 was the Hospital Sunday Association because it was created by a bunch of anglophile Episcopalians who were very self-consciously imitating the practice in the Church of England of the Sunday before Christmas having the collections throughout England go to support hospital care. And then in typical New York fashion in the 1880s, relatively early, this foundation became the Hospital Saturday and Sunday Association. And it wasn't until about 1912—the Catholics came in much later. They didn't come in till about World War I, by which time the name had changed to United Hospital Fund.

BERKOWITZ: The Catholics have a strong tradition of separatism because they are afraid that there will be conversion activities in the hospital or wherever.

VLADECK: Whatever the reason was, they didn't come in till later. Yes, in fact we had very complicated politics in terms of distribution because we dealt with Federation of Jewish Philanthropies, Catholic Charities of the Archdiocese of New York, Catholic Charities of the Diocese of Brooklyn and Federation of Protestant Welfare Agencies. Each of them do things a bit differently. That was part of the enjoyment.

BERKOWITZ: So you were young to be the head of that hospital fund. You were 33 when you started? Started 1983?

VLADECK: Yes. Yeah, 33. Almost 34.

BERKOWITZ: That's quite young to have a job...

VLADECK: I think they had some sense of—of going out on a limb, taking a risk in hiring me for that position. But I think some of the leadership of the organization felt that in order to survive, thrive in the future, they needed to go in and take some risks and not do conventional kinds of things.

BERKOWITZ: I see. Interesting. And you already had sort of philanthropic experience, as well as experience in health care planning and research, so I guess it makes sense. So that brings us now to the Clinton years. The administrator of HCFA definitely is a political job.

VLADECK: Yeah.

BERKOWITZ: So what were your connections with the Clintons or with the Democrats that you would be able to get a job like that?

VLADECK: Not a whole hell of a lot. There had been during the campaign a health policy group that was chaired by Bruce Fried that had advised the campaign.

BERKOWITZ: I don't think I know him.

VLADECK: He was at the time a lawyer-lobbyist in Washington, which he is again, actually. Bruce convened and a lot of the Democratic policy people went down and participated in it. I was nominally a member of it but I never went to any of the meetings because they were always in Washington at 8 o'clock in the morning or something. I never got there. That was about the extent of my formal relationship to the campaign. I had personal ties from a whole variety of sources to a variety of health folks.

BERKOWITZ: In New York?

VLADECK: Some from New York. I had been a member of PROPAC by then, for about six years. So I was very much involved in the Congressional side of health care policy. I never worked formally for any of those groups but, you know, I knew who all the staff people on Ways and Means and Commerce and some of the finance committees and so forth, so we knew one another. But I didn't have any sort of formal relationship to the campaign.

BERKOWITZ: So how did you find out that you were going to be the head of HCFA?

VLADECK: Well, in late January—no, in early January 1993, Donna Shalala called me and said that other people had recommended me to her as a candidate for a HCFA job. And everything she knew about me was very positive. She would like to arrange to meet me.

And so I went down to Washington, actually the day before inauguration, and met with her for several hours. And she called me. And then what happened—well, she called me about a week later and said she was putting my name forward to the White House. But that didn't mean that it was a done deal. Then I got a call that there were concerns about whether I was anti-managed care, whether I was sort of too New York. There were other names floating around. And then I got a call to ask me to come meet with Carol Rasco, who was domestic policy counselor. And Carol had been particularly active with National Governors' Association staff who reported that they had their own candidate, and so on and so forth. And it was really very interesting because in all of the discussions about me that had begun to appear in the trade press people talked about PROPAC and they talked about DRGs and they talked about the United Hospital Fund. And one of the things that hadn't been picked up at all in those discussions was the fact that I wrote this book on nursing homes and it was published in 1980 and been involved in nursing home issues in a variety of ways. I had worked on an Institute of Medicine committee concerned with nursing homes in 1986,

which was how I got to know a lot of the Commerce committee staffers and so forth.

BERKOWITZ: And you also did an IOM study of homelessness.

VLADECK: Health care for the homeless. A less happy experience. But in any event, Carol was very interested in nursing home issues. She had spent a lot of time being beaten up on by nursing home interests when she was chief of staff to Governor Clinton in Arkansas. And we devoted most of our conversation to that and I think we had a very, very good conversation. About two days later, Secretary Shalala called me back and offered me the job. So that's how I got to be head of HCFA.

BERKOWITZ: Let's talk about nursing homes for just a second. When I worked at the Twentieth Century Fund, your book, Unloving Care, was always held up to me as a model to follow in a public policy study. So this interest in nursing homes was part of your academic side.

VLADECK: Yes. I told you a little bit about my background and how I had no health care background. When I got to Columbia and I had to start looking for things to do, the 1975 meeting of the American Political Science Association was scheduled for San Francisco. And so Columbia, like many schools, had a policy that they pay half your expenses to professional meetings unless you were doing a paper, in which case they paid all your expenses. So I had to find a panel that I could get on. And the Committee on Health Politics was just getting going and was doing a panel on regulation. And I had actually done a fair amount of stuff in graduate school on public utility regulation. So I wrote an abstract for a paper on utility regulation and health care and they accepted me on the panel. And so I then spent the next six months learning enough about health care and health care regulation to write the paper. But then, in '72–'71, '70—I don't remember anymore—there was language put in the Social Security Act Amendment that states under Medicaid have to pay nursing homes on a reasonable cost-related basis.

And SRS (Social and Rehabilitation Service), HHS (Department of Health and Human Services), had no idea what to do with that provision. And they sort of ignored it—they just sort of hoped it would go away. And then Congress sort of yelled at them and got mad at them. So they had no idea how to interpret this. In '74 they let a contract to a consulting firm to figure out what was reasonable cost-related. And one of the things they did was have a conference, for which they commissioned a lot of papers. Well, they decided one of the papers would be about the application of public utility model or rate regulation to nursing homes. And they stumbled over this APSA (American Political Science Association) paper I had given. And they asked

me to do it. And this was like in 1975 and they paid me $1,500. So I did it. And then in the course of doing it, I realized that there was no literature on nursing homes at all though we had this enormous enterprise. We didn't know anything about it. So I figured, you know, here I am, an assistant professor, trying to write a book, "How to Get Some Funding to Write a Book about Nursing Homes." And the other story has to do with the Robert Wood Johnson Foundation because I first went to them beforehand because Tom Moloney had been a student of mine at Columbia and then he went to work at Johnson. And Tom said, "We don't do books." So that's how I ended up at the Twentieth Century Fund. Well, the week after the Twentieth Century Fund gave me the grant, Maloney called and said, "We have reconsidered. We are prepared to give you that grant." And I said, "Too late. I'm not interested anymore." Well, I think it was the first time he had ever been told by a prospective grantee, "I don't want it. Go away." And, you know, the book came out. It was very well received, and so forth. And it drove the Johnson people crazy that they had missed the chance. And that's when they started trying to hire me, once the book came out. But in any event, that's how I came to write the book.

BERKOWITZ: I see. That's interesting. So you came to HCFA and I know two things about what happened when you were at HCFA. One is that this was a period in which the agency decided that it would become consumer friendly and emphasize serving its customers. That's one thing I know, which was sort of a creating an image for the agency of—

VLADECK: Well, I would try to hope it was more than image.

BERKOWITZ: Yeah, and to make the agency more efficient and more caring, both. Anyway, that's one thing. Was that a conscious strategy?

VLADECK: Yes, absolutely. Priority number one.

BERKOWITZ: That was a management strategy.

VLADECK: It was a management strategy, and frankly, it was a political strategy as well. I mean, the paradox of HCFA — CMS is here is an agency that administers the most popular program that the United States government offers, the most highly thought of by the general public, not by the inside-the-Beltway types. People love Medicare. Not only the beneficiaries love it, but their families love it, which means everybody in the public loves it. And here's the agency that runs it. First of all, nobody knows that HCFA — CMS runs Medicare. And everybody hates HCFA. And you know, Bill Clinton in his book that was published during the campaign talked about how he hated HCFA and wanted to abolish it. I didn't know that until after I got to Washington, which shows how disconnected I was from the

campaign. So here was this paradox that you have an agency that is running the most popular program and that nobody seems to like. And it seemed to me the basic reason was there was no connectedness between the agency and its beneficiaries and that the agency, to make a partisan comment, in the '80s didn't have a clear conception of who its customers were, who its constituency was. And to the extent they had one, it was OMB (Office of Management and Budget); because I think Republicans tend to conceive of Medicare primarily as a budget problem. And that's how the agency was run. And so a lot of substantive problems arose from that attitude. But it also seemed to be just sort of politically obtuse.

One of the interesting things was that it's clear to me and it was interesting watching this change that when they got to Washington Bill and Hillary Clinton had no idea of the political resonance of Medicare either because they saw it from a governor's perspective. And the governors all hate HCFA because it's the agency that tells them they can't steal Medicaid money. So it took them a while. Hillary caught on quicker than the President to understand the political resonance of Medicare by the '90s. Newt Gingrich helped educate them.

BERKOWITZ: To go back to the original founding of HCFA in 1977, just for a minute, the idea was that they were trying to combine Medicare and Medicaid, which we already talked about. Medicaid had been run by the Social and Rehabilitation Service as part of the welfare bureaucracy and Medicare, of course, had been run by the Social Security Administration as a social insurance program. Could you see any of those old divisions when you got to HCFA?.

VLADECK: You know, I actually had my first lesson in this when I was in New Jersey and I was very conscious of the lesson. In the late '70s all of the literature on health care policy and health care regulation talked about how it was really important to integrate planning and rate-setting, that the reason health planning was a failure and certificate of need was a failure was because the incentives in the pricing system all went in the other direction. And so I go down to New Jersey and I'm responsible for a division of the state health department that has both planning and rate-setting in it for hospitals and nursing homes. And, you know, this is an out of the textbook model. And I had been in New York, where I had been involved in an advisory way in watching New York state government and it was a real problem that the planning people were over here and the rate-setting people were over here. So I had them all reporting to me in New Jersey. Well, the fact they were all reporting to me didn't help make them work more closely together. Hardly at all. The rate-setting people were, you know, financially oriented. They had one set of perspectives on the world and one set of

backgrounds and training and so on and so forth. The planners came from another place and they had different degrees and had gone to different schools and had different orientations. And it was just as hard to get them to work together when they were all in the same place as when they were in separate organizations. So I didn't have any illusions I think when I went to HCFA about integrating Medicare and Medicaid. But I thought bringing down the barriers was important particularly because there were a lot of areas in which I believe that the Medicaid people actually know a lot more than the Medicare people, like long-term care.

But the culture is such that Medicare is superior to Medicaid so you never could mobilize that organizationally. And I don't think when we did merge the organizational units that did managed care in Medicare and Medicaid although there was enough crossover there, particularly because we couldn't get any policy support to merge things like that.

And my major accomplishment in that regard I think, which is not trivial but which shows how hard it is to make progress, was when I got to HCFA in '93 we talked about Medicare beneficiaries and Medicaid recipients. And by '97 most of the people in the agency were talking about Medicaid beneficiaries.

BERKOWITZ: That's something.

VLADECK: So that was a little bit of progress.

BERKOWITZ: Right. Let me ask you, too, when you got there did you bring a lot of people with you? And what was your sort of career-non career reliance...

VLADECK: No, we had about 12 or 14—that many? There were about 10, plus or minus, political lines in HCFA but only a couple of those people were people I brought in myself now through my own personal linkage. It's very, very fortunate though, because again I had been involved in PROPAC, I had been involved in health policy in Washington. I had been a HCFA grantee a million years earlier.

So there were two career people in HCFA who were longstanding friends of mine who were prepared to sort of move out of their bureaucratic roles into direct helping: Barbara Cooper who was then in the Office of Legislation, having spent much of her career in research and demonstrations, to which she went back later in my tenure. And then Judy Moore, M-O-O-R-E, who wasn't even in HCFA at the time, she was over in the Public Health Service at some point. But I had known her when she worked at PROPAC.

And she came over to work as my special assistant. The office has three special assistants, two political and one career. And Judy took the career special assistant spot. And then I brought Diana Fortuna, who I had known and worked with, as the political special assistant. Diana had just finished a stint working at the Academy of Medicine staffing a special mayoral commission on the future of public hospitals in New York but was recruitable because her husband was working in Washington.

And she had worked in Washington right after they got married and hadn't liked the job she was in and, who knows, was trying to find a job that she would like in Washington. And so I was able to recruit her. Her husband is now a New York City councilman and she is now head of the Citizens Budget Commission.

BERKOWITZ: How often did you see Secretary Shalala? Did she have senior staff meetings?

VLADECK: She didn't have formal senior staff meetings per se that often. But she was a very active, hands-on secretary. And so there would be subject-specific meetings with her all the time. I don't know how to characterize it. I would say in the first six months I was there we were doing health reform.

BERKOWITZ: Which I want to talk about also.

VLADECK: She was on the road a fair amount. And so there would be times when I would go two or three weeks without seeing the secretary. Then there would be weeks in which I had spent half my time with her, you know.

BERKOWITZ: What was your Washington to Baltimore ratio in terms of your time?

VLADECK: I actually was very proud that I got the Baltimore ratio up to 15 percent. I was told that was high by comparison to my predecessors. I tried to get to Baltimore every Thursday. Every Thursday I had blocked on my calendar to be in Baltimore, and some other days as well. But I would guess about a third of the time I would have to split the day. I would have something in Washington I would have to do and so I would not get a full day in Baltimore. And driving, of course takes time.

BERKOWITZ: Of course, it helps to have a driver.

VLADECK: Well, except I lived in Silver Spring and I didn't get a driver for the commuting ends of the day. Clinton abolished that. So if I drove to Baltimore in the morning and had a three o'clock meeting in Washington, I could get the driver to drive me to Washington and then drive me back to

Baltimore going past my house to pick up my car. And then I could get in my car and go back to Silver Spring. So I would end up driving back to Washington myself.

BERKOWITZ: I see. Where were you with regard to the new building in Baltimore?

VLADECK: It was accomplished under my tenure although Gail Wilensky really gets a lot of the credit for it, I must say, because it was budgeted. It was included in the budget during Gail's tenure. But when I got there they had already put out the contracts to bid, GSA had, General Services Administration. But in fact there was a rearguard action by then—Baltimore Mayor Schmoke to try to get the new administration to reconsider the decision to put it in Woodlawn and get it moved to downtown. And we had a brief discussion of that during which I was told that there had actually been a poll of the employees several years earlier and they were overwhelmingly in favor of Woodlawn. And interesting to me, surprisingly, maybe, but at the time I learned better, was that the African American employees overwhelmingly preferred Woodlawn to downtown. So even though some of us fantasized about offices overlooking Camden Yards and I personally would have preferred moving downtown, it would have killed the project. So we decided a building in hand was worth going forward. And so then it was the construction and opening dedication and all that kind of stuff happening during my tenure.

BERKOWITZ: And the SSA was already independent when you got there, too, right?

VLADECK: No, that happened in—that happened in '93—'94.

BERKOWITZ: Did that make your job more difficult?

VLADECK: Only in the following way. We maintained very close relationships with SSA, a lot of which were personal, some of which geographic proximity helped. And they were always sort of institutionally very arrogant so they didn't pay any less attention to us when they were an independent agency than before.—Of course, a lot of the staff divisions in HHS had fewer operating divisions to harass once SSA left.

And so they were able to spend more time bothering us. And that was a bit of a problem. But that was the only real consequence.

BERKOWITZ: I see. That's interesting because they shared a lot of facilities.

VLADECK: Yes, and still do. I mean, a lot of the older generation people at HCFA are still former SSA people. So at the mechanical level relationships are still very good.

BERKOWITZ: So let's talk—we're coming to the end of the hour—but let's talk for a minute about health care and health insurance, health reform.

VLADECK: Okay.

BERKOWITZ: When you were recruited was that one of the things you were told—that we are going to do this insurance plan?

VLADECK: Well, actually the smartest thing I ever did in my life was avoid being a member of the task force although—well, I just think that the task force was insane. And Paul Starr called me like in December or January. They asked me to help out on some stuff.

And I wrote a paper and I went down to a meeting. And then there was a question of my being on the task force. Fortunately, by the time I was asked to do that when they were formally organizing it I already had initial conversation about taking the HCFA job so I begged off.

And what that meant at the end of the day was that because of my HCFA role and because of the so-called revolt of the cabinet officers in April or whatever I got to participate in the second round of administration discussions on health reform and was then sort of a full-fledged player by May—June without having to be nice to Ira Magaziner or any of that stuff. And like I said, it was the best decision I ever made. But I also had the clear sense, and there was a clear division of labor, that I was there to run Medicare and Medicaid and Judy Feder was there to do health reform in terms of the senior staff of the department.

And a lot of HCFA people were spending a lot of time on health reform and I did as well. But it wasn't my job. My job was to run Medicare and—

[END OF TAPE 1, SIDE 1; BEGIN TAPE 1, SIDE 2]

BERKOWITZ: This is an interview with Bruce Vladeck on August 7th. We are just talking about health insurance and health reform. And you were saying that you got into the sort of second wave of the initiative.

VLADECK: Right. The other thing that was going on was that while he was doing health reform, President Clinton met with governors in January of '93 and promised them a whole bunch of things including a new Medicaid waiver process, including rewriting of the regulations on taxes and donations, provider taxes and donations under Medicaid. So even before I was

confirmed I was spending a lot of time on Medicaid stuff. And I spent more time in '93 on Medicaid issues being developed.

BERKOWITZ: I see. I saw you once give a briefing on the Clinton health reform bill.

VLADECK: Well, part of the interesting thing about health reform is having been a minor player in formulation of the policy I was one of the lead public representatives, Judy Feder and I did a lot of the Congressional hearings. After Mrs. Clinton, you know, did the initial round then when it got to the meat-and-potatoes part it was me and Judy by and large doing the testimony.

BERKOWITZ: What was your sense? Did you think it had any chance of passing?

VLADECK: No. You know, the thing I have learned in Washington, although I hadn't learned by the fall of '93, was that you can never tell. And there is a degree of unpredictability and it is very powerful. But I had a strong sense that by the time the bill was introduced the window had opened and closed. And it was just taking too long and the time had run out on it. I mean, just the politics changed then and the thing looked bad and so forth but in addition to which there was this enormous set of discussions on the front end with—oh, what's his name? With communications people and public opinion people.

All these people were prepared to mount a campaign. They had just come off the Presidential campaign and they were ready to gear up again for health reform. And by the time September had come along most of them had disappeared. And so the sort of political sales apparatus that had been assembled in January and February had vanished by September. And so there was an atmosphere about it that it was, you know, kind of a lost cause by then.

BERKOWITZ: Let me back up a second. In Daniel Patrick Moynihan's book about the guaranteed income one of the points he makes is that the negative income tax is critically complicated for Congressmen to understand. He couldn't explain it and he could see that their eyes glazed over as he did explain it. I had the same sort of feeling about this Clinton Health Insurance bill, the central mechanism was complicated, hard to understand.

VLADECK: In my view the single fatal flaw, if there was a single one, or the largest fatal flaw in the Clinton health reform strategy is that the President was committed to getting to universal health insurance without any new taxes. And the first crisis or calamity that that created was that of all the

people advising the President on health care policy in the fall of '92, the only one who told him it was possible to get to universal insurance without new taxes was Ira Magaziner, which is how Ira ended up in charge of the process and how people like Stuart Altman and Judy Feder, who actually knew what they were talking about, got pushed aside. But the second and more systematic result of that is that the thing became incredibly complicated. The bill was 800-some-odd pages and 400 of them were devoted to moving around the subsidies necessary to make this Rube Goldberg contraption work. Because there may be enough money in the system to pay for everybody, which was President Clinton's belief, but there is no way to get it from where it is to where it has to go. And that's what all this stuff was about. And it was incomprehensible. It was incomprehensible to us. And nobody believed it. But if you wanted the CEO to say yes, this would work without taxes, you needed all this stuff. And that cost us three or four months. It created a level of complexity that made it totally incomprehensible. And the level of complexity and the kind of mechanisms opened this up to all the charges about bureaucracy and, you know, government programs and all this kind of stuff that the whole thing was designed to avoid.

BERKOWITZ: I see. You got the worst aspects of the sort of market mechanism and regulatory mechanism—

VLADECK: Right, because they tried to go with the market but to fix some of its problems with these regulatory contrivances and it was ridiculous.

BERKOWITZ: So now are you a confirmed incrementlist now as a result of this experience?

VLADECK: No, I've become convinced that our current so-called incrementalism is getting us entirely nowhere and that if we want to have universal health insurance in the United States, we decide we want universal health insurance in the United States, we just do it because incremental is never going to get us there. It's like pouring water into a glass that's got a hole in the bottom.

BERKOWITZ: Just bag Medicare and Medicaid?

VLADECK: No, there are all kinds of ways to do it. One of the things that makes all this theorizing complicated, you know, is the continued data that the bulk of the American people like getting their health insurance through their employers which, you know, makes the economists entirely nuts. But no my idea starts from my contrarian view and turns the thing upside down starting from the recognition that half of all the people in the United States who are uninsured at any given time, have had health insurance for at least

one day in the last two years. So my plan would be that once somebody has health insurance they can never lose it. They can replace it with another kind of health insurance but they can never lose it. And if whatever causes you to have health insurance disappears without being replaced—say you lose your job—then the federal government basically COBRAs until you get another job or become eligible for Medicaid and Medicare.

BERKOWITZ: How does the federal government pay for this?

VLADECK: It repeals some of the tax cut in place.

BERKOWITZ: Let me ask you then, you had been in the Clinton administration for one term and but not two?

VLADECK: No,—I stayed for most of '97.

BERKOWITZ: Right.

VLADECK: And in fact, one my proudest accomplishments—I want this for the record—we had the smoothest transition in leadership in HCFA's history. And we had a transition in leadership at HCFA almost without precedent at the sub-cabinet level in American government these days.

You know, there is an average six to nine months even within an administration that those jobs are vacant and...I left one day. Nancy DeParle was there already as deputy and became active the next day. And we worked very hard to achieve that. And I think it made a difference. I'm very proud of it.

BERKOWITZ: I see. Why did you decide to leave?

VLADECK: Well, there were three or four factors. I don't know what order to put them in. My second kid started college in September of '97, which meant that my tuition bills were at that point 60 percent of my gross salary. So the economics, which were bad enough before, became unsustainable. I had promised my wife four years and no more and it was going on four and a half. And she reminded me of that. But the other thing was, I was just—I was worn out. I told people elsewhere that before I got to HCFA I would hear people talking about being burnt out, about burnout and so forth, and I scoffed at it.

You know, I thought it was just sort of weakness of character. And I felt myself burning out. With each successive day I was less effective and less useful and it was time to get out of there before anybody else caught on how badly I had deteriorated.

BERKOWITZ: And the job here at Mount Sinai Hospital, was that something that had been developing over time?

VLADECK: No, I mean, one of the things that people don't realize is it's just about impossible to look for a job when you are in one of those jobs. And I did talk to Mount Sinai about six weeks before I left the government. I was appointed to a part-time position when I left the government. And then that gradually evolved to a full-time thing over the next nine months. But I didn't have any clear, long-term plan when I left.

BERKOWITZ: I see. Well, let me end with a corny question then, if I might. So if the next administrator of CMS comes and you have, you know, 15 seconds to talk to them, what would be your one piece of advice that you would give the person taking over the job at head of CMS.

VLADECK: Without necessarily making specific reference to the current incumbent, I would say, count to 10. That's my advice. There is a built-in hysteria in the Washington policy process that (a) is very tiring, and (b) ultimately self-defeating. And given how politically sensitive Medicare and Medicaid are and how complicated the programs are, the tendency to react reflexively to things and to do everything quickly and so on and so forth is very powerful and very hard to resist. And the people who get most frustrated I think in jobs like that are people who get so caught up in day-to-day pressures that they lose any sense of long-term objectives and long-term perspectives. Whether or not you personally are in for the long term, presumably the program and the agency are. And it's your job as CEO to worry about the long term. And so you have got to constantly fight to not get caught up in the minute-to-minute pressures. So that's my advice.

BERKOWITZ: Good. That's a good note on which to end. Thank you very much.

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Interview with Nancy-Ann Min DeParle

Washington, D.C. on August 22, 2002
Interviewed by Dr. Ed Berkowitz

BERKOWITZ: It's August 22nd and I am talking here in Washington near Chevy Chase Circle with Nancy Ann DeParle, the former administrator of HCFA. I am going to ask her some questions about her life. Let's start -- you're from Tennessee originally?

DePARLE: Right.

BERKOWITZ: What part of Tennessee?

DePARLE: I was born in Cleveland, Ohio, but I lived from as early as I can remember in Tennessee, Rockwood, Tennessee, which is a town of about 4,000 in the hills of East Tennessee.

BERKOWITZ: The hills of East Tennessee. So that's the side that's near Knoxville?

DePARLE: It's about an hour from Knoxville.

BERKOWITZ: I see. What did your parents do there?

DePARLE: I was raised by my mother.

BERKOWITZ: Your mother.

DePARLE: And my mother was a clerk-typist for the State Department of Conservation in a town called Midtown, Tennessee.

BERKOWITZ: I see. So you went to the University of Tennessee at Knoxville to college. What did you major in there?

DePARLE: I majored in a program called College Scholars, which was a program that I guess still exists. It was kind of popular during the '70s, an individualized honors program. It had no requirements. But I also within that took an honors history major.

BERKOWITZ: I see, I see. So you must have done very well as an undergraduate because you went to Harvard Law School right afterwards, right?

DePARLE: Yes.

BERKOWITZ: And that strikes me as a very significant step, sort of into the national limelight in some ways. And you were a Rhodes Scholar also. When was that, the Rhodes Scholarship?

DePARLE: I graduated from college in '78 and then I went to Harvard Law School for a year. And actually, the Rhodes Scholarship thing-- I'll just quickly tell you -- because it has a story. One of my professors was a man named Milton Klein, who was a colonial historian. He approached me and said, "You know, they just started letting women be Rhodes Scholars. You ought to apply for that."

And I had heard of it but I thought of it as something for professional athletes. I didn't know women were eligible.

BERKOWITZ: People like Bill Bradley.

DePARLE: Yes, I guess Bill Bradley. And also I was very intent on going to law school. And so Professor Klein said, "I have some information on it. Let me get it for you." He did. And he had mentioned it to me in October and the applications were due in September for the Rhodes and maybe for all of those foreign scholarships.

And then you go through interviews around Thanksgiving and then they decide. So it was too late to do that and I think by that point I already knew I had been accepted to Harvard Law School. But then when I got to law school I realized, well, I'm going to be practicing law by the time I'm 24 and that will be for the rest of my life. And, gee, it would be nice to have some time to do something else. So I applied for the Rhodes Scholarship my first year of law school and also applied to the Kennedy School thinking maybe I'll do that -- they had a joint degree with the law school. I won the Rhodes Scholarship.

And actually I'm sort of embarrassed to say this, but I almost considered not going because I liked law school and I was having fun. Taking two years out to go to England, did that really make sense? But it was a wonderful experience.

BERKOWITZ: So you are a Rhodes Scholar as part of the third group of women accepted by the program.

DePARLE: Yes.

BERKOWITZ: I see. Interesting. So did you have to have a sport?

DePARLE: No. Cecil Rhodes, the founder, had four requirements, and one of them was fondness for and demonstration of athletic vigor or something of that sort. And I was a runner. I didn't do anything formal. I was on an intramural team.

Formal at the University of Tennessee means professional athlete, basically. So I wasn't by any means a professional. But actually, interestingly, the women in my class had more athletic activities than the men did, with maybe one exception.

At the time I won, they actually had a formal communication from Oxford University saying maybe you should stress some of the other attributes a little bit more because they had a few too many people interested only in athletics.

BERKOWITZ: Okay. So you finished your Rhodes Scholarship and graduated from law school. What year did you graduate from law school?

DePARLE: '83.

BERKOWITZ: '83. And then within four years you were the commissioner of human services for the State of Tennessee. Is that correct?

DePARLE: That's right.

BERKOWITZ: How did that happen so quickly?

DePARLE: Well, I went back to Tennessee right after law school and clerked for a federal judge there, which was also a wonderful experience.

BERKOWITZ: Was that in Nashville?

DePARLE: In Nashville. His name was Gil Merritt and he was the chief judge for the 6th Circuit Court of Appeals in Cincinnati. So his chambers were in Nashville but we traveled to Cincinnati to hear the cases.

And as soon as I came back to Tennessee I got back into a circle of friends who I had known at the University of Tennessee and many of them were involved in politics already. And I had been student body president at the University of Tennessee and was the first woman to serve as student body president there. And one of the people I had met was Ned McWherter, who was the Speaker of the House in Tennessee for about 18 years, including the time when I was in college. And so since I was very active in student government, student politics, we used to go over to Nashville to the general assembly to lobby members of the general assembly for issues that students cared about.

Postcard voter registration was a big issue back then. I can remember lobbying them about that, making sure the students could register to vote on campus because we had been challenged over that. There were a number of issues, and so I got to know Speaker McWherter when I was student body president.

So when I came back to the state I met him again. He ran for governor, and asked me to help him in his campaign. I helped him a little bit, but by then I was practicing law and my first year I spent about three months in Omaha, Nebraska taking depositions, so I wasn't as actively involved in his campaign as I might have been otherwise. But when he was elected he called me up and said, "You know, I would like you to come work for me."

And I had sort of mixed feelings about it because I had always thought I might end up in government some day but I had never thought about state government. I had always thought I wanted to be on the federal level.

But I liked him a lot and it seemed kind of exciting. What he said was, "I want to bring a new generation to the state government here, put some new ideas into play." And I did and it was kind of neat to me in a way because my mother had raised three children on her own as a secretary for the State of Tennessee.

So I felt it was sort of special that I was getting to come back as a cabinet secretary. And it just, I think, was a very interesting embodiment of the difference that education can make in somebody's life.

BERKOWITZ: It really is. It's still remarkable to me that you could have been commissioner at that age.

DePARLE: Well, he was crazy. I told him that. But, you know, he had been Speaker of the House for 18 years and he was as smart as they come and very principled.

And I later told him, "You were crazy to pick someone so young." I think I had just turned 30 at the time he appointed me.

He said, "No, I knew what I was doing." You know, he trusted that he would be able to help me learn the ropes about dealing with the legislature. And the other thing though is that he knew when he hired me that he was going to do a big reduction in force in my department and he told me that.

I was either too young or too naive to understand what that meant. And he really steered me toward the Department of Human Services. And he said, "Now, that's a big job. That's the biggest department. It's $500 million a year. That's going to be a challenge. You need to go there. By the way, there is going to be a reduction-in-force (RIF) involved, about 10 percent."

And I remember thinking, okay, 6,000 employees – 6,000. That won't be that big a deal. And of course now I know that a RIF's one of the most nightmarish things that anyone can go through in the public sector or the private sector. But I wasn't smart enough to know that at the time.

So it was an incredible experience at that age to go through. And I think the fact that I was young and a woman-- sometimes it can hurt you, but I think actually it probably helped me in that job.

The difficulty of it was that my department was 6,000 employees, of whom around 4,000 were active members of the state employees' union, the Tennessee State Employees' Association. And they flipped out when the RIF was announced.

But there was a very nice man who was the head of the state employees' association who happened to be the chaplain at one of the state psychiatric hospitals. And he felt sorry for me because I was young, and he helped me at great cost to himself, actually. Because, you know, the head of the state employees' union doesn't need to be helping the person who is doing the RIF. But he helped me get through that.

BERKOWITZ: That's interesting. So what kind of things you were running? Was welfare a primary part of the job?

DePARLE: It was welfare, rehabilitation services, foster care, child sexual abuse. There were a lot of really terrible things, actually, that the Department of Human Services had responsibility for-- terrifying and terrible. And also, we did the eligibility determination for Medicaid, which is sort of how I got involved in the health care side of things.

At the very beginning, Governor McWherter had made a pledge that he was going to do something about health care for the uninsured. So he put together an indigent health care task force and I was on that, and that's sort of how I started getting interested in the health care side of the policy equation.

BERKOWITZ: I see. So you did that from 1987 to 1989.

DePARLE: Right.

BERKOWITZ: Did you meet people in Washington that became important to you at that time?

DePARLE: I did meet people at SSA (the Social Security Administration) because we did the SSI (Supplemental Security Income) determination for the state ...

BERKOWITZ: And the initial determination of eligibility for the Social Security Disability program for people in the state.

DePARLE: Yes. I also met Bill Roper.

BERKOWITZ: Who was head of HCFA?

DePARLE: No. I met him when --

BERKOWITZ: He was head of HCFA at one point.

DePARLE: He was. But when I met him, let's see -- had he moved to CDC by then? I am not sure. Maybe he was head of HCFA at that time, yes. I came up and made a presentation to -- this is drawing on your historical knowledge. I think his name was Chuck Hobbs. He was President Reagan's domestic policy advisor. And do you remember that for a time they had something called the Low Income Opportunities

Board where they were -- it was sort of the beginning of the Federal government entertaining waivers?

BERKOWITZ: Yes.

DePARLE: We were trying to get -- it was the beginnings of TennCare, of trying to --

BERKOWITZ: Of what care?

DePARLE: TENN care, which is the program to cover the uninsured that Tennessee got a waiver to launch under the Clinton administration. What TennCare sought to do was to use the federal dollars differently to take the disproportionate share payments and all these other sources of dollars to providers and use them to spread them across the population and cover more people than the traditional categorical eligibles for Medicaid.

So we were beginning to work on that and we tried to meet with the departments to develop a computer system to do integrated eligibility determination for food stamps, welfare and Medicaid.

And we would go to Atlanta -- that was the regional headquarters for all the Federal agencies -- and try to meet with the federal people. And we couldn't even get them to all meet in the same room. That's how I saw things as a state official. We would literally have to go from one place to another to talk to the people from SSA, agriculture, HHS (the Department of Health and Human Services). They wouldn't talk to each other. And we were trying to integrate systems because we believed that beneficiaries, when they come in, don't want to go three different places. They don't want to go through three different systems. They are poor people who are eligible for Medicaid, food stamps and welfare. So how do you make that work?

So, yes, I did meet people in Washington during that time. I can't say that it was a totally rewarding experience, but I did.

BERKOWITZ: I see. So you did it till 1989. And then what did you do after that?

DePARLE: I went back to my law practice.

BERKOWITZ: In Nashville?

DePARLE: In Nashville, yes.

BERKOWITZ: What was the name of the firm?

DePARLE: It was called Bass, Berry and Sims. It's still called that. It's an old-line firm. It's been there a long time. I had only practiced for about a year before I went into the government, and I was worried if I didn't establish myself as a lawyer that it would be hard to go back if I ever wanted to.

And so, I went back to practicing law and continued to help Governor McWherter. I was the treasurer of his reelection campaign in 1990, for example, but was out of the government world for a couple of years. Then I decided I wanted to move to Washington. So by now we're up to '91.

BERKOWITZ: Why did you decide you wanted to move to Washington?

DePARLE: I had gotten divorced. I had always wanted to live in Washington and Nashville was feeling like a small town. I was a partner in my law firm, I was well established, but I wondered if I don't do this now will I look back some day and wish that I had?

My mother raised three children and she died in 1974, right after I graduated from high school, of lung cancer; and she had just turned 50.

And I think that has made me throughout my life more conscious of just how little time we have, that you never know what's going to happen. So I felt, I'm comfortable here, but I have always wanted to live in Washington, so I should do it. And I moved to Washington --

BERKOWITZ: What year did you move there?

DePARLE: September of '91.

BERKOWITZ: '91, so that's during the elder Bush's presidency.

DePARLE: Yes, and that's part of the explanation. I had always thought that if I ever lived in Washington I would work for the government-- because I think of Washington as sort of a company town. And I thought, well, I want to work for the company.

But I am a Democrat and obviously, I wouldn't have been a political appointee in the Bush administration. And I was approached by Covington and Burling.

BERKOWITZ: Which is a law firm here in Washington.

DePARLE: Yes. It's been here many years and they have a fairly large practice representing states in disputes with the federal government. And they had represented me when I was in Tennessee, when I was commissioner of human services, in a matter involving food stamp errors. And they approached me about joining their litigation practice. So that's what I did. At that point I thought there's not going to be a Democratic president in my young adulthood. So I like practicing law, and I'll move to Washington and do that. So I came up in September of '91.

BERKOWITZ: Did you know Senator Sasser (D-Tennessee)?

DePARLE: Yes.

BERKOWITZ: But that wasn't something you were interested in, to work on the Hill?

DePARLE: Well, you know, in retrospect I wish I had done that. But no, I liked practicing law. The offer came. I wanted to move.

BERKOWITZ: I see, I see. So did you somehow get involved with the Clinton people at some point?

DePARLE: No. That's another interesting thing. I was involved, but through Tennessee and Governor McWherter and Harlan Mathews, who was the Deputy Governor and later became U.S. Senator from Tennessee when Senator Gore became Vice President. The night I moved away from Nashville Governor McWherter asked me to come over and have dinner with him at the governor's residence.

We're sitting there at dinner. It was in late August of '91. And we're sitting out in the patio area outside. And the phone rings; he had a phone out there and he said it's Governor Clinton.

And so I'm hearing his side of it. "Hey, Billy Bob." That's how Governor McWherter--

BERKOWITZ: Billy Bob?

DePARLE: He called him Billy Bob. "What are you doing?" And then I hear Governor McWherter's saying "Well, okay, what's Mario going to do?"

So this is when Clinton was calling him to tell him, "I'm going to run for President." And I heard Governor McWherter say, "Well, I'll help you all I can. Just let me know what you need and I'll help you out."

He hung up the phone. He said, "Well, Billy Bob's going to run for President. And we're going to help him" And I had met Governor Clinton, so I knew him a little and liked him.

BERKOWITZ: Clinton?

DePARLE: I had met President Clinton in a couple of ways. My first husband was a Rhodes Scholar a few years behind him and they were at Yale Law School together, so I had met him once with my first husband.

Secondly, Government McWherter and he were good friends and so when McWherter was elected he came to Tennessee several times. He was very involved in the welfare reform debate in 1988. And so I met him a few times that way. And also Judge Merritt, who I clerked for, was good friends with him, so when I was clerking for Judge Merritt, I met him a couple times.

So I kind of knew him. But I didn't work in the campaign. I gave money because Governor McWherter was raising money for him. And I went to a couple of events when I was down in Tennessee visiting friends and a couple of fundraisers up here in Washington.

But I didn't work in the campaign until the very end. After they had chosen then-Senator Gore to be his running mate, I knew all of his staff really well from Tennessee. And there's a guy named Roy Neel who was Gore's chief of staff from the Senate. And he called me to ask me to help with debate preparation.

So I did research on my off time from Covington and Burling on Gore's record on abortion and some other health care issues to help with his debate prep. But I didn't go to Little Rock; I didn't do any of that.

BERKOWITZ: So did you think when he won that you would get a job in the administration?

DePARLE: Not only did I not think I would get one, I didn't want one. Again, I feel almost embarrassed to say that because it was such an incredible experience. But I had this view that I had done my government service and that I was sort of over it and that I liked practicing law.

I'm not one of those people who hated practicing law, you know. You notice I have not chosen to go back to it. But I liked it. It was fun. It was a chance to make money. That isn't what motivates me, but I had never had real financial stability. And I sort of wanted that. I was 34 or so at the time. And so no, I did not think I would go into the administration. But soon after the election I started getting calls.

BERKOWITZ: From?

DePARLE: Mainly from Peter Knight and Roy Neel, who were both people who worked for Gore. And they were along the lines of, well, how about this job, how about that job?

And they asked me to come to the transition team to work for former Congressman Tom Downey. He was leading the health and human services transition. And I said no.

BERKOWITZ: Tom Downey was a Democratic Congressman from New York?

DePARLE: Yes. And I said no. And I thought that would be the end of it for sure. And I said no because I talked to my law firm and they said, well, if you go to the transition team, then you wouldn't be able to be involved in any litigation around those issues for our clients.

And that was a problem for them. So I thought, well, since I'm not going to join the administration, it doesn't make sense. And I was on track to becoming a partner there; I think I had two years or so to go.

So I decided not to do it. I decided, well, if I'm not going to go in full-time I shouldn't do this. So I figured that would be the end of it. But they continued to call. And then one day I got a call from Leon Panetta.

Well, before that I had talked to Peter Knight and he said, "Well, I'm feeling a little bit exasperated. What job would you be interested in?" Because they had called me about several things and I had said no, I'm really not interested. And I said, "Well, there's this job at the Office of Management and Budget." And through my work at Covington we had been representing a number of states regarding Medicaid provider tax issues that had arisen during the Bush administration. Congress had passed a law outlawing certain kinds of financing programs that the states were using to try to get a higher Medicaid match.

And Covington was representing some of the states in writing comments to the proposed regulations. So as part of that I had met Tom Scully who was at that point the associate director of OMB, a job called the PAD.

BERKOWITZ: You don't know that acronym, do you?

DePARLE: The program associate director is what it's called. OMB has a director, a deputy director, and then there are five PADs, who are the associate directors. Anyway, so I met Tom and I thought that job looks like fun and I called a friend of mine who was the White House correspondent for Time at the time.

And he said, "Oh, those jobs are a lot of fun. Those people get to make really interesting decisions. They get to control a lot of things that happen. You would like that."

So I just said, "That's a job I might be interested in."

And Peter said, "Well, that's going to be really hard because, you know, the Democrats have been out of office for 12 years and there are a lot of people who want those jobs."

And I can remember vividly saying, "Well, that's fine because I don't really have to come. I like what I'm doing. I'm happy I can help you guys from the outside. I don't need to be there."

And the next thing I know, Leon Panetta calls me up the next day and he says, "I need to talk to you. I've just gotten back from Little Rock and I was with the President and the Vice President and they both said that I had to have you on my team."

So I still wasn't sure I was going to do it. But I went up to the Hill and met with him and I just fell in love with him. I don't know if you have ever met him, but he is just an incredible guy. And he offered me a job.

BERKOWITZ: And so your job was?

DePARLE: Associate director.

BERKOWITZ: Of OMB?

DePARLE: Yeah, and I'm hesitating on the title because at the very beginning they created a job for me, in essence. In the Bush administration and before that the job was associate director for health, veterans and labor, maybe -- HVL.

So that person covered HHS, the Department of Labor, the Veterans Administration and maybe even a few other agencies. The Clinton Administration decided that since health care was going to be such an important a part of President Clinton's agenda, number one, and number two, Medicare and Medicaid were considered such a large part of the federal budget, that they needed someone to just handle health and to not do the Labor Department and other things.

Now, as it evolved for other reasons, my title eventually became associate director for health and personnel because I had the health care parts of everything in the budget except for defense. They put veterans and the White House budget under me. And what that meant was I had to deal with the appropriations committees about the White House budget, which actually became sort of sensitive with all the investigations. But the truth is, I spent very little time on those other things. It was mainly Medicare and Medicaid.

BERKOWITZ: So obviously HCFA is one of your agencies that you are looking after

DePARLE: Right.

BERKOWITZ: And had you met Bruce (HCFA Administrator Bruce Vladeck) before?

DePARLE: No, I hadn't.

BERKOWITZ: Did you meet him in the context of this OMB job?

DePARLE: Yes. I'm trying to think when I first met him. When I started the job was very quickly, you know, 24/7.I think I met Bruce at one of those first meetings of Ira Magaziner's health reform task force. I mean, literally I started I think on February 3rd of 1993.

And that night I was in a meeting that went to like to 11 o'clock, one of Ira's meetings. I'm sure you've heard we had meetings that went around the clock.

BERKOWITZ: What was OMB's role like? Was it to cost out the proposals?

DePARLE: Yes, but OMB also played the role that it plays on everything, which is to be a critic. Secretary Shalala didn't testify without my saying her testimony was okay. OMB clears all the testimony. It's both budget and policy.

BERKOWITZ: So it's a superego for the President in a sense?

DePARLE: Yes. So you look at proposed testimony from Administration officials and ask, is what they are saying the administration's policy or not? And now to be fair, Ira was first among equals, so Ira clearly was viewed as having been tapped to develop the President's health reform proposal. But there was sort of a small group of people who sat with him. And, you know, my job as related to me by Leon Panetta was to stick close to him, make sure I knew what he was doing.

So that meant be there all the time with Ira. My office was in one corner of the Old Executive Office Building on the second floor and his office was kind of catty-corner across the building. And I spent as much time in his office as I did in mine.

There was a small group of about eight people who spent 10 hours a day with him and I was one of those people.

BERKOWITZ: Is that considered high status, that your office was in the Old Executive Office Building and not in the New Executive Office Building? Because a lot of those OMB people are in the New Executive Office Building?

DePARLE: Yeah, but the career people are all in the New Executive Office Building. OMB is a very interesting place in that there are maybe seven political appointees who are as political as you get, in the White House making political judgments with the President.

And yet, the blood and guts of the agency and the people who get things done are the 300-400 people across the street in the New Executive Office Building who are not political. And I couldn't tell you today if I went through the list of staff I worked with, what political party they voted for. You would not know. It's incredible, an incredible place for people who are interested in government.

But, yeah, the political appointees are in the Old Executive Office building and it's part of the White House. And OMB is sort of betwixt and between because all those people are career. And yet they are the ones who are there to say no to the President and everybody else.

BERKOWITZ: They were budget officers?

DePARLE: Yes, yes.

BERKOWITZ: The ones that look at the thing line by line by item by item by item.

DePARLE: Budget examiners actually is what we call them.

BERKOWITZ: But you are doing political proposals?

DePARLE: Right. And I'm in-between because we are the ones in the administration who say no to a lot of stuff. Like I had to say no to Ira sometimes. And yet I am one of the President's political appointees. So it's an awkward job.

I would walk into meetings when we were working on the Balanced Budget Act, and George Stephanopoulus used to tease me, "Oh, here she comes with her notebook of Medicare cuts."

If you're the political people sitting there whose job it is to reelect the President, the last thing you want to see is someone walking down the hall with a big notebook of Medicare cuts. And yet, the President, you know, had the sort of mixed agenda of balancing the budget and being popular, which is not always consistent.

BERKOWITZ: So what about health reform as people in the Clinton Administration call it? Did you ever have a sense that it would be a viable thing?

When you talk to people today, they all say that they saw immediately that it wasn't going to pass and so on. But at the time people must have thought that there was some point to doing it.

DePARLE: Yes. I didn't see immediately that it wasn't going to pass-- I will tell you this. Intellectually it seemed right that you cannot just in a piecemeal fashion correct the problems of 30 million to 40 million uninsured.

Intellectually it makes sense to me that it's like punching a balloon. You can't just fix one aspect of the problem. So in that respect a big plan makes sense. And there were a lot of crazy things about the process but I don't blame Ira for that. Because if you look at Putting People First and the description of the Clinton-Gore agenda in the chapter on health care, what we ended up with was very close to that. And I don't think even if Ira had wanted to deviate he --

BERKOWITZ: Putting People First is Bill Clinton's .. ?

DePARLE: Right, the campaign manifesto that the campaign wrote, Clinton and Gore. So no, I'm not going to brag to you that I knew from the moment it started it wasn't going to work. I think I sort of believed in it intellectually for the first 6 or 8 months.

But then I had sort of an epiphany. It didn't feel right to me that you could do something that big that would be wall-to-wall across the whole country, changing everything.

But the epiphany was sitting in my office in the summer of '94, right before I guess the Senate was going to try to take up our bill and realizing if this thing passes I will have to change my health care coverage. And I thought to myself, "But I like what I have. Why should I have to change?" And then I realized if I couldn't see -- I mean, I could make the arguments back to myself about, "But you don't have health security now. You would have it under President Clinton's plan and you will have a better plan."

But I wasn't buying it and I realized that if I felt that way there was no way we were going to sell the American people on this. And it was incredibly complex. We

had no idea. So I'm proud that we tried to do something, but I'm not sorry that it failed because I think it was probably not right.

BERKOWITZ: You would have had to go into the D.C. alliance even though you had your own health care.

DePARLE: Yes. Everybody was going to have to change. That's what I mean. We were not just trying to cover the people who were uninsured.

The Clintons became convinced that all Americans, even those who had insurance, really needed security. And that's what a lot of health policy people would tell you. The problem is, to fix that you have to change everyone. You would have to change, I would have to change.

And I didn't want to change. And I realized if a so-called health policy expert and standard bearer for the Clinton administration, didn't want to change, then how could I expect anyone else to understand this?

BERKOWITZ: I always thought there was two things. One was the uninsured. I think that was understandable,

DePARLE: People who don't have it.

BERKOWITZ: -- 40 million uninsured.

DePARLE: Yeah.

BERKOWITZ: Although even that's deceptive because of course it doesn't mean they are not getting health care. So that's a complicated --

DePARLE: And that's the point President Bush has made, yeah.

BERKOWITZ: But there's that point, but there's also people who are facing these rising premiums and having to pay a larger share, the employer was paying a lesser share. I thought that was very understandable to people. But I had never thought the proposal was easy to understand. And those were the two things I think people felt strongly about.

DePARLE: Yes. Well, and as you know, the conditions that caused people to say they wanted President Clinton to do something about this abated during the time it took to get the thing together. And it started to look as though the status quo was better than the unknown represented by the Clinton plan.

BERKOWITZ: Right.

DePARLE: People just didn't trust that it would be better. And unfortunately, I think people's instincts were probably right. As screwed up as the health care system is, I'm not sure it would have been better. But as I said, I'm proud we tried

to do something to help people have greater health security and give more people access to health insurance. But I also can't say that I'm sorry that we failed.

BERKOWITZ: Did you have a lot of meetings with Mrs. Clinton as part of the process?

DePARLE: Yes. Over a period from February of '93 through when the thing failed in -- end of '94, I don't know, probably 20. I don't know if that's a lot.

BERKOWITZ: Always with Ira Magaziner there?

DePARLE: Oh, yes, always with Ira. I never had a personal meeting with Mrs. Clinton.

BERKOWITZ: I see. Let's talk a little bit about HCFA because I want to make sure we get to that. So Bruce gets to know you because of -- you're his OMB person?

DePARLE: Yeah.

BERKOWITZ: And he was also working on health care reform and became a spokesman for the health plan. And I don't know about Donna Shalala, but she must have also been someone that you worked with.

DePARLE: Yeah, and I knew her a little bit in the Carter administration. We didn't talk about that, but I worked for Sarah Weddington. And so Donna was one of the young assistant secretaries of the Carter administration at HUD.

And Sarah Weddington was the head of the White House Intergovernmental Council on Women. She promoted the role of women in the government and in the country. Sarah eventually became the assistant to the President for political liaison and so she had a broader portfolio. But she always had this women's portfolio. So when I was her intern and even when I was her staff assistant I worked on a newsletter about women appointees and things Carter was doing for women.

So I got to know Donna a little bit and Alexis Herman and some of the other women who ended up in the Clinton administration as well. So I knew her slightly then and then came to know her better at OMB.

And, you know, I wasn't sure that I should go over to HCFA ...

BERKOWITZ: Well, how did that opportunity arise for you to go over? How did it come up?

DePARLE: Well, in '96 around the time -- the summer of '96, I had my resume on my desk. I told -- I had told President Clinton that I would come for two years. And Covington said okay, that's all right. But I obviously stayed a lot longer than that. So the summer of '96, having been through the shutdowns of the government and

all that turmoil, I had my resume on my desk and a list of head hunters and was seriously thinking about leaving the administration.

And Donna called. And she said, "I want you to come talk to me about your future." And we had run into each other at a reception somewhere and we had been chatting. And she said something like that then. And I thought she's one of these people who is really a good mentor to people a little bit younger than she is.

So I thought, oh, it's really going to be about that. So I get over there and it was -- I want to say September or October of '96, something like that. And I go in her dining room and she says, "Well, I want you to come over here. I want you to join my team. I'm going to stay. We're going to get reelected." This is -- have you ever met her?

BERKOWITZ: I've talked to her.

DePARLE: This is how she talks. She just said, "We're going to get reelected. The President has asked me to stay. I'm raring to go. I've got to get a lot of stuff done. I want you to come join my team."

And I was really surprised because I wasn't thinking that would happen and I wasn't even thinking we had a really good relationship. I was in that position of having to say no to her a lot. And Donna is a difficult person to say no to. And we had been on opposite sides of several disputes during the whole --

BERKOWITZ: Yeah, she couldn't have been too thrilled about the whole development of the health insurance issue.

DePARLE: Well, that.

DePARLE: Okay. So we had been at loggerheads. I mean, not yelling at each other. But, you know, there were times when she wanted a larger budget and I had to be the one to say no. That was my job. Then she would appeal to Leon and he would back me up. Sometimes the President would override OMB and that was his prerogative, but OMB, and the PAD in particular, is seldom the one who gets to say yes. So I wasn't sure we had a great relationship.

And I said, "Well, you know, HCFA is the one job in the government that I've thought I would really like to do." Because I had run an agency and the thing I didn't like about OMB was I felt like you're just a critic. It's being a detached observer, as opposed to doing something and getting your hands dirty. And I used to be frustrated when my staff at OMB would want to get into -- Bruce and I used to joke about it -- Bruce's regs and rewrite them.

And I said, "Look, if you want to run Medicare, go over to HCFA. Bruce is a Presidential appointee. This is his conception. If there is something we can add to it or if there is something really wrong from the President's point of view let's point that out. But we are not rewriting the reg."

But I really feel like I'm better in that role of actually running something and managing people. So that was something that was appealing to me, the idea of going over there to do that. And then the thing, the sort of coup de grace for Donna was, she said: She was real good friends with Alice Rivlin, who had been my boss at OMB.

"Alice tells me that you want to have a family and I will make that possible." That's how she said it. She said, "We have had a lot of babies here at this department. Kevin Thurm has had a baby. Rich Tarplin has had a couple babies." She named off several people.

I remember thinking to myself, "Donna, those are guys. It's a little bit different." But, you know what? I just took her at her word. I said, "That would be great." So we agreed that I would come over there.

BERKOWITZ: I see. So you accepted Donna Shalala's offer.

DePARLE: Right.

BERKOWITZ: And became head of HCFA. I was going to ask you how did you find out about Medicare when you were -- you had to really kind of take a crash course at OMB, it seems to me. Did you have somebody that you relied upon?

DePARLE: I started spending time learning about it really when I was at Covington and Burling because it became clear to me that I knew a lot about Medicaid, but I didn't know so much about Medicare, and Medicare was the 900-pound gorilla.

So I had started reading about it, understanding it, and when I got to OMB I had read this book, "Medicare Now and in the Future," by Marilyn Moon. And I called her up and said, "Can you come over and spend some time with me?" and she was nice enough to do that. And my job at OMB, you know, you're right, basically a crash course in it.

BERKOWITZ: That's interesting. And she was outside of the government totally, I think also working on health care.

DePARLE: But outside the government.

BERKOWITZ: I see. So now you're at HCFA. I was going to ask you about the name change. I'm trying to figure out the chronology of that. Is that your doing?

DePARLE: No, it happened last May. So Tom Scully did it. I actually agree with it.

BERKOWITZ: So it happened totally on his watch.

DePARLE: Yeah, I agree with it and actually Bruce considered it, too. Bruce, when he did his reorganization, considered doing that.

BERKOWITZ: A name change?

DePARLE: Yes.

BERKOWITZ: Did he want the Centers for Medicare and Medicaid Services?

DePARLE: No, I think he had come up with a different name. But we were told that we couldn't do it without legislation, which was not true it turns out. But moreover, and the thing that made the difference to me, was that it was going to cost $40 million, some huge amount.

BERKOWITZ: To change all the forms and stuff?

DePARLE: Yeah. And, you know, with the deficit and all that we just couldn't justify it.

BERKOWITZ: So you didn't do it.

DePARLE: So we didn't do it. But I actually like the new name because I think having Medicare and Medicaid in the name is good for the agency.

BERKOWITZ: But isn't it a bit unfortunate that they both start with M?

DePARLE: Yeah.

BERKOWITZ: So this confusion --

DePARLE: Yeah, Bruce and I joked about it.

BERKOWITZ: -- between CMMS and CMS is a little confusing.

DePARLE: Right, because Bruce had the idea. He used to joke about MAMA, Medicare and Medicaid Agency.

BERKOWITZ: I see. So you get to HCFA. You're allowed to -- did you keep the same staff that Bruce had or -- ?

DePARLE: Pretty much. And, you know, that was -- you know, that could have been awkward. It really wasn't. Bruce left. Donna really wanted there to be overlap between us so she -- she actually wanted me to come right away, beginning of '97. But by then I guess it was Frank Raines at the head of OMB and the President wanted me to stay at OMB because we were in the process of trying to get this Balanced Budget Act done and I was involved in all those negotiations.

So we waited until July of '97 and I went over as the Deputy. Bruce had announced he was leaving, and I think he left on September 1. So there was some overlap between us. And Bruce was great about it. We spent a lot of time talking about personnel.

And he said, "Here's my view of who is strong and who is not as strong. You may end up having different views," which was true. There were some people who he felt were strong and maybe in a particular role they had been, but for me it didn't work as well.

But by and large, all the staff stayed in the same jobs. I thought it was really important for me not to make too many changes because Bruce had just announced the first structural reorganization of the agency since its founding 20 years earlier.

He did a meeting down in Dallas I think it was in '95 or so, '96, to plan for the reorganization, to meet with stakeholders. And he had spent time briefing me about it. We spent time talking about it. And I really thought, as much as an outsider can understand it, that I understood it and that it made sense. And I thought he was doing the right thing.

I would never have done it. And I say that as one who had to do a major RIF early in my career. And as most people do, I sort of tried to make lemonade out of that by saying we are doing a reorganization of the department. We are going to eliminate the middle layers and streamline, and all those things you say when you're cutting staff.

And it was a nightmarish experience. I spent the better part of a year and a half of the not quite three years I was at running the Department of Human Services in Tennessee talking about the RIF (reduction in force). It was very distracting to staff. I literally traveled by car to all 95 counties, sat down in each person's cubicle and talked to them about how it affected them.

And really, nobody lost their job. We did it through attrition. But because of the way the civil service system worked, people in Memphis were given these letters saying: You have been RIF'd. That's the bad news. The good news is, you have a job but it's in Kingsport -- which is nine hours away.

So it was a terrible distraction and I believe that unless you really know you're going to get something huge out of doing a reorganization that you shouldn't do it. But I thought what Bruce was doing made sense.

BERKOWITZ: What was the point of the reorganization?

DePARLE: To make clearer who our customers were and what we were trying to do. And I think the single best part of it was creating a center for beneficiary services. And if we hadn't done that and had that up and running we wouldn't have been able to do the Medicare education program in 1998 which was a huge step forward I think for Medicare.

BERKOWITZ: Tell me about that Medicare education program.

DePARLE: Well, it's all the stuff that Social Security has been doing that Medicare has never done. Bruce resurrected while he was there a handbook that he sent out to beneficiaries. But for years HCFA hadn't even had an informational booklet that they gave to Medicare beneficiaries.

And the handbook at the time was much too legalistic. It was this sort of paper like they sent you your IRS forms on, you know. And it wasn't beneficiary-friendly or customer-friendly. It was better than nothing, but not much.

We had never really had the authority or the money before to do anything to educate beneficiaries about what Medicare was. We had sort of been depending on the kindness of strangers, the Social Security Administration, because they had done it in the past, you know, had some brochures in their offices and they would tell people about it.

But we didn't have a toll-free number for people to call. We didn't really have any kind of consumer education program. And one of the good things the Balanced Budget Act did was it gave us that authority, gave us that mandate and gave us some funding to finally begin doing that.

And I'm really proud of what the staff at HCFA put together. We now have I think probably one of the best such consumer education programs around. And they really put it together starting from square one with some help from Social Security. We got people on detail who did their toll-free line to come over and help us figure out how to set ours up.

And because of that reorganization we had a group of people together who could hit the ground running. And we wouldn't have been able to do it so quickly otherwise.

BERKOWITZ: But in Medicare, isn't it a little bit more complicated by the fact that there's so many local variations on Medicare? I know it's not -- officially there are no variations, but unofficially?

DePARLE: Yeah, so that was something that annoyed the -- Mr. Bill Thomas (R-California), who is Chairman of the Ways and Means Committee now, is that there were two or three pages of the handbook that just had phone numbers to call and it depended on where you lived. You had to call the carrier or intermediary and ask them...

BERKOWITZ: So, but this beneficiary center was supposed to answer questions like, "My dad is in the hospital. Can Medicare pay the bill?"

DePARLE: Yeah, but if you had something more specific, they would refer you over to the other number or –

and I think maybe after the first year we had like a hot link or something. And the Web site, too. We had never had that kind of thing before. We launched that. And

that could get more particular information for you. The handbook couldn't. The handbook was more generalized.

But the toll-free line and the Web site could get you to more specific information in your specific case. And the toll-free line, they would have someone call you back who was an expert or something. So we did manage to get more specific information to people.

BERKOWITZ: If, for example, someone says, "I am trying to decide whether to get my cancer treated in New Jersey or go to Sloan-Kettering in New York, will I have to pay? Will Medicare pay more to go to Sloan-Kettering or will I have to pay more out of pocket?"

You'll be able to answer questions like that?

DePARLE: Yeah, because it wouldn't be specific to New York. That isn't something that would vary across the country. But there could be a question like is -- how many of a certain kind of a treatment are covered?

And there are some local coverage decisions that might be different in Mississippi than they are in Texas or Tennessee or someplace like that. And for those you would have to call your local carrier medical director to get the answer for that.

BERKOWITZ: So when you get to HCFA, the health reform is no longer. We have already talked about your work in educating and informing people about Medicare. What other things did you work on? How would you spend a typical day as a HCFA administrator?

DePARLE: Oh, well, it's not -- that was all decided because when I got there I can vividly remember in July of '97 we had a meeting of what was called the executive council -- still is, I guess -- which is composed of the directors of all the main offices in HCFA.

And a lot of people were looking to me, hoping I was going to undo the reorganization because they didn't like their new titles or where they had ended up. And so at that very first meeting I made clear that I wasn't going to do that.

That was done and we were moving forward to make it work. But the bulk of the meeting was spent on discussing the Balanced Budget Act that had just passed the House of Representatives. And we had a document that the Office of Legislation at HCFA had prepared that went through each of the provisions. And we spent time going over them and looking at them and talking about what it would take to get them implemented.

And I remember sitting there in the administrators' conference room at the Humphrey Building (in the headquarters of the Department of Health and Human Services), this big room with a big conference table in there. And, you know, it's

got a lot of windows. And I remember sitting thinking, "Gosh, it's hot in here. Gosh, I'm sweating."

And then I realized it wasn't just the heat, that it was anxiety. Because as I started -- you know, it was very different to be sitting at OMB looking at all the provisions. And my focus there was: Does this add up to the right number? Was this the number they were looking for to reduce Medicare spending and balance the federal budget?

But now I was in a very different position. I'm sitting there and thinking, How are we going to implement these 359 provisions? Who is going to do all of this? And, you know, when I say 359 provisions, some of them were things like do a study of diabetes. Okay, that's simple enough. Or, you know, the hospital update for next year will be market basket minus two.

But also among the 359 there was a provision saying do a Medicare education campaign for all 39,000,000 beneficiaries by next October. Those are not things you can just say, "Okay, you and you work on that regulation. Get it done."

So I was really feeling nervous and when the meeting was over everybody left, and Bruce and I were sitting there. I said, "You know, Bruce, I was sitting there feeling really nervous and uncomfortable about how are we going to get all this done. But I looked over at you and I realized Bruce looks very calm. Nothing to worry about. This is going to be fine."

He looked at me. You know his sense of humor. He looked at me and said, "Nancy-Ann, you don't get it, do you? I'm out of here." Then I realized, you know, oh, no wonder he's calm, because he has made the mental transition. This is my problem now!

So there were three major things going on while I was there. One is about a week after that the inspector general issued the first-ever audit of Medicare and revealed that there was a 14-percent error rate which computed to $23 billion in misspent funds.

And the New York Times was editorializing about that. So that was the first shoe that hit the floor.

Secondly, implementation of the Balanced Budget Act. And we haven't even talked about the new State Children's Health Insurance program, but that was part of the Balanced Budget Act that was very important to the President, the first expansion of public health insurance since Medicare and Medicaid were created.

BERKOWITZ: Or since 1972, anyway.

DePARLE: Yes. And also the first sort of signal that health care might be back on the positive side of the political equation. And so it was important to the President that we show that we could implement that.

BERKOWITZ: That was passed in what year?

DePARLE: It was part of the Balanced Budget Act.

BERKOWITZ: That's part of the Balanced -- so 1997.

DePARLE: Right.

BERKOWITZ: That said in effect that -- what, exactly?

DePARLE: Well, it created a new entitlement to health care for the states to use to cover children up to a higher level of poverty and to create their own programs. It didn't have to be Medicaid. There were lots of different variations.

BERKOWITZ: So it's an incremental expansion somewhat like kiddie care that was talked about in the late 1960s.

DePARLE: Yes, yes.

BERKOWITZ: So you did that.

DePARLE: And Y2K. Which was important because we started getting these reports from the GAO (General Accounting Office) and I started getting calls from members of Congress saying, "Where is your agency on this? You have these Legacy systems. You have 60 different computer systems out there. Are they going to be able to pay claims in January 2000?"

So all of that kind of came in at once and of those three things the only thing that I had sort of thought about a little bit was we'll be implementing the Balanced Budget Act. But I had no idea how massive that was going to be. And also the other two items were not things I would have necessarily put on my agenda; but there they were. So that's what I spent my time on.

BERKOWITZ: I see.

DePARLE: And I guess at the time it seemed to me there were a couple of models of how to do my job. And one would have been to be more inside, to spend more time in Baltimore and more time, you know, with the agency. I see that as being more the model that Bruce followed.

The other was more like the one that Gail Wilensky had, which was to spend more time with Congress. And I decided given where the agency was at that particular point that I needed to focus on Congress because I thought that the agency had such low political and policy credibility at that point and relationships were really frayed.

And it got much worse after the BBA (Balanced Budget Act) because you wouldn't believe the number of intelligent members of Congress who voted for the BBA and did not seem to understand that providers in their districts wouldn't like reductions in their payments. And then many of them acted like they didn't know what happened, you know?

BERKOWITZ: So you spent your time in Washington ..

DePARLE: Yeah, I spent one day a week in Baltimore; sometimes more, but usually one day a week. I spent most of my time in Washington.

BERKOWITZ: I see. Well, that's good. I think that gives us a good overview. Why don't we stop here then.

DePARLE: Okay, great.

BERKOWITZ: Thank you very much.

DePARLE: Sure.

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Interview with Fred Bohen

Rockefeller University in Manhattan on September 13, 1996
Interviewed by Edward Berkowitz

BERKOWITZ: Mr. Bohen, you've had a long career, so perhaps the way to approach this is to talk about your two White House experiences. The first question would be how did you get from the Woodrow Wilson School to the Heineman Commission and to the Johnson White House.

BOHEN: I came of age in a time when it was a very attractive career option to prepare for a career in public service, and I selected the Woodrow Wilson School and the graduate program there in public affairs, specializing in economics and public policy, as a place to intellectually prepare myself for that in the early 1960s. I was asked to stay on to help develop the school. The school had gotten a large grant of money and was expanding its intellectual programs and its reach. I worked with William Bowen, who subsequently became President of Princeton University, and the two of us led the expansion effort for a couple of years. But I was itchy to get to Washington and to get a chance to be in the government. It was an exciting time. It was then popular to think of the government as not part of the problem but part of the solution, and it was just very appealing for me to try to get there, so I began circulating my resume and seeking out interviews.

Bill Bowen actually wrote a very nice letter on my behalf sponsoring my interest in public service and sent the letter to half a dozen friends of his, one of whom was Kermit Gordon who had been Chairman of the Council of Economic Advisors and had just gone to the Brookings Institution as president. Gordon took a copy of the letter and dropped it on the desk of Joe Califano who was President Johnson's Special Assistant for Domestic Policy. For some reason Califano read the letter—which you can't always count on—and out of the blue I got a call from Califano saying, "I got this really great letter. You must be terrific if somebody at Princeton is writing a letter like this. Why don't you come down and see me. We have a few things to do here; maybe you can help." So that's how it got started. I went to Washington and met with Califano. I remember I went into the West Wing of the White House for a 5:00 appointment and wound up actually getting to see Califano at 8:30 that night.

That was my first experience of what a vortex being the White House Senior Assistant is and how absolutely out of control you are of your schedule. We talked for a couple of hours and we seemed to hit it off. He then mentioned that the President had decided to set up a major task force to look at the issue of government organization and management and all this legislation

associated with the ideas of the Great Society and the mounting criticism of the government sort of stepping on itself—a lot of agencies and programs overlapping and duplicating. He wanted to set up a commission and wanted it to be very independent of people in the government, so the idea of somebody like myself staffing it was appealing to him. The next thing that happened was that he sent me to meet Ben Heineman, who had by then been selected as chair. I flew out to Chicago and Heineman and I just hit it off.

BERKOWITZ: He was head of a railroad then?

BOHEN: Yes, he was Chairman and CEO of the Chicago Northwestern Railroad. He'd been active politically and was a lifelong Democrat. He's been on a couple of other Johnson commissions. He was also looking to make a contribution to the government in public service, if not full-time then part-time. So he was very interested in this commission. I said something like, "I'm sure you're going to want to interview other people," and he said, "I've made up my mind. The question is do you want to come with me?" It took me about thirty seconds to say yes. What struck me was how decisive both Califano and Heineman were. These were action-oriented guys; it didn't take them long to make up their minds. I, of course, had had several years of academic life where people tend to take a long period of time sorting out all their options—first of all defining their options—and this was really quite a different experience.

BERKOWITZ: When you went to see Califano originally had you ever been in the West Wing of the White House before?

BOHEN: No, I'd never been in the West Wing of the White House.

BERKOWITZ: Had Bowen? What was Bowen's credibility to write these letters in Washington? Had he been on the Council of Economic Advisors?

BOHEN: He wrote them to fellow economists. Kermit Gordon was an economist.

BERKOWITZ: Was Bowen from Yale, Vanderbilt?

BOHEN: Bill Bowen did his graduate work at Princeton and then stayed on as a professor and, at that point, I think was an associate professor but already a recognized labor economist. I think he wrote to people that he had some personal contact with who were in the government. He wrote just one letter and fired it off. I don't think he thought it would land me a job like that. I cite this because everybody gets their start professionally—and particularly politically—in different ways. There's no handbook except the

willingness to sort of work your way in. I was very lucky. I felt I'd prepared well, but one of the things that's been great about my career right from the start is that I've had the opportunity to work with terrifically capable high-powered people. Every step of the way I've learned ahead of my years. It helps at an early age to get in a position where you're close enough to see how people have carried a lot of responsibility think and make decisions.

BERKOWITZ: I assume you voted for Kennedy and for Johnson in 1964?

BOHEN: I did.

BERKOWITZ: Did you have any other, kind of "inside" politics experience? In the State of New Jersey?

BOHEN: Not at that point. My grandmother had been a ward heeler for the Democratic Party back in the 20s and 30s, and I suppose I came naturally to it. And my parents, while not personally involved in politics, were supportive of the idea of public service and generated values in support of that. But, no, I had done very little work in politics until I got this experience. Of course, when I came out of the government, I became very active in New Jersey politics.

BERKOWITZ: It's interesting that Califano didn't feel that he had to check you out. Today I think they would say, "Who sent you?" and try to figure out who you were.

BOHEN: I think that's probably right. I don't remember whether he asked me if I considered myself a Democrat. There was nothing on my resume to suggest that.

BERKOWITZ: There weren't that many Republicans in 1966 or so.

BOHEN: The point you make is very interesting because when I came back as sort of Chief of Staff or Executive Secretary of the Department in 1977, when Califano was made Secretary by Jimmy Carter, I feel in addition to Califano knowing me, the most defining reason I got that opportunity was that Pete Williams, who was then senior Senator from New Jersey, and, before his downfall, a major figure in the Senate, was someone I'd gotten to know well through years of involvement in New Jersey politics and thought very highly of. He wrote a spectacular letter for me from the political side. I remember Califano saying to me, "I wanted to get you to come back, but it helps to have the support of somebody we're going to have to do a lot of business with."

BERKOWITZ: Right. He was the Chairman of the Labor and Public Welfare Committee at that point.

BOHEN: The overall Chairman of Public Welfare and, of course, there were several sub-committees that dealt with HEW. So by then I had accumulated political experience.

BERKOWITZ: In your Johnson years, the Heineman Commission was working on government organization as I recall, and you also worked on Califano's staff.

BOHEN: There were really three distinct strands that we looked at. One was the whole set of social programs that had been passed basically in '64, '65 and early '66 which put major new activity into HEW and HUD, Labor and the Office of Economic Opportunity and a few others. This was a hodgepodge of organizationally impacting legislation that had been passed at the federal level without a clear sense of how they would impact at the state and local level. They tried to address some of those questions. The second, which Heineman really pushed, was the need to organize better how national economic policy is made, a recurring theme of many government organization task forces.

We now have what I think he envisioned several years ago—the National Economic Council, like the National Security Council—brokering the disparate proposals of the many departments who have a role. So they made a pass at addressing that, but the single most important thing the Heineman group did there, the most important idea was that the Departments of Commerce and Labor had outlived their usefulness as the representatives of business and labor, and you would have a new Department of Economic Development or something like that would emerge, and submerge those special interests. That was a very strong conviction of Heineman. Johnson embraced that proposal in the 1967 State of the Union message. It died. George Meany said, "Over my dead body." I remember I had to call George Meany and alert him that this idea was in the works. He said, "I appreciate the courtesy, but don't count on my support." So clearly it was not going to happen and Johnson quickly dropped it.

And then the third thing they addressed, which came as an assignment directly from President Johnson, was the way the government was looking at the foreign policy and national security sphere and, of course, by the time we took that assignment it was well into '67, it was really around how the government was making policy with respect to Vietnam. We did some work on that. It was a very good Commission. Heineman himself didn't obviously have experience in foreign affairs, but McGeorge Bundy who had been in government before and did was on that Commission as were several other people that had a lot of experience in foreign affairs.

BERKOWITZ: Let's talk about going from the staff experience to actually being a front-line politician in the '70s. You ran for Congress. Tell us what was the catalyst in your own mind that made you decide to be a front-line politician rather than a staff person.

BOHEN: In all candor, the idea of running for Congress or having aspirations to be in the Congress had been something I'd had since I'd been in high school. My experience in Washington as a White House aide didn't dissuade me from feeling that the way to get a start in national politics, to be a player, was to get elected to Congress. I lived in a district that was represented by Frank Thompson, who at that time had a very illustrious career, so I didn't see any way to do that. Then along came this redistricting in '71–'72 which put the Princeton area out of Thompson's district and into a different district. And that coincided with the increase in polarization on the question of the war. I essentially ran in 1972 as an anti-war candidate.

BERKOWITZ: By putting Princeton with that district, with Somerset County, was the idea that that was going to be a Republican district? They were giving that all away basically. The Democrats did that, I assume.

BOHEN: The governor at that point was Cahill and the legislature under him was mixed. I think they were still in the early stages of implementing the "one man, one vote" philosophy or policy and adjusted the districts to do that. Thompson obviously didn't need Princeton, although he loved representing Princeton. I ran with no illusions about how difficult a district it was but I wanted to run. It was a good opportunity. I thought that I could run a good race, which I did, would get me some visibility in the state and national politics. I ran very well, actually better than anyone had done against him [Peter Frelinghuyser]. I ran about 25,000 votes ahead of the rest of the ticket. I felt, as events unfolded, I had a chance in a very different climate in '74. And I did come close. I lost by about 8,500 votes.

BERKOWITZ: In those days if you ran for Congress in 1972, 1974, how close to a full-time job was that? Running and getting ready to run?

BOHEN: It was a full-time job. By that time—it was three or four years after I left the government—I was working at the Ford Foundation and I initially took a leave of absence in April and May of 1972. I was lucky enough to have a wife who worked a full-time job, and we went into quite a bit of personal debt to make that race. I then went back to work for a year and then essentially took another whole year off to run again in '74. So these were really major personal commitments. In '74 I thought I had a chance to make it, and when it ended I had no regrets but I was essentially exhausted, having given it three years of my life, and quite deeply in personal debt.

BERKOWITZ: You figured that was going to be the best year for a Democrat.

BOHEN: Yes. I remember being asked, "You ran so well, surely you'll try for a third time?" And I said, "If I couldn't turn it with this level of effort in this kind of year, I can't do it."

BERKOWITZ: And, of course, no one ever has, right?

BOHEN The district has changed a bit but, no.

BERKOWITZ: In addition to Pete Williams—Harrison Williams—did you have another political mentor?

BOHEN: Frank Thompson. I would say Frank Thompson, politically, and Richard Hughes. I knew him [Hughes] principally in his role as the governor. He was governor from '61 to '69. I knew him a little bit on my way to the White House, but a lot on my way out of the White House, and while I was there.

BERKOWITZ: I remember in 1964 he was—not seriously—vaguely considered as a vice presidential candidate.

BOHEN: More in '68. He and Muskie in '68 were seriously considered. He was one of Johnson's favorites while, in fact, Richard Hughes didn't know me that well, the fact that a New Jerseyan was on the White House staff, close to Califano was a source of pride. Of course, I knew some of his people very well, some were my friends from the Woodrow Wilson School.

BERKOWITZ: How were your relations with Califano during this period? Were you still in touch pretty much?

BOHEN: In the '70s?

BERKOWITZ: When you were running for Congress.

BOHEN: Yes. Yes, we continued to be good friends. Six or eight months would go by without us seeing each other, but during both races for Congress, he came to help campaign for me. He was very effective, a very good friend. Then, when he became Secretary, like many people who had worked for him, I wanted to go back in government; everybody with Democrat leanings wanted to go back in government after eight years of Nixon-Ford. I wasn't sure there was any opportunity there. We sat down and he said, "I'm not so sure." I do think Pete Williams's letter was very defining in terms of my ability to serve with him, particularly at that level.

BERKOWITZ: When was this conversation with him? At the end of 1976? Had you campaigned for Carter?

BOHEN: Actually I had a mixed record. I worked very hard for Morris Udall in the primaries, but then, when Carter won, I spent a lot of time as a volunteer working on policy papers and things like that.

Califano was one of the last people named by Carter to the Cabinet. It was on Christmas eve, and he called on New Year's eve and said he was going to be the Secretary and we talked about some of the possibilities. He said he wanted to really run HEW, and the way to do it was to turn this mechanism of the Secretary, which had previously been more of a paper-shuffling operation, into a substantive staff to serve the Secretary, both in terms of policy and decision making. He'd become convinced out of his own experience in talking to other Secretaries like Elliot Richardson, that the Department basically neutralized the Secretary by not paying any attention.

BERKOWITZ: That's certainly true of the Public Health Service and the Social Security Board.

BOHEN: He wanted a mechanism that would not only help him in an orderly way make the decisions but then follow up to see if the various administrations had carried it out. So that was the charge that I had, and that's essentially what I tried to do.

BERKOWITZ: So you were staff to Califano and to Hale Champion?

BOHEN: Right. I served the Office of the Secretary. They divided things among them a little bit.

BERKOWITZ: Hale had been on that Heineman Commission, is that right?

BOHEN: Yes.

BERKOWITZ: So you had to work with both of them. Did you have any particular portfolio of issues that you handled? You said that Califano and Champion divided.

BOHEN: Yes, Califano tended to look to me on education issues. The big one that came along was the separate Department of Education issue which he resisted until the very end. I had, in a previous job with the Carnegie Commission on Higher Education, actually looked at the question of a separate Department of Education. In the same way that Champion would get issues that weren't quite first order issues on health, I tended to get that kind of thing on education. I had a group of contacts with leaders in higher education. These things happened almost inadvertently. They sorted

themselves out. In a world like HEW, there's more than enough work to go around in an activist administration.

BERKOWITZ: It seemed to me that the people that Califano hired had somewhat of a similar profile. You're not exactly the right profile and neither is Hale Champion, but he tended to like people with high academic records from prestigious schools. He got a whole bunch of those kind of guys together. Is that fair?

BOHEN: I would say Hale and I stood out as exceptions. Joe respects legal training and the legal "mind." He has a predilection, when thinking about policy issues, to hire lawyers. I think when he got to the world of HEW, he knew he also had complex and challenging organizational, managerial issues. In Champion's case, he got the benefit of a lot of experience.

BERKOWITZ: We want to ask you about one other thing. When you got to HEW and started to work on these management issues, one of the very first things that Califano did was reorganize the department. Did he talk with you about this at all, since you had had that experience with the Heineman Commission?

BOHEN: Yes. The concept was that he was going to reorganize the department in general and the major things that he wanted to take on particularly, the unifying of the health programs in a new administration—subsequently named the Health Care Financing Administration. He saw also the institution of this executive secretary with a strong central staff as part of his central organizational agenda. And he also reorganized the Social Service and Welfare programs into a parallel administration to HCFA called Human Development Services.

BERKOWITZ: And meanwhile putting the Aid to Dependent Children in SSA, as I recall, as part of that reorganization, which was the key welfare program.

BOHEN: Right. I think he saw that both as desirable, based on his knowledge of these programs, in terms of service delivery, and also as a useful thing for a Secretary to do who wanted to really run things very well. He challenged a lot of the established ways of doing things. Of course, nothing was more emblematic of that than the decision to take Medicare out of the Social Security Administration since it was based on payroll tax deductions. I think he anticipated even more of a fight from the guardians of Social Security than he got. My memory is that we did these things under reorganization authority that was automatic unless it was vetoed by the Congress.

BERKOWITZ: Yes. It was not a matter of Congressional consideration at all. It was done by the Secretary. I guess the first thing was to figure out whether it could legally be done, and he did, probably even before he got there.

BOHEN: Yes. HCFA was created very fast. I think it was within the first sixty days with a relatively small number of people working on the details, and without much opportunity for consultation that would ding it out and kill it. It was done quietly, peremptorily.

BERKOWITZ: In your role under the Secretary, were you involved in personnel choices, like this fellow Bob Derzon who was hired to be head of HCFA?

BOHEN: I was not, although I got to know Derzon pretty well because we wound up living in the same apartment building after he arrived. Califano set up, independent of all of us, a recruiting staff and attracted several people from various communities whom he thought could provide talent for HEW. One of them who is here in New York, Jonathan Fanton, as head, the President, of the New School for Social Research, who was then, I think, at Yale as the head of development. He came down and worked for about six months. Peter Bell, who's now the President of CARE, and who then was at the Ford Foundation, came down and stayed on as a special assistant. The key, the lead on this was Jim Gaither who also worked for Joe in the Johnson White House. Joe wanted Gaither to come into government but he had a good law practice going, too much of a private life to give it all up, but he said he'd come down and help with recruiting for a few months.

That group really reached out and found for the Derzons and the Don Kennedys. When you're Secretary of HEW, you see all these major administrative functions where you need somebody who's got the credentials to command the subject matter and also the smarts to relate to a wider political organization. It's a major challenge. I don't know any Secretary that has taken it as seriously as Califano did in terms of the mechanism, if you will, or has been as successful in getting really good people. Derzon was a terrific person who ultimately didn't work out on the job, I think perhaps because he was too nice a guy and wasn't tough enough to command changes from the bureaucrats. The perception was that Califano and Champion lost confidence in him, but my sense was that they really liked Derzon the person but felt he was too much a representative of the machinery under him.

BERKOWITZ: Rather than an agent of change.

BOHEN: An agent of change. My sense is that if there was a test that he failed, that was the test.

BERKOWITZ: So you were observing this both as his neighbor and as somebody who was working for the Secretary.

BOHEN: I think I told you that I recruited a very capable man, Richard Cotton, to be my deputy for the health area, and he was much closer in his perceptions of what worked and didn't work at HCFA, and of Derzon, than me.

BERKOWITZ: So when you had a Medicare and Medicaid question, you turned to Rick Cotton. He would use his contacts?

BOHEN: We divided ourselves and I was the head of two or three people who were principal deputies. Rick Cotton covered the health area and particularly oversaw HCFA and the working out of that, working more closely than I with Derzon.

BERKOWITZ: The Secretary was supposed to make the department cohere. What about if you needed to talk to the White House? Was that something that was outside the Secretariat?

BOHEN: Yes. I tended to talk directly to the White House on the substantive issues that Califano pitched to me, the most significant of which revolved around education.

BERKOWITZ: That would have been one of Stuart Eisenstadt's assistants that you talked to?

BOHEN: Right. Also Pat Gwaltney who was in OMB and Bowman Cutter who returned to government as a key White House player in the Clinton administration.

BERKOWITZ: Also at OMB? Often these people were involved in paper work simplification things, those kind of issues.

BOHEN: I was two years head of the secretariat and then two years the Assistant Secretary for Management and Budget. Of course, there were a lot of interactions with those people once I got the responsibility to oversee the budget. But Joe Califano had one other key player who wasn't even mentioned yet in the conversation who handled a lot of the HEW and White House staff contacts, and that was Ben Heineman, Jr., whom I'd known of when I worked for his dad ten years earlier but had actually never met until we worked side by side. And as Executive Assistant to the Secretary, he was the sort of focal point for White House contact with Califano's issues. We had

many different voices at HEW who, left to their own devices, might not have been cohesive or perhaps not perfectly disciplined talking to the White House on policy. Ben Heineman served as the focal point and clearinghouse for contacts with the Eisenstadt staff.

BERKOWITZ: Who was the fellow that was the lawyer in the White House that did the health stuff? Joe Onek. That would have been the contact?

BOHEN: Exactly. For example, Onek was the working level contact for the cost containment legislation and the national health insurance issue that Joe discussed with Carter.

BERKOWITZ: Let me ask you one last question. At the end of the time you spent there was this Department of Education which eventually Califano lost and Jimmy Carter, the teachers and Ribicoff won. Was that a good move, you think, in the long run, now that you're in education?

BOHEN: No. It looks just as bad in 1996 as it did then. It's a classic example of trying to suggest a strategic policy change through an organizational change. There was no commitment either in the Carter administration to really have the federal government take significant responsibility for education—or to provide strategic leadership. Indeed everything in our two hundred year history argues that education is either a private or state and local responsibility. The federal role or involvement has been grafted on for a variety of premises or assumptions but clearly is supplemental. I think we have a Department of Education because we had well-organized political interests that are more important in the Democratic Party, at least in Carter's time, but we don't have any policy or philosophic basis for that. So I think it's in the same category as the Veterans' Administration and the Labor Department—intellectually rather hollow.

BERKOWITZ: It's interesting that after they peak usually those groups get a department. The Department of Agriculture is an example of that too.

BOHEN: So I don't think it made a damn bit of difference to what the country is doing in education if, in fact, the Republicans succeed in abolishing the department. We've got some programs that are absolutely vital—the student aid programs—and they will be attached to something else. They have their own constituency and those do have a national philosophic precept, but I'd be hard pressed to argue that they are presidential in character.

BERKOWITZ: So at the end of this Carter time as both the Executive Secretary and the Assistant Secretary, what did you take away?

BOHEN: Well, I would say, in the White House years what I took away was a sense of how the whole thing worked and a tremendously rich store of contacts. What I took away from the Carter years—I was a player in the Carter years, I really had major responsibility to solve problems and to make things happen. I had to do Congressional testimony, to fire people, to hire people, so what I took away was a sense of confidence in my whole set of skills and a sense of confidence in my ability to do those things. It's an interesting question. At one point I was 29 and at the other point I was 39 and very glad that I had that set of experiences. They've served me in good stead ever since.

BERKOWITZ: Thank you very much.

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CHAMPION: [We had] deadlines to deal with in the 1977 Social Security Act amendments. The legislation had to get up early, so that most of my conversations with those guys (Cohen, Bob Ball, et al) were quite particular and went to that, except for these lunches with Joe [Califano] in which we were showing former officials what the general outline for reorganization was. My other involvement in reorganization was a few meetings on details to clean up the proposal.

BERKOWITZ: How this would affect the internal organization of the department?

CHAMPION: Yes, and where certain small pieces would fit better. I'll give you just an example of one that the small group of six couldn't really decide and so Joe and I had a meeting and Joe said "you decide" which I did. This had to do with the Professional Standards Review Organization—whether it should go into HCFA or whether it should stay out in the Public Health Service. And I think we took it into HCFA. I wouldn't swear to that. My recollection is we took it into HCFA, but it was a very close call for a lot of reasons. Particularly the acceptance by docs of that location. But it was that kind of piece of it that I would get into and Joe'd say you do that. He'd stay on the larger problem where he was looking at the political consequences. The really driving thing behind the idea of HCFA, and I think the reason that everybody was supportive, if not of the specific means that we used to get there, was the notion that we were headed on down the road for a national health insurance system. And that you really ought to start getting the government's capacity and role in that put together and that this was a preliminary step to doing that. But it was also a reaction to a kind of a two-class system, where Medicare was everything for everybody, don't worry about the cost, and do it at arms length. Hire intermediaries out there and never mind the street fighting involved in Medicaid with the states and the state obligations. You had a lot more professional competence in terms of experienced people in the Social Security Administration running Medicare.

BERKOWITZ: People like Arthur Hess?

CHAMPION: Yes, although I'm probably one of the few non-Arthur Hess fans in the world. I only saw him in the latter days. He may once have been terrific, but by the time I got there he was a washed-out imitation of Bob Ball. I mean, I never felt the force and the capacity that everybody told me

he had at one point, so I don't know about Arthur Hess. I wasn't looking for Arthur Hess, I'll tell you that. And how do you get some better people into Medicaid, which was not only understaffed but didn't really have very many good people in it. If you could get somebody to manage putting the two together in a useful way, you ought to get some real help for both programs. And the question was how much did you try to have the programs operate together and how much did their different character demand that they be separately handled? I'll come back to your order of questions, but my ultimate conclusion was that we didn't do a very good job of carrying out the changes we wanted. I think the idea was right and the approach was right, but we got off onto other things, as so frequently happens in any large politically driven organization, and we never got the right kind of leadership to do what we wanted to do there. We didn't have the time to do it ourselves and the people we chose turned out not to be the right people.

BERKOWITZ: In other words, you never got a Robert Ball who was Mr. HCFA.

CHAMPION: Exactly. Exactly. That's my summary conclusion. There are lots of bits and pieces in all of that, but the first guy I liked and admired was Bob Derzon—He looked good, and in some ways, he had some of the personal charisma. He had a lot of guts. He was a mensch. But he had been brought up in the university medical center system and he was not the right guy to get in there and do that kind of bureaucratic infighting.

BERKOWITZ: And to fight with the state of California or the state of New York?

CHAMPION: And eventually I had to fire Bob. That was an agreement between Joe and me that I got the honors. And we brought in somebody else from Pennsylvania. I think it was

BERKOWITZ: Len Schaeffer?

CHAMPION: No, no, there was a different guy from Pennsylvania first. He'd been a state commissioner and he didn't work out. No, I think if we had had Len Schaeffer from day one and we had had time to supervise Len, it might have worked out better. He has tremendous energy and many talents as he is now displaying in the private market—you know where Len is now?

BERKOWITZ: He's in California working with Blue Cross/Blue Shield.

CHAMPION: He turned Blue Cross/Blue Shield in California around, he married it to something called Wellpoint. He's a tycoon, one of the biggest health system operators in the country right now, and he's taken this thing

private on the side, making the big payment in a foundation to the state of California. Len is an enormously capable guy. And I'm not sure: a lot of the motives are self-interested motives rather than a big public interest concern, but he's a really able guy and if he's supervised by people like Joe and me, I think he'll come out in the public interest. But if we had had him first when our eyes were fixed on this, before we got off into a lot of other problems, which were the problems that occurred in the Carter administration, then I think the idea might have worked out better. We might have gotten enough done not just in Washington but out in the regions. As it was these two cultures just continued to be totally apart and Medicaid became even worse in one way because it was under the Medicare people and they ran it to suit the Medicare program with Medicaid as an afterthought, and so you didn't get really any real fusion.

BERKOWITZ: Any synergy?

CHAMPION: Any synergy. I shouldn't say not any, but not nearly enough. So, anyway, that's the end of the story rather than the beginning.

BERKOWITZ: Let's get into the beginning of the story. We'll come back to the end of it. You talked about the six people that were involved in this. I'm trying to recreate now who they were and where they sat as they did this. And we know that Don Wortman was one. Fred Bohen maybe was another. You were in the room.

CHAMPION: Fred Bohen was, probably. I wasn't in the room when the six were doing their work.

BERKOWITZ: I see.

CHAMPION: I was only in the room when they were sort of reporting on their work to Joe and Fred was Joe's agent, in effect. He was the executive secretary of the department. He was not an old time pro in the department. He was sort of in charge of the mechanism that brought all reports and everything in with appropriate comments that we created, a thing called a secretariat and we gave that to Fred to run.

BERKOWITZ: He played Califano to Califano's Johnson, in some ways within the department?

CHAMPION: In some ways. Well, actually he did the same—some of the same—kind of thing he did for Califano in the Johnson White House. Fred had been one of his assistants. For instance, he handled two different task forces I was on which reported to Joe. I was on the [Ben W.] Heineman [Sr.] task force.

BERKOWITZ: For income maintenance?

CHAMPION: No, no. No, that was another Heineman task force. Heineman ran about three different task forces. The big secret one concerned how Johnson was going to reorganize the government if he got reelected in sixty-eight. We did our work in 66, 67, and Fred was Joe's agent for keeping track of it. We had all the cabinet secretaries come in and testify. McNamara was on the commission, Kermit Gordon; Ben Heineman was the chair. There were only three or four of us who were not Washington insiders on it. One of them was Johnson's usual personal guy from Texas, Chancellor of the university there. I was the state guy, nominated by Joe, I think, and Dick Lee was the local guy, and we used to occasionally make feeble passes as the federal juggernaut rolled over us, that they weren't paying enough attention to state and local government. That was the kind of role that Fred played for Joe, keeping track of what discussion was going on there, and what kind of recommendations would seem to be likely to be forthcoming, and reminding us that it was all supposed to be totally confidential, total secrecy. So we were always having to consider questions about which you knew very little and you wanted to go talk to some people who really knew about it. Some of the stuff we did was really just dumped wholesale into the report. But Fred did that kind of thing then, so he'd had that kind of relationship with Joe before, but this time he had a whole executive secretariat to run.

BERKOWITZ: We were talking about Fred Bohen and the departmental supervision of his band of six in which we decided Don Wortman was one and Bruce Cardwell was another and several others that were brought in.

CHAMPION: Yes, but they were all people who had been in the department for some period of time. They were not people that were coming in, in Joe's group, except Fred.

BERKOWITZ: So this was a little bit different than my sense of Califano's way of handling other problems in that it seems to me his approach to lots of things was to get lawyers to look at things. Dan Marcus was one. His approach was to have smart people kind of look at the thing. The HCFA initiative was a little bit different. This involved bringing in these Washington people and having them figure out how to push and haul at the bureaucracy to create something new.

CHAMPION: Yes, well the larger architecture was pretty much set before you put these people to work. This was Joe, and talking to me and then to Gardner and to Wilbur Cohen. They were basically doing detail work. They weren't trying to decide what did you want Social Security to do and what didn't you want it to do. Did you want them running AFDC, having gotten

their feet wet with SSI? Did you want the Social Security Commission to take on AFDC? Well we ultimately decided that we did. We certainly didn't want the old SRS [Social and Rehabilitation Service], which was a terrible mess anyway.

BERKOWITZ: And John Gardner? I'm not sure John Gardner would have thought about SRS as a terrible mess since it was his idea.

CHAMPION: Well, I think he probably thought that his idea had been sufficiently destroyed by the Nixon people who ran it. I don't recall a specific conversation with John, but I think he was very disappointed in the kind of leadership and the sort of attitudes that were established there.

BERKOWITZ: I see. So that by talking to John Gardner, you're talking to the father of SRS. And Medicaid had sort of found its way into SRS. And by talking to Wilbur Cohen, you were talking to the father of Medicare. So you were talking to the putative fathers of these various bureaucratic entities.

CHAMPION: That's true.

BERKOWITZ: Any other people that you consulted? You can call them graybeards. Did you talk to Cap Weinberger, perhaps?

CHAMPION: No.

BERKOWITZ: No Republicans, Elliott Richardson?

Champion: Not that I know of. Now, Joe may have talked to some people on the hill a little bit, but you've got to remember Joe was there during the '65 Medicare/Medicaid legislative struggles and the way in which they were set up. Joe early on discovered what fiscal giants they had become. Harold Ford who was then a congressman from Tennessee—may still be—from Memphis—called Joe and asked if he'd come down and do a fund raiser for him in Memphis. And Joe got down there and Ford just raked in the money, and Joe looked around and they were all health people. Joe came back and said to me, "The new big money force in American politics is health."

BERKOWITZ: And he's acted on that principle ever since.

CHAMPION: Oh he's understood it. He's understood it. And one of the reasons for doing this kind of reorganization planning in secret, you may remember, was that he early on also waged war against the AMA. He made a couple of early speeches to the AMA in which they wanted to throw him out of the hall. And he did it knowing that they would want to end up throwing him out of the hall. Oh, he may have been surprised a little at some aspects of it, but basically he understood it. That's why he didn't want

to get the Congress into this business of how you reorganize. Time enough to get into that when you were trying to get to a health reform plan. Get the administrative machinery ready and not have to worry about those questions when you got to the legislation.

BERKOWITZ: ...And maybe seeing it as sort of taking the flak for the congressmen, so that they could come to these other projects with clean hands?

CHAMPION: Well, there's always some of that. You know, there's some stuff that if you do it and they don't know about it, or if they know about it under-cover and don't have to take any public positions on it: there's always this business of political cover. But I don't think that was a big thing. I think mainly it was to get this administrative capacity in hand and in order. Try to do it in terms of executive action. Save your legislative fire.

BERKOWITZ: For welfare reform and health insurance and Social Security, which you knew were ahead?

CHAMPION: Right. And try to get your act together in the department. I mean that's one of the problems with John Gardner. He's not really a manager. He wanted to sit on the other side of the river.

BERKOWITZ: And think deep thoughts and give epigrams?

CHAMPION: Yes.

BERKOWITZ: That's what I was going to ask you, whether this was not his thing, this reorganization stuff? He certainly had not done it when he was at HEW.

CHAMPION: Interestingly, he got interested in it as secretary, unlike that guy that Ford had.

BERKOWITZ: David Matthews?

CHAMPION: David Matthews. I don't mean to compare the two at all because Gardner's an infinitely more interesting guy than Matthews. But both of them were very theoretical in their approaches, and, Gardner got tied up in a lot of the management and he got interested in it. He floated a lot of reorganization ideas while he was there. Johnson didn't much like them though. Thought they were impractical. As a matter of fact, Johnson kept asking this task force that I served on, the confidential task force, to look at some of the HEW organizational problems. We would get these bullets from Johnson to be sure that we looked at this, and two or three of

the things that he wanted to make sure we looked at, were things that John Gardner wanted to do, that Johnson clearly had grave doubts about.

BERKOWITZ: I see. Of course John Gardner had Wilbur Cohen as under secretary which helped him a lot in those reorganizations.

CHAMPION: I'm sure it did.

BERKOWITZ: Particularly the ones in the health field which were some of the stickier ones.

CHAMPION: I'm sure he did. I don't know what Wilbur thought about things like SRS.

BERKOWITZ: I could tell you something that would interest you about Wilbur Cohen. He wrote Gardner a letter in 1972 saying, "John, you should declare yourself a Democrat and run for president," which is interesting. So he must have somewhere along the line acquired some amount of respect for Gardner.

CHAMPION: John Gardner is an interesting guy.

BERKOWITZ: Gardner, of course, didn't run and he was very Hamlet-like. So you talked with these various folks about HCFA. Were you aware of the fact that Herman Talmadge, the senator from Georgia, had proposed something quite similar, even held hearings on it in 1976?

CHAMPION: I was not. Joe probably was. I was not aware of it. We had very touchy relationships with Talmadge and an aide of his, Jay Constantine, who had wanted to be either Under Secretary of HEW or Inspector General of HEW. And I will tell you a funny story about those. Very quickly, when he saw what had happened on the under secretaryship, he aimed hard for the secretary and through Talmadge. Talmadge was his sponsor and boss. He was chairman of the health subcommittee of Senate Finance. Constantine was a real manipulator whose name came up when Carter talked to Joe about who should be named inspector general at HEW. This was a new statute—the first Inspector General, just for HEW. And Joe said, "I don't want somebody like Constantine." He said, "In a job like this," he said, "you want your own mother." And Carter said, "Maybe your mother, not mine." [Laughter]

BERKOWITZ: That's a good story. So you weren't aware of those hearings?

CHAMPION: Not of having hearings. But I could see why Joe would not want to get back into this thing with Talmadge in the chair. Now I don't know what differences there were between what Talmadge may have

proposed and what Joe was doing, but Joe didn't want to have any real contact because Talmadge was pushing very hard for Constantine. As a matter of fact Constantine caused trouble at my hearing on Senate Finance. I was having a problem getting confirmed because Constantine was shooting for Joe and me and might have succeeded, if it hadn't been for the fact that I had two old friends on the Senate Finance committee who scotched that in a hurry. I talked to Pat Moynihan and Gaylord Nelson and I think they got the word to Talmadge to stop this goddamn nonsense.

BERKOWITZ: Gaylord Nelson, from Wisconsin, and Moynihan, perhaps from New York and just a new senator then but maybe also from Harvard? Is that where you met him?

CHAMPION: Next door neighbor at Harvard. I lived at that point on what they called the passage to India, across the street from [John Kenneth] Galbraith, around the corner from Moynihan. As a matter of fact, when he was ambassador to India his son lived, one of his sons lived with us. So, yes I know him.

BERKOWITZ: So you had friends on the Senate Finance Committee? That's interesting.

CHAMPION: Yes. And Gaylord Nelson was another old friend from back in governor days. You know, I had spent some time early on in Milwaukee in Wisconsin and so I'd known Gaylord for a long time.

BERKOWITZ: So that was your "in" on the Finance Committee and that's how you were able to overcome?

CHAMPION: Yes. Those are two people I could just say, "Hey, what's going on here?" They knew me very well. They said, "Hey, this is crap." They could see it was a real put-up job by Constantine who'd gotten some investigator to say that Joe and I had acceded to political pressure in slowing up an investigation in California. In fact what we had done was to call in this investigator and say, "You violated every rule of how you proceed on an investigation. Now we want to get these people and we don't want you compromising the goddamn investigation," and we did get them ultimately. But the investigator assigned left and went over to go to work for Constantine and was supposed to be the prime witness that Joe and I were somehow implicated in protecting the miscreants.

BERKOWITZ: So there's history between you and Constantine?

CHAMPION: There was real history there and a real reason not to deal with him. However generally sympathetic Talmadge may have been to the

general ideas I don't know. But in terms of working with Talmadge or having any kind of deal, unless it were very private, the only way it could have functioned is that Joe, going back to Johnson days, could work very well with Russell Long.

BERKOWITZ: And Russell Long from Louisiana was the head of the Finance committee in '77?

CHAMPION: He was, yes. And Long was a guy who could deal with that kind of question. I mean with Talmadge. If there was any kind of conversation about this with anybody, somebody with whom Joe could have a totally confidential conversation about this whole thing, it would have been Long. And I don't know whether Joe did or not. I never asked him.

BERKOWITZ: It's about by March, I believe, of 1977 that Califano has this plan and has charts printed in the basement of Pentagon somewhere which are intended for a cabinet or a White House presentation. Now, can you remember anything about that White House presentation and, if you remember, who at the White House, if anyone, is tracking this whole business of developing HCFA? Was there someone in the White House that was keeping tabs or was it kept secret, even separate, from them too?

CHAMPION: It was kept from them. The guy who would be the expert on whether anybody else in the White House knew about it would be Jack Watson. This was so early that I don't think Stu Eisenstadt had gotten into it yet. We worked very well with Stu when he came into the picture, but at that point Watson was doing most of the reorganization kind of stuff. And there was a group over at OMB that was working on large reorganization stuff, but to the best of my knowledge they didn't get set up or get really functioning until after we were all done with this. I don't remember any input from them.

BERKOWITZ: So that this was closely held in the White House, maybe Watson knew about it. Now, how about President Carter? Did he know that Joe was working on this?

CHAMPION: Yes. There are two ways in which cabinet secretaries in that administration communicated with the President. One was through cabinet meetings and the usual show-and-tell and that kind of thing. And they held them fairly frequently, at least early.

BERKOWITZ: All presidents have cabinet meetings early but not later?

CHAMPION: That's right. And the other was, and I don't know whether all secretaries did it or not, but Joe certainly did it. I think it must have been a

hangover from Johnson. Every week he would do a one-or two-pager on what was going on, what were the concerns, answering questions that the President may have raised in conversations and whatever. And they were very personalized, eyes only, President. I'm sure that Joe would have said, "Next week I'm going to be prepared on reorganization." Or the other way, of course, was through a staff member. Watson knew what was going on, but, in terms of being involved in the effort itself, I don't think anybody outside. It was strictly a matter of—we've done it, we think the President will like it, we'd like to show it to him. But to show you how far down the road we were by the time they saw it, I think it was that day, at most two days before we went public. The President said OK, let it go. What there was at that time was an opportunity to say go or no go. And the President said, "I like it. I think this is what more people ought to be doing. Great initiative, Joe. Really shows you know how to do business."

BERKOWITZ: So maybe another part of this was Califano who is perceptive about how to please people. Having worked for one of the world's most difficult to please, perhaps he figured out this is something that would appeal to Carter a great deal?

CHAMPION: Oh, no question.

BERKOWITZ: And he'd like to present that to him early and show one of the benefits of picking Califano, the master of Washington ways, perhaps. Is that a good reading?

CHAMPION: Well, yes. I wouldn't do the master of Washington ways thing, because that wasn't a good test for Carter. Carter didn't think all that much of Washington ways. Part of it was, yes, you reorganized. I understand the base on which you did it, and I generally agree with this. You've got to remember that Carter looked at all of the stuff very frequently as a governor. "How's this going to affect me and my ability and where have I had problems in dealing?" If you wanted to ask any governor, even as far back as then, what one of the biggest problems he had was, it was dealing with Medicaid. So doing something about Medicaid that held promise of a difference—never mind what the difference might turn out to be—you were going after what he viewed as a big problem. Nobody is a good cabinet secretary who doesn't try to say, "OK, what does this president really care about? What can I do, how do I look at what I'm doing in terms of what will satisfy him as well as how do I run this department?" As a matter of fact, I've often thought cabinet secretaries really should be the Presidential representatives in the territory they occupy, not generals of the armies in the field. You've got lots of other people out there to carry that on, but really a cabinet secretary ought to have a largely presidential perspective. There was some history here for Califano, if you look at Joe's first book.

BERKOWITZ: *Governing America*?

CHAMPION: No. The one before that, Presidential Nation I think it's called. Basically one of the motives, the things that pushed in terms of organizational theory—Joe's no political scientist—was fundamentally the notion that these departments ought to be instruments of working out problems by consolidating functional areas of concern. Nixon had done some of this, trying to figure out, "OK, we've got too many cabinet departments and as a result each of them tends to be a captive of particular populations or clients." What you really want out there is a presidential representative in that territory and let somebody else at an operating level work things out with the clients or the special interests. But those cabinet secretaries really ought to have a presidential perspective. Joe, despite the fact that some people in the White House thought he was off on a thing of his own, was really much more minded toward being a presidential representative. I think particularly in the early days that Joe was totally trying to do what he thought the President wanted to do. To that extent it wasn't just a gesture or just trying to suck up. It really was that Joe thought it ought to be done. He knew the President would think, "OK, let's make a priority of it, let's get it done. Sure, show that I know how to do it and that I'm running the place." As a matter of fact, at the end of the first year, Carter had one of these outside management consulting operations.

BERKOWITZ: Like Arthur D. Little or someone like that?

CHAMPION: Yes, but I don't know who he had. It was a lesser-known firm. Actually it wasn't a firm. It was a number of people from one or two firms to come in and look around. They came over and said, "The White House thinks you guys are doing it right. Let's talk about what you're doing," and they never bothered us. And they went into other departments and said, "Why can't you guys do like HEW does?" That sort of changed the hostile attitude of the White House staff to some substantial degree for a time. Eisenstadt always had been a fan of Joe's although he sometimes, like everybody, thought him difficult to deal with. I got lots of the resulting traffic. But the general view was that we ran a good shop and that most other departments ought to be more rather than less like us, at least operationally.

BERKOWITZ: OK, I want to get back to that briefing, but first I wanted to ask you, on the one hand you could see this makes a lot of sense. On the other hand one could argue these reorganizations, as HEW would find out from the creation from the Department of Education which was brewing by 1977, one of Senator Ribicoff's pet ideas, that so much political energy is wasted on these things. We have very little to show for it, and one could use the example of welfare. AFDC is a program that's been reorganized several times with very little effect. It strikes me that on the one hand this is all very

smart, but on the other hand it shows a certain naiveté to think that reorganization is going to solve many sorts of problems.

CHAMPION: Well, that's one of the old governmental arguments. I don't subscribe to that. Somebody said reorganizations are, like a lot of other things, never so bad as some people think and never so good as some other people think. They're always a mixed bag. They do require a certain amount of political capital. But the fact is that this one was done with a minimum of fuss, feather and bother. We didn't have to get legislation out of it. The Department of Education was one of the most painful things. The Department of Education was done for just one reason, that is Mondale and, through Mondale, Carter, and directly Jordan. They were totally committed to the NEA on the Department of Education. NEA had more delegates at the convention that nominated Carter than any other body. More delegates at the convention, more influence in the administration. I saw them all during that time. They wanted special wrinkles for teachers after retirement in terms of Social Security and so on. The NEA was all over the place, and the separate department was their baby. When they had the final discussion in the administration before they went ahead with the Department of Education, which had been done by this big shop over in OMB and done with a political naiveté that was unbelievable, they put Head-Start in there. They put the rehabilitation stuff in there. I mean they took on the strongest grass root lobbyists that you could possibly imagine, and tried to marry them to an educational establishment which had never liked them in the first place and which they were sure would kill them. Unbelievable. But anyway, in the final argument before Carter—and I was not present, this is Joe telling me this—the President said, "On a straight policy basis we shouldn't do this." He didn't say Califano was right because Califano was leading the opposition to this, but he said on the basis of promises, promises we have to go ahead. And that was the basis on which they went ahead.

BERKOWITZ: But HCFA was different because, why? This was not a political thing, it was a rational management decision?

CHAMPION: Yes, and you could get it done—doesn't mean everything in this business isn't to one degree or another political—but it wasn't partisan political. You were sort of working your way through interest groups, but you didn't have this huge accumulation of political power sitting there that was all going to come down on you if you didn't do it or if you did do it.

BERKOWITZ: Why would you want to break up the fiefdom at SSA, when that was clearly one of the few successful agencies that were in your shop?

CHAMPION: I don't agree with your premise. At least on the implications of your premise. It had been. When we got there, Social Security was really

rocky. Social Security started having problems when it got SSI. When it got out of the business of mailing checks and got into the business of street-fighting and dealing with very different state laws. And income requirements and all of the kinds of things that make this kind of administration hard. It had been under interim leadership ever since Bob Ball.

BERKOWITZ: It was 1973, I believe.

CHAMPION: Yes, and we're now in 77. Cardwell was a decent, professional but not in the same world with Bob Ball either as a policy guy or as a manager. I think, there was some overkill in what Bob had done in that he built this community around Social Security—an academic community—and they did lots of research and all this other stuff. But it became sort of a self-applauding group, the high priest thing was not totally wrong, and some of the people assembled there were, in fact, vestal virgins. The leadership at the top had gone somewhat stale. They were people of some ability, but they were falling behind. They were way behind the curve on automation. They were way behind the curve on new technology, in terms of response. Look at what was going on at disability. I don't need to go through that history with you. As you looked over there what you saw was a once great organization that still had a lot of substantial ability at the third and fourth levels coming up, but all blocked off by people who had stopped wanting to change with the times or take on new missions and so on, wanted to stand around there and light votive candles. And they were not people devoid of ability. They'd had it. They'd demonstrated their competence, but they weren't moving, they weren't adjusting, they weren't changing. So, in that sense, I think it was an organization that was over the hill.

BERKOWITZ: OK, I'm with you on that, and I see also that when you happen to have gotten hold of SSA it just was the time when you were going to have to cut back benefits. You know, if you'd gotten hold of it in the 60s it would have been a different story.

CHAMPION Even Bob [Ball] had to take some responsibility for what had happened with Wilbur Mills in 72. Martha Derthick is not all wrong about some of that. So that was another element in what did you need to do. I can remember looking at Social Security regulations that shocked me, and I'm an old-fashioned Democrat. Do not try to recover errors unless they exceed $25,000. The margins of error over there were enormous because there were essentially no ceilings on administrative expense because it came out of the Social Security Trust Funds. Now, some of the criticism OMB was throwing at them was totally illegitimate and I used to get in between OMB and SSA on some of those issues. But basically, I don't know whether you know the history, but at one point it was all but set for me to go out and run Social Security.

BERKOWITZ: Yes, I'm aware.

CHAMPION: And I wanted to do it because I didn't think we were going to get much more done at HEW at that point the way the forces were locked in terms of the major legislative objectives and some of the administrative ones. But I thought SSA badly needed to get moving again, and that there was some opportunity out there to do some stuff. So I was going to go do that and I even had a couple of advance agents out at SSA scouting the field and getting a good sense of the place.

BERKOWITZ: What year would that have been? 78?

CHAMPION: It probably was either fall 78 or spring 79—or winter 79.

BERKOWITZ: When did you stop being Under Secretary?

CHAMPION: July 79. I think I had a pretty good sense of SSA and I never felt that the mystique was all it was cracked up to be, that the quality was still there. I think it had gone down.

BERKOWITZ: Let's turn now to this briefing. Presumably it was Califano doing the briefing to the President and Jack Watson? In the White House somewhere? Was it in the cabinet room? Do you see it as being in the west wing or in the Executive Office Building?

CHAMPION: I'm wondering if we didn't do it over in the Executive Office Building, upstairs in the Executive Office Building. It wasn't in the cabinet room because we had some display kind of stuff.

BERKOWITZ: They took too much space.

CHAMPION: Yes.

BERKOWITZ: So maybe in EOB?

CHAMPION: Oh, it was a very small audience [chuckle].

BERKOWITZ: Can you remember the audience? Now you were there, right?

CHAMPION: Yes.

BERKOWITZ: Joe was there.

CHAMPION: Yes.

BERKOWITZ: President Carter. Jack Watson. Who else?

CHAMPION: That's all I remember. Now, there were, I'm sure two or three other people around there, but I don't remember.

BERKOWITZ: So we're talking about a very small group?

CHAMPION: Yes.

BERKOWITZ: And did he give you a lot of time to do this?

CHAMPION: We took half an hour and maybe we spent another 2 minutes talking about it.

BERKOWITZ: And the President reacted at the meeting itself?

CHAMPION: At the meeting itself. Totally favorably.

BERKOWITZ: And said something like, what? "Let's go ahead"?

CHAMPION: Yes, "Go do it." He knew it was ready to go and he didn't have anybody else working on details. On most stuff of this kind what you'd have would be a meeting with the President, most of the people in the White House and maybe some other members of the cabinet. I did the Social Security amendments of 77. It would be the President, Juanita Kreps who was the Commerce Secretary, and then we had the other Social Security trustees Blumenthal and Ray Marshall, Secretary of Labor. And the director of OMB, Bert Lance. I did a very smart thing, if I do say so myself. I brought Bob Ball.

BERKOWITZ: You wanted him inside the tent pissing out, as they say, rather than outside pissing in?

CHAMPION: Exactly. And as a matter of fact I called Eisenstadt and told him I wanted to bring Ball to the meeting and he said terrific, he'd be the first guy the President would call anyway. So you had 14 principals around the table, 12–14 with a few outliers, support staff. And a couple of memorable things happened, of which one is that the President did in fact turn to Bob Ball after substantial argument that this was not the right bill. Juanita particularly didn't like my amendments, but I had worked it out with Bob, and Bob went along with it and so the President, turned to Bob Ball and said, "What do you think, Bob?" And Bob supported the package. It was pretty clear where the President was going. Bert Lance happened to have in his pocket a very unfavorable don't-do-it from his staff, and Bert took it out and looked at it. He'd listened to what was going on—it was a very bad piece of paper, by the way—and put it back in his pocket and didn't say a damn thing. Bert did have very good political judgment. He knew this [paper in his

pocket] was a pile of crap, and he looked at it, and he heard the argument, and he saw where we were, and he just put it back in his pocket.

The same situation on another bill, I can remember, McIntyre would haul out that piece of paper, not understand very much of what was in it, read the damn thing to the President's visible annoyance and irritation and, in effect, be told to go sit down. The President never again had anybody with judgment in that job to help deal with this sort of issue, and it really was missing because his chief of staff didn't have it. I think Watson had some of it, but Watson was never permitted to play that role again because of Jordan. Jordan didn't want to do it, but he didn't want anybody else to do it either, and so there it was. That was the kind of normal process on a piece of major legislation. But this [the HCFA reorganization] wasn't a piece of legislation. This was a piece of executive reorganization. This is what we're doing. We wanted to make sure that it's what the President had in mind when he said go out there and put this thing in order. And it was just as simple as that.

BERKOWITZ: And this was not subject to legislative initiative or review because the law permitted the President to do these sorts of reorganizations. What's your sense of how this approach works?

CHAMPION: Well, I think it depends on how various activities have been set up and whether they were originally set up in statute. Somehow I have a sense that what Gardner had done with SRS wasn't in statute either. It was internal to the department. If you'd gone outside of HEW or something like that, then there isn't any question. You want to create a new department, and you want to move something from one piece to another, sometimes it gets done by the Congress in legislation, in appropriations bills or, as riders of one kind or another. But I don't think we had any statutory obstacles of that kind. If the Department of Education had been involved, or the Commissioner of Education, we probably would have had to go to Congress because some powers of the Commissioner there are vested by law. They're not vested in the Secretary.

BERKOWITZ: Right, and Education comes from a different department, of course, originally. It comes from the Department of the Interior.

CHAMPION: Maybe. I don't know the history, but I'm sure that we looked at whether or not there were any things that required any legislative activity and our conclusion was the legislature might do some things through appropriations or other things to stop us, but they didn't have to approve anything. And I think—I'm just guessing—that the things we moved around were all under either the Social Security Act or amendments to the Social Security Act.

BERKOWITZ: That's right.

CHAMPION: So we were involved in carrying out, in working under just one basic, very large and elaborate and complicated set up of provisions but all under Social Security.

BERKOWITZ: So then, after the President approved it, you say you announced it two days later to the press?

CHAMPION: The next day we took it to our own employees. The first thing we did was we called in the union people and said, "OK, here's what we propose to do. Have you got any questions or issues that we need to work through?" And we had some meetings on those that afternoon and evening, but we got them all wrapped up. The unions that dealt with HEW were not terribly powerful and none of them had much vested interest in the creation of HCFA. But the things that we needed to do internally before the public announcement we did the next day.

BERKOWITZ: And I'm sure it was Joe Califano at the head of the press conference, right?

CHAMPION: Oh, absolutely. He was our public advocate.

BERKOWITZ: Not President Carter, but Secretary Califano?

CHAMPION: Oh, yes. But he could say, as he did, that it was approved by the President and so on.

BERKOWITZ: I see, I see. And then had you already picked Robert Derzon as head of the Health Care Financing Administration?

CHAMPION: I don't think so.

BERKOWITZ: Then you had to figure out how to run HCFA?

CHAMPION: Yes.

BERKOWITZ: Let me just ask you one last question about all this. You hinted before that the objective was in part to bring this new relationship to the medical programs and create a basis for national health insurance, but in the end Medicare and Medicaid remained separate. We never got national health insurance. We still don't have national health insurance, and what we got instead was a separate agency within HEW.

CHAMPION: Yes.

BERKOWITZ: Was that a fair characterization?

CHAMPION: Well, yes. One never knows what would have happened had you left these things as they were. You would have had two separate agencies, one under Social Security and one under SRS. Just on my own judgment, we would have been even worse off without HCFA. Some things did get done under HCFA that I think would not have been done had we not put them together. But in terms of doing what we wanted, getting all the synergies out of it that we thought were there, it was not successful. But it was better than what was there before. This is, in my judgment, one of the great big problems of the way Americans look at public policy issues. They want to compare it to objectives of perfection instead of what was the alternative. And as against the alternative I still think it was the right thing to do.

BERKOWITZ: Well, let's play that out a little bit though. We know that AFDC went to the Social Security administration.

CHAMPION: Right.

BERKOWITZ: Was it during Carter's years this happened?

CHAMPION: Oh yes. We put it there in the same reorganization that created HCFA.

BERKOWITZ: But it seems to me that what would have happened was that Medicaid would have gone into the Social Security Administration because it would have gone with AFDC, which became this huge thing. Of course, at the time you thought you were going to reform welfare, too, and that reform was going to have some effect on Medicaid. So that's one outcome. We could have ended up with everything in SSA. Would that have been bad?

CHAMPION: Well that would have been another reorganization. That presupposes that you at least blow away SRS.

BERKOWITZ: That seemed pretty clear.

CHAMPION: Yes. So, the question was, were you better off taking Medicaid and putting it in with Medicare and creating a separate entity there, or would you be better off letting it go with AFDC? One of the biggest problems with Medicaid in those days, and a reason for separating it from AFDC was that Medicaid eligibility initially worked off AFDC. It was one of the difficulties in broadening Medicaid to take care of the medically indigent population generally, and of maternal and child health problems of non-AFDC families specifically. So right from the outset we said the faster and better job you can do of getting rid of regarding eligibility as working off the AFDC

population instead of working off a well-defined medically indigent population, was one of the objectives. And over the years a lot of things have been done so that if you look at the populations they are much less the same than they used to be. But they didn't make nearly enough progress nearly fast enough.

BERKOWITZ: Also SSI [Supplemental Security Income], of course, was the driving thing for many people.

CHAMPION: Right, that's another.

BERKOWITZ: So that those two—and that's really basically all who get Medicaid today with the exception of some pregnant women—there are mostly these people in welfare categories, right, even today?

CHAMPION: Yes, except that the levels for Medicaid, in terms of percentage of income in relation to poverty definition are much higher. The Medi-Cal population in California was always higher than the Medicaid population. Medi-Cal was always larger than Medicaid in that state and I think that it was true in most of the other major states, New York and so on. And the question of eligibility and how eligibility is determined continues to be a problem at AFDC. A major problem at AFDC. You should hear Dick Riley talk about what he found in South Carolina when he was governor. So leaving something allied to AFDC—which is probably as screwed up a policy problem as there is, as bad as anything you could think of almost—leaving it there or linking it to that would have been a much worse outcome, in my view.

BERKOWITZ: But Medicaid is still in the same places in the states, and Medicare still has fiscal intermediaries and supplemental carriers so that they're totally different. One's a reimbursement to the states. The other is a complicated arrangement with these quasi-public/quasi-private peculiar agencies.

CHAMPION: Absolutely. And I had some fights on that when we were able to turn our attention back to it in the later stages, with somebody over there you thought could do some things, like Schaeffer. We'd have big fights about whether or not it just was politically doable. It wouldn't be an argument over whether it was the right thing to do or not, but as you got the shifting, you have to remember that right in the middle of the Carter administration, or even earlier, you began to get the shift toward much larger domination of public issues in legislative action by the business interests or financial interests involved.

When I served as a staffer in the Congress in the late forties, the Congressmen were far from pure and they were not averse to getting

broadcast licenses on the side and other things of that kind, but in terms of what were the dominant driving forces and philosophies of public policy, they were much more the average citizen's public interest than they began to be in the mid-70s and thereafter. We didn't get Reagan until 1980 but we got prop 13 in California, which panicked a lot of people, and the Political Action Committee stuff had already happened. Maybe one of the seminal events in our whole national social structure was the court ruling on campaign finance which essentially preserved all the bad parts of campaign finance reform, the PACs and so on, and struck down, except for the Presidential campaign fund, most of the limitations on the ability of business to go buy what it wanted in the Congress.

If you want to look at the proliferation of special interests, it was in the latter part of the Ford administration and the early part of the Carter administration that you began to see this business of instant coalitions, of interest groups on any given subject, and the calling in of the mail and the calls on Washington of the allegedly indignant grass roots on this stuff. They turned the Washington lobbying into kind of a science of how do you bring the pressures to bear in districts as well as in Washington. It really began to operate during this time. I still think that court decision that really sort of stymied the most important elements of campaign finance reform was one of the most important events of modern times. And you haven't ever been able to fix it because of the court's basic view that this is free speech, that the more money you've got of your own, the more free speech you have. And that's when the Senate became a millionaires' club and that's when money made the mare go in the Congress and we could just see it turning. I can remember going over and talking to Abner Mikva about how we were going to get the Social Security amendments of 77 through the House.

BERKOWITZ: Abner Mikva was a Chicago person, north side of Chicago?

CHAMPION: And he was sort of my advisor on how to deal with House Ways and Means because I couldn't deal with the old faithful who ran the subcommittee—what was his name, he was a Massachusetts man—but he was influenced by the administrative law judges at Social Security. The Social Security Administration owned him.

BERKOWITZ: Oh, James Burke.

CHAMPION: You got it.

BERKOWITZ: He was ill, I believe, for much of the Carter years, maybe had to leave Congress.

CHAMPION: I think that's right. I think so.

BERKOWITZ: He was very involved in your 77 amendments and that sort of thing, your disability stuff.

CHAMPION: That's right. And I had to talk to somebody else who basically had what I regarded as a larger public interest. Mikva happened to be a guy I could talk to about it, so that's how that conversation came about.

BERKOWITZ: I see.

CHAMPION: And Mikva was saying, "Hey, this place is changing before our eyes on this sort of thing." For instance, one of the things that we had written in there was the beginning of this escalation of the level of payroll that would be taxed. And I said, "Why are we holding this down?" and Mikva said, "There is all this pressure from the employers. This Congress will not stand up to that. You might just as well forget about it." Interestingly enough, you know what message I got on that from the Senate side? "You're getting into editorial writers' territory." [Chuckling] So we had both political and communications campaign finance considerations dictating whether or not you had, in my view, a fairly logical way of dealing with some of the financing questions.

BERKOWITZ: I see. Let me ask you then, in terms of HCFA, after you got the thing in place, you've already hinted that Derzon was a weak administrator and Schaeffer a strong one. Any other kind of outstanding incidents? You were the manager in some ways of HCFA?

CHAMPION: Yes. I was supposed to keep track. That was part of my portfolio.

BERKOWITZ: So does anything stand out, other than you've mentioned?

CHAMPION: Well, there were two or three things that were major, and the ones you remember are the ones that have a personal kind of thing in them. One continued to haunt for some time, although it finally got changed. One of the big management problems in terms of bringing Medicare closer to Medicaid were the commitments that were made at the time that Medicare was passed, and Joe will say this in his books and you'll find it all through. It's the central theme, and that is, "Hey, if you'll let us get Medicare, we'll let you decide how the payment system runs." In other words, it was pretty much left to the hospitals and the docs, primarily the docs in that case and to some extent the insurance companies, "You decide the payment system. You let us have Medicare."

BERKOWITZ: Right. It's going to help you.

CHAMPION: Yes. And this is the thing that Wilbur [Cohen] and I have had arguments about over the years: did you have to go as far as you went in just giving up on the ability to be a prudent buyer? I've always said you didn't have to give away so much. I said Johnson always wants to win 410 to 5, and you guys should have won this one 285 to 243 or whatever numbers. Anyway, and the fact is that there were a lot of things left in that deal that made it hard to put Medicare and Medicaid together. The one that illustrated that the most clearly to me, although if you talk to Schaeffer or somebody else who was dealing with it day to day, he may say there are other more important things, was the provision that the providers had to nominate the intermediaries. If we wanted Blue Cross/Blue Shield of Pennsylvania to be the intermediary in that region, we could not make that decision. They had to be nominated. If the providers didn't like the intermediary, they wouldn't nominate them. So that every time an intermediary started cooperating with us, started helping the federal government watch its backs, the first thing they knew, they were no longer the intermediary. That was being controlled by the people they were supposed to watch over.

Getting that changed and getting the ability to carry out some of those kinds of decisions by the federal government was essential to any sort of effective management of hospital costs, of Medicare costs and putting Medicare together with Medicaid, or having them do things jointly. I don't remember the whole history of how that played out, but I do know that we never got what we thought was a satisfactory solution primarily because Len Schaeffer finally decided that he couldn't beat them, and therefore they joined in some sort of compromise. I don't even remember what the details of it were. I would tell Len, "Hey, I'm not telling you to do the impossible. I'm just telling you that these guys are never going to get anything from me. If you get something worthwhile from them that you think you can live with, take it. That's all right with me, but they're never going to get anything out of me on this one, or out of Joe. And I'll make sure Joe stays out of it. You fight it as hard as you can, get what you can." Well, I think Len probably didn't push it as hard as I would, but sometimes people who don't push things as hard as I do are smart people.

BERKOWITZ: So, what you're saying is that you really never could put pressure on those fiscal intermediaries, really regulate Medicare costs as a way of containing costs and then setting up national health insurance?

CHAMPION: That was the kind of thing where I would get back into the discussion with the parties that had interest, but fundamentally, once we got Len in there, we basically said, "You make the deals. See what you can do." And he did regularize the process a lot on Medicare. But he's like anybody else. He knew he was going to be a short-termer. He knew he had some

people of some ability on the Medicare side, experience. He knows how little capacity he's got on the Medicaid side. So he's going to go where he can get the most done the soonest, the fastest. I think most of the reforms he did were to improve Medicare rather than to integrate Medicare and Medicaid or bring Medicaid up.

BERKOWITZ: Right. He was a very young man at the time, too, right? He must have been in his thirties?

CHAMPION: Right. Oh, he'd had a lot of experience. He'd been Secretary of Health and Human Services in Illinois, ran, I think, the Illinois budget office, which was always one of the best state budget offices, and been a vice president of Citibank in between doing those things and coming back into the government. So, he was a relatively young guy, but in terms of experience and the territory he was occupying, he probably had more than most people his senior.

BERKOWITZ: Any other things like that stand out as incidents of managing or dealing with these problems in HCFA?

CHAMPION: Well, the problem is that the last year and a half blended into two major legislative fights. Well, one major legislative fight and presidential political thing. I will try to keep this brief. The really time consuming, mind consuming thing for HCFA was trying to get a cost containment bill through. A lot of resources and top management time and analysis and everything else went into that struggle, and as you may recall, we got it through the Senate once. If we hadn't been dealt an unkind and unexpected blow from Rostenkowski we probably would have gotten a health cost containment bill. That was one of the close calls of the Carter administration. It did keep down costs as long as we had the fight alive. As soon as the fight died, then the costs took off again. But we had them scared. It was a consuming fight. In the meantime I had a meeting in my office three days a week of all the people involved in that fight to exchange information, plot strategy, go after individuals, create public liaisons to all the groups that had an interest in it.

On that one we had the insurance companies with us, as a matter of fact. They were beginning to get pushed by the cost pressures. And the other totally political event was Teddy getting ready to take on Carter and choosing health as his major issue. I mean Teddy had always been strong on health, and he helped me get the HMO legislation amended. So we were able to do some stuff and he was always very helpful on the cost containment stuff and so on, although for obvious reasons we didn't ask him to take the lead on the cost containment proposal. Gaylord [Nelson] did a lot for me on that one. We were having meetings in the White House on the President's national health insurance plan and Kennedy's plan but Joe and I were

getting called over to Teddy's house in the evening to talk about, presumably, how to get along, when really it was just Teddy trying to keep positioning Joe to end up on Teddy's side, which he never was. But it made Carter very wary, and all of Carter's political people were all telling him that Joe was playing footsies with Teddy. I remember the midterm convention in Memphis.

BERKOWITZ: 1978 that would have been?

CHAMPION: 1978

BERKOWITZ: Where Kennedy gave such a wonderful speech?

CHAMPION: Kennedy was saying good things about Califano and bad things about Carter, and it did take Joe by surprise and he was really upset. I mean that was a traumatic thing, because he was there with the President and all the President's people. But, hey, to Teddy, the health part of HEW leaked like a sieve, and every budget decision in health was in Teddy's hands, sometimes before we knew about it. That was the other major factor I remember. The problem is when you do these individual histories or we do individual cases in the Kennedy School you tend to look at it as what was going on here, and what were you doing, and why didn't you think about this, and why wasn't there more activity there, and almost all of them are legitimate questions, but they don't look at what all the other things are that you're dealing with. They don't look at the larger contextual setting.

BERKOWITZ: Right. And we haven't even talked about welfare reform which is threading its way through all this period too.

CHAMPION: No. Classic. No, that was Joe's. One of the reasons I got the 77 Social Security amendments is that Joe had welfare reform, and I'd try to sit in on his meetings on welfare reform, and I particularly tried to help him put together state and local relationships. There was a lot of analytic work and other legislative consulting that was going on. I'd come in when I got a chance, but basically I was doing Social Security amendments and I was doing other stuff. Joe and I tried not to end up having both of us do the same thing all the time.

BERKOWITZ: And presumably welfare reform would have an impact on Medicaid. Right?

CHAMPION: Well, it's true that health care is an element if we have reform, but that was an issue then largely because Carter had said, "No new dollars. You've got to do whatever you do on welfare reform with no new dollars." That's death to real welfare reform, any place, because it involves child care

and better health provision. But the real energy here was with labor and its resistance to the jobs aspect of the President's welfare program. They liked the old thing, what Tom Joe used to call the triple track, which in effect made sure that labor stayed ahead of whatever wage standards or whatever support standards you got fixed in the jobs part of welfare reform. It became a sort of an endless battle of the theorists between labor and HHS which Joe let himself get sucked too much into. And as for the state and local issues over who made what decisions, Joe, in my view, did not go far enough toward Devolution. But I just told him so. I'd do things that Joe disagreed with and he'd say, "That was yours," and sign off. That was the way we'd do business because you just can't afford to, if one person makes all the investment in the time and energy, presumably they ought to end up making the decision, and that's the way we usually did it when there were overriding political concerns.

BERKOWITZ: As for the Teddy thing, I can understand it was a problem for the Carter administration and a problem for national health insurance, but how was that a problem for HCFA?

CHAMPION: Basically HCFA was involved in the formulas to set up the cost control management stuff which was its principal analytic business there for a long time. Actually we could have, and maybe should have, just gone ahead with an executive decision [on health care cost containment]. We were almost sure Congress would immediately come back and club us to death if we did it. But I think the authority did exist there, and we could very well have put something out and forced Congress, in effect, to deal with the issue even if they did us in. But nobody in the White House was friendly to that and I think Joe decided the better part of valor was not to do it. But at the same time we also used a lot of the same people in HCFA to help put together a competitive national health plan. For instance, the President made me chairman of the National Commission for Health Insurance and I got a variety of people and we went around the country looking at what was going on in Medicaid as well as in Medicare, but also all sorts of other aspects of the health delivery systems in the country, municipal hospitals and all the rest. And much of the support stuff came out of HCFA, a lot of the capacity. Karen Davis was the person from the policy shop, that of the Assistant Secretary for Policy and Evaluation. She was Deputy Assistant for Health. And we brought Jim Mongan over from the Senate finance staff.

BERKOWITZ Right. So you're saying that a lot of the analytic capacity for national health insurance came from HCFA, as it must have also from ASPE [Assistant Secretary for Planning and Evaluation].

CHAMPION: Right.

BERKOWITZ: That's what Karen Davis was working on.

CHAMPION: Right.

BERKOWITZ: And, therefore, having them be compromised by Kennedy when you're trying to develop an alternative to Kennedy made it a hard problem. Made the agency less effective?

CHAMPION: Well, it wasn't so much that they were in conflict with Kennedy. It was just that I was using their resources to put together my plan to try to meet the President's requirements for something to have. None of us ever thought anything was going to pass. The only thing we thought we might get through was a possible deal with Russell Long on a catastrophic plan, and we had a long set of hearings when Karen and I were before the Senate Finance committee for days and days.

BERKOWITZ: Russell Long had interest in that particular subject even in 1965?

CHAMPION: That's right. Catastrophic was the love handle in our bill. It turned out that because of that Long interest he'd made some sort of an insurance company arrangement. I think it was Connecticut General, I'm not sure. He turned out not to be not amenable to anything but what they wanted. For a long time he and Joe sort of went back and forth as to whether they might make a compromise here that would get us a minimal national health bill, and I genuinely think he wanted to do it. He would have liked to have it, but he was not willing to pay the price. And I still remember the day we had some insurance company spokesman who had been a witness and Karen and I'd been over there representing the department. Karen was in particularly strong form that day and she could be very sharp. And she asked some beautifully tough questions. I was admiring her performance and after the thing broke up, Russell Long came by and in his characteristic fashion, he said, "Well, Hale, I was listening carefully and I don't think we're going to get any of the health insurance legislation this year." I said I'd convey that information, and so I went back and told Joe and we had another meeting with Russell at which the official rites were said. The last rites.

BERKOWITZ: So that when you didn't get national health insurance one of the rationales for HCFA sort of collapsed there too.

CHAMPION: Well, except that everybody always assumed—I shouldn't say everybody—but most people always assumed we'd still get there some day.

BERKOWITZ: We still assume that, don't we?

CHAMPION: We still assume that. They haven't solved the problem and every time they try to do one of these partial things they end up finding out that you can't do it. You may get to some whole incrementally, but you can't get there willy-nilly. You've got to be working toward this thing and you've got to have the capacity. And you can ask Bruce [Vladek]. My assumption would be that Bruce still assumes that is what he's doing, that what he's about is keeping as good and as logical a base as he can dealing with the laws he's got in order to get to a broader and more comprehensive approach to financing health care in this country. And so my sense is that I guess I wouldn't have done it differently, although I find the results to date not terribly impressive, but I still think they're probably better than we would have had, and that the reorganization was worth it over all.

BERKOWITZ: I think that's a good note on which to end. Thank you very much.

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Interview with Jay Constantine

Alexandria, Virginia on August 24, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: Let me ask you how you got to the Senate.

CONSTANTINE: I'll speed up the story. In late '61 and '62 I was a senior research analyst with the Blue Cross Association. My boss was a gentleman named Harry Becker. We, the research staff, had done a report on health care for the aged which pretty much was supportive of the Medicare proposal. At that time the AMA and AHA were putting the screws to Blue Cross and the Association was going to move to Chicago. The AMA was very influential and Blue Cross was fairly docile, and they were moving to Chicago, as we understood it, so that they could be more under the thumb of AHA and AMA. (When I started, by the way, the AMA and the AHA were probably the strongest lobbies in Washington.) Some of us bailed out.

One fellow went to the New York Academy of Medicine and Harry recommended me to Agnes Brewster—I had written some things that she had read—so I came down and talked to Agnes, who was then at HEW, a wonderful lady and friend. She was a great buddy of Bill Reidy, who was then Staff Director of the Senate Committee on Aging. She sent me over to see Bill, and he said they were preparing for the Medicare debate in '62 and needed someone. The best he could do was guarantee me a sixty-day contract and get me the job of Research Director to do an urgently needed report evaluating the Kerr-Mills program. To make a long story short, I saw the conflict with the Blue Cross Association, gambled, resigned. I was on leave of absence from them to do this for sixty days, and then I resigned after about thirty days. I wrote something called "Performance of the States," with a fair amount of help from Irv Wolkstein who was at Social Security, which was a critique of the Kerr-Mills program. [Senator] McNamara liked it and Reidy liked it and they just put me on the staff permanently.

BERKOWITZ: This was in 1962?

CONSTANTINE: The beginning of '62, right. Then I became the Staff Director of the Subcommittee on Health and we did critiques of Kerr-Mills and private health insurance for the elderly. We did a lot of the pro-Medicare work. Bill had started the Older Americans Act going for McNamara, and then when he left and [Senator George] Smathers took over, I had staff responsibility, but meanwhile I was working with Bill on that as well. But it

was primarily the Medicare fight I was involved with plus the Older Americans Act as a collateral issue.

Then in December of '65 Smathers, who was then Chairman of the Aging Committee, recommended me to Long to watchdog the new Medicare-Medicaid programs. Russell Long, Finance Chairman, was then also the majority leader. I went over to his office to be interviewed by him [chuckling], spent five hours sitting there next to him, and I think we talked for about ten minutes because he was on the phone, and he was raising hell with the Secretary of the Treasury about mortgage rates going up to 5% and what this was going to do to his daughter who had just gotten married.

Anyway, Senator Anderson was very pleased about my move to Finance and started sending me memoranda—which I have—we exchanged stuff on the new program. I was to help hold hearings right away and that kind of thing. As a matter of fact, in April I prepared a report—which really pissed Wilbur [Cohen] off—and the committee held a closed hearing on the proposed reimbursement guidelines for Medicare. Had a lot of problems, including advance payment to hospitals, which we said was against the law. They were going to depreciate Hill-Burton payments, which we said was double dipping, and they were going to give them cost plus two percent. Social Security's Chief Actuary, Bob Myers, testified that that would have, before the program started, thrown it into actuarial imbalance. [Robert] Ball did not want to give me the HIBAC minutes to review and [Senator Paul] Douglas raised hell with him on that at the hearing. We went through the two percent plus step, and they said it was because of imprecision in cost finding that the hospitals said that they had to have that.

I'm outside the hearing room with Anderson and Wilbur Cohen, and Wilbur's pissed at me because he knows that the staff precipitated this thing. Myers testified in support of our criticism. Wilbur said they had to do it. He said there were hospitals that said that they wouldn't participate in the program if they didn't get the two percent. Anderson said, "How many hospitals?" And Wilbur said, "Three or four hundred." So Anderson said, "Wilbur, we told people to go to hell before. Jay, can we do anything about it?" and I said, "Yes, sir." He said, "What can we do?" I said, "Well you can simply say that an institution, a hospital, which directly or indirectly boycotts patients of programs established under Titles 18 and 19 shall be ineligible for 501C-3 tax status." Wilbur's glaring at me and pissed and Anderson says, "Write it up." You don't have that kind of stuff in your book. It was from that point on, that is the onset of Medicare and Medicaid, that we started getting reports on the new program, that all hell was breaking loose. The trouble was it was anecdotal. The data weren't there. Remember I'm one guy at that point. The Finance Committee had one staff member under Harry Byrd, one

telephone line. Russell Long put in six to the committee. I'm getting these reports, and Bill [Fullerton] was then at the Congressional Research Service. Bill and I were really good buddies. We're getting this stuff, and he was concerned. There were some Program Integrity people also helping us—once again, it's anecdotal stuff—and Senators Anderson and Ribicoff became particularly concerned. But again, it was still anecdotal. Around '67 or '68 we were really starting to get some solid stuff. I told Senator John Williams of Delaware about it. He was very suspicious of me at first. He thought I was going to be pushing liberal stuff. I'll never forget what he told me though. He said, "If you do your job right, you won't have any friends." And there's a lot of truth to that, because sooner or later you take on every group, everyone. So we had enough core information. He introduced a resolution in the committee, unanimously adopted, directing the staff to undertake an investigation and report on the operations of the new programs. I asked the Library and they had Bill assigned to the project full-time. And it was an absolute partnership. Don't let me misstate this. What happened then is we found a small room and Bill and I outlined a report, designed the report, came up with questionnaires. No one had any data before. We spent a year developing and writing the report. I don't know whether you've ever seen this. It's the best thing we ever did.

BERKOWITZ: This is a report called "Medicare and Medicaid: Problems, Issues and Alternatives" that was published in 1970.

CONSTANTINE: I did the section on physician payments. We compared what Medicare was paying with what Blue Cross and Blue Shield was paying under their most widely held contracts. We went to the doctors' payments. We devised the questionnaires as to who was getting what. There were two days of hearings on our preliminary report in 1969. They wanted to know what we were finding because we were really finding a lot of crap at that point. Then this was issued in February of '70. Ball tried to kill it. He sent Alvin David, who was his flunky, around to Senators' offices. We heard about it. Then I got a call from Nelson Cruikshank saying, "This is terrible. You guys are trying to kill Medicare. What are you doing?" I said, "Nelson, you're full of crap." I said, "Ball called you. You haven't even read the damn thing," and you can quote me on this. I said, "If you'd read it, you'd find that Bill and I were trying to save the program by describing the problems and offering solutions. In every case where we found a problem, we proposed an alternative approach. You guys just want blank checks."

The committee then had ten or eleven days of hearings—people don't do that any more—including witnesses from the new administration. Jack Veneman [Under Secretary of HEW for Richard Nixon] testified and Senators asked him, "The staff says all this and this," and he said, "I agree." That's in

the transcript. Right after this report came out, almost within a week or two, Bill was then hired by Ways and Means as my counterpart. I was the professional staff member for the Health programs. Against that background we had both committees going. Mills had read this report. As a matter of fact, Bill made sure that every member of Ways and Means saw it.

In April of '70 I was able to hire Jim Mongan, probably the best thing I ever did in health care. He was a young Public Health Service doc in Denver, he was very interested in what we were doing, and he got in touch with somebody and said that he was interested in working with us. He was going to finish his Public Health Service obligation and then would be interested in this. He came in and we talked and we really hit it off. I went to the Chief Counsel and the upshot of it was that I was able to hire Jim to work with me. He later went over to Califano in '77 as his Special Assistant for National Health Insurance, then became Associate Director of the Domestic Council, then Dean of the Medical School at the University of Missouri and head of the University of Missouri Hospitals where he is now. He was offered the job of Assistant Secretary of Health under Clinton which he declined. Anyway, he did work with me on the amendments deriving from the 1970 staff report. We had a lot of Amendments in HR17550, the Social Security Amendments of 1970, which never was enacted. Ultimately almost all of this was enacted in 1972 as part of HR1, almost everything we recommended.

What you've got to understand is that we may be a nation of laws, but we're not a nation of administered laws. There's a big difference. But I think you'll see that a lot of this has come around again. As a matter of fact, I was just looking at two reports I did for the Aging Committee on the Kerr-Mills program which I recently gave to Roy Ranthum, a health professional on the Finance Committee. Roy was interested because I pointed out all the problems we had found in the state administration of Kerr-Mills. One of the first things we did in 1967 when I was with Finance was to adopt much of Senator Moss' nursing home legislation which included applying the life safety code of the National Fire Protection Association. Later the staff pushed to require a skilled nursing facility to have an RN. As to the proposed block grants, what we used to call revenue sharing, for Medicaid, putting aside eligibility requirements, what the hell happens to core requirements such as the Life Safety Code? What's going to happen to the Family Responsibility provisions—which are very important—that are excluded under Medicaid now? That was one of the recommendations we had made in 1965 which Wilbur Mills took, and it's going to come back to haunt people if its repealed with nursing home costs now at thirty and forty thousand a year.

We were almost from Medicaid's inception unhappy with the Social Rehabilitation Service in HEW which had the responsibility of administering

Medicaid. And they had a doc who was, we strongly felt, an incompetent, as well as a loose cannon Medical Assistance Advisory Council. Karen Nelson was over there then and she can tell you about that.

Now I'll start getting to HCFA. Here's a memo from the two of us—myself and Jim Mongan—dated February 20, 1974, "Policy and Administration of Medicare." Apart from the interplay between Medicaid and Medicare on the issue of relative administrative capacity, there was also the vying by the Assistant Secretary of Health, Charlie Edwards, and Henry Simmons, his deputy, (who's still around) to control the health care financing programs. Medicare, in particular, was making what, to my mind, was very effective and significant positive health policy using the financing as the leverage. As an example—this is an aside—in '65 the psych hospitals wanted to be covered by Medicare. A lot of the state hospitals were just warehouses, as you know. The price we got was to say, "OK, you meet accreditation requirements and you can get paid." That's what I mean by the upgrading effect, the tail wagging the dog. So you had that policy issue as well, and that's a constant, between the Assistant Secretary of Health trying to control, because the real clout in health programs was with the financing program.

The other aspect of it, and particularly with Medicare, was that it didn't have to go through the annual appropriations process. The same committees, and that was where the clout came in, that authorized the spending also raised the money through the taxes, Finance and Ways and Means. And that was very key. It also made you somewhat more responsible, too. Someone you ought to talk to also is Tom Dowdal who is at HCFA in Baltimore. He's actually heads up the GAO unit now. Tom was then the number two guy to a fellow named Bob Iffert who was the head of the health unit at GAO. I went to Bob's retirement party about ten years ago, and he told in his speech that what happened was that Bob and Tom and some other guys had just started on these new programs and were very helpful to us and really learning, but they were about to be rotated out. (GAO had an every-three-year rotation policy.) So I went to Long and John Williams, the ranking minority member, and said, "Senators, just when they're starting to get on top of this, they're moving them out." So they wrote to the Comptroller General, and they kept Iffert and those guys, and they were never able to move out of that. But it did make sense to keep their expertise. It's a little bit like the U. S. Attorneys. We tried to get help for them. I did a lot of the anti-fraud stuff over the years. Candidly they would say, "It takes at least 200 man-hours to develop a health case. We don't have the manpower. It's as simple as that." It was similar to the expertise requirements at GAO. We used those guys as our legs, and they went out on fraud investigations with us in Illinois and elsewhere. And that leads to this [paper], "Improvements Needed in

Medicaid Program Management Including Investigations of Suspected Fraud and Abuse." We went out to Illinois in April 1975.

BERKOWITZ: This particular report says "Report to the Subcommittee on Health." When did the subcommittee start?

CONSTANTINE: I think maybe about '74.

BERKOWITZ: So before 1974 you were dealing with the whole committee?

CONSTANTINE: We did both. I was chief of the health staff for the full committee after we started getting people, Chief of the Health Professional Staff. But we also had the subcommittee on health. We served the full committee and the subcommittee, but primarily we worked with the subcommittee. The way the subcommittee worked was that any members of the full Committee who wanted to sit in could sit in whenever we held hearings.

BERKOWITZ: But by 1975 at least Herman Talmadge was there?

CONSTANTINE: Oh, yes, and he was magnificent. He was the first head of the subcommittee and was chairman of it until I retired.

BERKOWITZ: Essentially you had two bosses then. How did you coordinate that?

CONSTANTINE: Not really because Long deferred to Talmadge on virtually all the health stuff.

BERKOWITZ: How did Talmadge get that brief? Do you know?

CONSTANTINE: I don't know. He was senior and he wanted it and he was superb. John Kern and Bob Hoyer will confirm this and they are both still in town. We had access to Talmadge at any time, and he would almost always do what we recommended. He trusted us and he said, "You want me to take my chairman on?" for example on the issue of for-profit home health agencies. Do you think it's that significant?" We said, "Yes, sir," so he did. That kind of thing—he took on the radiologists, pathologists, all of them. When he lost we had a three-hour session with him, and I told him, "Senator, I'm damn glad you lost by 27,000 votes and not the 10,000 votes we cost you in Georgia." Because he took those constituent groups on, and it was incredible.

BERKOWITZ: I know he started in 1956 because he beat Senator George in '56, and he lasted until when?

CONSTANTINE: He lost in 1980.

BERKOWITZ: That's a long run. So by 1975 he had considerable seniority.

CONSTANTINE: Oh, yes. He was also chairman of the Agriculture Committee. Now here's a 1977 report to GAO, "Investigations of Medicare Improvements Needed." We also used this through the anti-fraud amendments of 1977, the Talmadge-Dole bill which was enacted. We did a lot of work with Senator Dole. Now here we go to Medicaid.

BERKOWITZ: "Medicare and Medicaid fraud and abuse investigations were not well-coordinated," it says.

CONSTANTINE: Here's kind of a fun thing. This is a "panic memo from Califano."

BERKOWITZ: Now we're getting into the Carter era. This is a letter from Joseph Califano to Senator Long dated August 5, 1977.

CONSTANTINE: It relates to financing and quality assurance. He's opposing this amendment to remove the Assistant Secretary for Health from the process of delegating health policy and give it to the Health Care Financing Administration. Here's my draft of that amendment which was adopted but not enacted in 1977. It would have had the Secretary exclusively assign responsibility to HCFA rather than to the Assistant Secretary.

BERKOWITZ: That brings me to the genesis of HCFA.

CONSTANTINE: "It was a dark and stormy night." After we saw what happened in Illinois, I went to Tierney [Thomas Tierney]. Medicare investigators were finding a lot of horseshit in nursing homes. There was no coordination, no information forwarding to Medicaid. They didn't tell Medicaid anything. So we got upset about it and sort of forced it. Then there was a report and indeed they did find a lot of junk in Medicaid. That was the final straw. We were very unhappy with the SRS types. Karen Nelson, who had come out of Medicaid and was and is an extremely competent professional, had an allegiance to that program. As an aside, she was always very much afraid of our criticism of Medicaid because her concern was their vulnerability in Russell Long's words as tax eaters, not tax payers. The legislatures would not hesitate to cut those programs. There's some validity to that. If you had evidence of fraud and problems, she was reluctant to really raise hell about that, but she did say, with some validity, that our relationships (notably mine) were essentially with the Medicare people. And I said, "That's true." I think Social Security was regarded as the premier administrative agency in the federal government. They used to have four and five applicants for every

job. It's deteriorated enormously, but it's still relatively competent. A lot of the critical information and background we had over the years was given to us by people within the Bureau of Health Insurance. I was tipped off, for example, on the teaching hospital rip-offs by people at BHI who just couldn't do anything about it. We insulated them from that and then we proceeded.

BERKOWITZ: Teaching hospitals were getting too much? Filing false claims, or inflating their claims?

CONSTANTINE: Yes, we had a major investigation. Cook County Hospital was the kickoff and then we had them all over and I asked GAO to go in. We had reports on seven hospitals. What they would use would be health staff who were being paid salaries on a costs basis, but the bills would come in under Part B in some doc's name, by teaching physicians. So they'd clean up. As a matter of fact, I got an anonymous letter from somebody who said, "You really ought to look at King's County [New York] Hospital," so I called Bob Iffert, then head of GAO's health unit, and he said, "All right. We'll include them in our random sample"! And we got $750,000 back from them, as I recall. Anyway, she [Karen Nelson] said that about our primary focus in Medicare.

She started us thinking more and more. At that point we were doing the Medicare/Medicaid Reimbursement Administrative Reform Bill. It sort of burgeoned and we started adding amendments to it for Senator Talmadge. The sponsorship was Talmadge, Dole, Ribicoff—we had heavy hitters on there. As we looked at this thing, we were becoming more and more disgusted with the SRS types. We also were upset with Medicare's almost cavalier attitude toward Medicaid. We had responsibility for both programs, but there was a superior attitude, and that bothered me. Medicare didn't know a damn thing about Medicaid and they didn't want to know. And the Medicaid guys knew nothing about Medicare to speak of, even though there were a lot of dual-eligibles. At that time we had been kicking national health insurance around, working on that as a separate thing.

Research and statistics, data processing and program integrity, those are the things that we saw as feasible areas of initial coordination and operation between Medicare and Medicaid. We said that anything else would probably have to wait simply because one is a federal/state and the other is a federal program, a nationalized program or federalized Medicaid. But that was about as much as you could do, however, the people could be interchangeable between the programs and would be familiar with both.

Glenn Marcus, John Kern, Bob Hoyer and I were in an executive committee room working on this thing—Glenn was then in the Congressional Research Service—and we tried to think of a name for this thing. I guess I came up

with Health Care Financing Administration ultimately. But someone suggested the Central Insurance Agency, and then, "How about the Federal Bureau of Insurance?" This is in late '76 and early '77.

BERKOWITZ: The administration moved on HCFA in March of 1977.

CONSTANTINE: Yes. Califano called me—we had had the bill in—and said, "Jay, Carter was talking about reinventing government and this is going to be a great administrative initiative. I'm going to do this administratively." So he went ahead and set it up, and it was a disaster from the beginning. He set up a task force to do the new agency and it was dominated by the SRS types. Now SRS was being terminated, and this was the discredited bureaucracy that was now put in charge of setting up this new agency. Tierney was hemorrhaging and we just couldn't believe it.

BERKOWITZ: But did you know about it? I thought it was a secret.

CONSTANTINE: We found out. We had people tip us off.

BERKOWITZ: You found out even at the time? They started this task force in January of 1977 and they finished by March.

CONSTANTINE: No, we didn't know it then. He called me.

BERKOWITZ: He called you in January or in March?

CONSTANTINE: We didn't know about it when they were first set up. We found out about it in between January and March while they were still working.

BERKOWITZ: And he called you.

CONSTANTINE: He called me to tell me that they were going to do it administratively, set up HCFA. He didn't tell me about the task force or anything of that sort. He was just very pleased with himself. Then we started getting stories, and I asked GAO to go in. Don't hold me to the exact numbers because you can get that out of the hearing if you've got a transcript of that subcommittee hearing. These bastards at SRS, there were 21 or 22 supergrades in the entities being consolidated, and they had proposed something like 48 supergrades in the new HCFA. I went to Talmadge and said, "Jesus, Senator, in a consolidation two and two is four or less, not eight." He said, "Set up a hearing." We asked GAO to go in and they confirmed all of this. Then we embarrassed the hell out of them and they cut it way back. That was number one. But they still had a lot of these guys in key roles who came out of the Medicaid side. What we really wanted to do, and Karen understood that, was to bring the Medicare expertise to the

Medicaid side. It was as simple as that. The expertise and the concern. Califano tried to save the world. He did not understand. I got a call from Joe Alsop because we were critical of this crap. Alsop was in Califano's car pool. I guess Califano was whining to him [Alsop] that I was out to get him [Califano]. I said, "You can just check my record. We're critical of everyone. We hate everyone regardless of race, creed, color, or place of national origin. Everyone is accountable here."

Califano is a brilliant guy. He's great at understanding problems, but I think he wants the publicity more than anything. He doesn't want to spend a year to really do something right. He believes in progress by press release. What he's doing here is a disaster because he wants everything done at once instead of an orderly assumption of responsibility and consolidation. If you see that they can do more than I've just described in this structure, you tell us. Because we tried to visualize what a consolidated entity could do. Program integrity, research and statistics, and a coordinated automated data system, and that was all we could see, given the nature of the beast. That was it. That's how it happened. The rest was just like Topsy.

Periodically we'd raise hell with an administrator, but generally we were cooperative. Len hired Jack Ebeler. Len hired Dick Heim as head of Medicaid within that framework. He was the Commissioner of Health and Welfare in new Mexico, but he had been Senator Anderson's administrative assistant. Bill Fullerton went over as Assistant Administrator of HCFA. That was about it. They can tell you stories on the internal side which really we were not involved with. Our concern was really functional. We didn't want to micro-administer the thing, although we had a lot of contacts about the horseshit going on over there. By and large we were supportive. We wanted to protect them from the health types. It was a turf battle. Charlie Edwards and Simmons were empire building. We saw this ultimately—and the committee understood that—as a vehicle. That was why we were supportive of HCFA. No matter what you do, whatever expansions or consolidation you do, you at least want coordination. We also required that there be consolidated reporting requirements for both programs to the maximum extent possible. Those kinds of administrative things which are designed to moderate bureaucratic delay, moderate expense reasonably without suffering qualitatively. It was just a common sense approach. We wanted people who were administering programs to know both programs.

BERKOWITZ: Was Talmadge much annoyed that his project of combining Medicare and Medicaid was essentially taken over by Joseph Califano without any attribution?

CONSTANTINE: Oh, not really. That wasn't going to make or break him. He made speeches saying he was very pleased that they had recognized this

and proceeded with it. I'm not sure we could have done anything with it if it had been enacted.

BERKOWITZ: That's what I was going to ask you.

CONSTANTINE: If it had been enacted, the same thing would have happened. You can't administer it. Califano could have done exactly the same thing once it had been enacted. He just would have had a legislative basis for it.

BERKOWITZ: It might have caused a lot of flak too, perhaps.

CONSTANTINE: It wouldn't have caused any more or any less than occurred. The flak was really internal. It was really hard to gin people up about it, because Derzon was very unhappy with the pressure on him. Tierney was unhappy with the way things were going. The SRS guys were very happy—until they died out. And the irony of it is that a couple of years ago during the Bush administration someone said, "Now we have to have more focus on poor people," so they set up a separate Medicaid administrative unit to achieve the objective. I had lunch with Karen, and I said, "You see?" She was then Chief of Staff for Waxman. "It's just come full circle." In sum the genesis of HCFA was really a few guys talking and a cumulative sense of inadequacy in the medical assistance administration.

BERKOWITZ: What was the relationship between these conversations in Congress and what Califano and Carter did? None?

CONSTANTINE: Joe Onek came around. When Carter was elected he had a transition team. Joe was a lawyer and had been down in Atlanta. He came around and we had long talks about this thing. They knew all about this and Califano knew about it. He, Califano, in my opinion, was sucking. He wanted to do something dramatic because Carter had called for it.

BERKOWITZ: Let me ask you what your relationship was with Califano. Were you interested in working in his department?

CONSTANTINE: Yes and no. You're going to hear different stories about this. In 1970 Senator John Williams, after all of this hell was breaking loose, all the fraud, came to the office and said, "Jay, what Medicare needs is an Inspector General." I did the Inspector General's job for AID [Agency for International Development]. That was his and it had been very successful. He said, "Draft it up." So we drafted it, but John Williams was the spur and sponsor. And it was passed by the Finance Committee and then dropped in conference in '72. I've forgotten why. It was reintroduced in each bill, and in '76 the Government Affairs people were setting it up on the House side for

HEW and the other agencies as well. So we talked about the six-year appointment. We wanted it to be a Presidential appointment.

BERKOWITZ: The Government Affairs Committee on the Senate side was Ribicoff's committee by 1976 and he had been Secretary of HEW.

CONSTANTINE: That's right. But it was essentially the House side that was pushing, House Government Affairs. At that point Talmadge talked to me about whether I would be interested in being Inspector General. Carter had just been elected. I said, "Yes, I'd be interested." So he wrote a letter to Carter, "Dear Jimmy," and I got a letter back from Carter and he had sent it to Ham Jordan, and then Ribicoff wrote to Carter. And Jim Eastland who was Chairman of the Judiciary Committee and Russell Long, four committee chairmen recommended me.

BERKOWITZ: Maybe we should mention that Talmadge was not just a committee chairman, but he was from Carter's home state.

CONSTANTINE: Yes, and was an old buddy of Carter. Carter knew me. We had been on a panel together in Georgia. But, understandably, Califano obviously didn't want to have anything to do with me. The interesting thing about all of these I.G.s [Inspectors General] is that the concept was that they be a presidential appointee who was independent of the Secretary. Could work with him, but independent within the department because otherwise essentially what you had was what HEW had previously, the comptroller who did those kinds of things. Well, they reversed us once again. The secretary picked who was going to monitor his department. And he picked—I've forgotten the name—a seventy-year old retired gentleman from GAO, nice enough. But he didn't want anything to do with me. Then when we started criticizing the structure of HCFA, that's when Alsop said, "Califano says this is sour grapes on your part." I said, "Bullshit. I've got a better job over here. The other would have been fun, but..." Then I went into the substance of this thing, and he never wrote anything, never did anything about it. Ribicoff called Califano and said, "I think you better talk to Jay." So Califano called me again and invited me over to his office about 5:30 one evening.

We were there talking for a couple of hours. I said, "Look, Joe, if this is a stroking exercise, forget it, because I can understand why you don't want me here. I can really understand it. You do your thing and we'll do ours. I'm going to do you one big favor. You're going to fall on your ass here because the bureaucracy is going to dominate you because you don't know which GS 12s are making the policy and making the decisions. I'm going to recommend three people to you who are not beholden to me, and for whom I have a great deal of respect and who will do a hell of a job for you." I

recommended Bill Fullerton to him, Irv Wolkstein and Mongan because Jim was twitching. He'd had seven lean years with me. And, by God, he did hire them except for Wolkstein who declined an offer from Califano. But I meant what I said. Fullerton knew the health bureaucracy very well. He had hired a lot of those people, and he knew who was making the decisions. He was also very loyal, almost too loyal at times. That was the upshot of the Inspector General business. Later, when Reagan became President, Congressman George O'Brien of Illinois, a prominent Republican, recommended me to Reagan, and the word came back, "He's unacceptable because [I happened to be a Democrat] he has insulted Mrs. Reagan." I told the fellow at the White House, "I wouldn't know Mrs. Reagan if she bit me on the ass." It turned out that she was on a nursing home chain board, Beverly Enterprises, and we had worked them over.

BERKOWITZ: How long did you stay at the Senate Finance Committee?

CONSTANTINE: Fifteen years. I left in January of '81 on early retirement.

BERKOWITZ: So you also got to observe the effort at hospital cost containment?

CONSTANTINE: Oh, yes. The guys who were there worked for me, Hoyer and Kern. In '81 I worked for the governors to help beat Reagan on his cutbacks in Medicaid. Governor Busbee of Georgia was then head of the governors' association. I did a fair amount of pro bono work with House and Senate over the years, Pete Stark and Dole. I recommended Sheila Burke to Dole in '77. He asked me because he needed someone who could work with us and did I know anyone. I said, "What do you want, male, female, black, white, Democrat, Republican?" And he said, "I really don't care. I just want someone good." Sheila was then with the Student Nurses in New York as their Legislative Director. She said she didn't know shit about any of this stuff, and I said, "We'll help you." So she came down and we talked and I took her over to see Dole. It went reasonably well and she got the job finally. Ultimately over the years she married his former administrative assistant and is now Chief of Staff and getting a lot of crap from the ultra-right, as you may have seen in the paper.

BERKOWITZ: Let me ask you one last question. Did it make any difference at all that HCFA was created in terms of subsequent health care politics?

CONSTANTINE: Yes, I think it did. Number one, you had a vehicle for policy coordination. In the 1972 amendments we recommended to the committee—and I've got all the Committee "Blue Books," confidential discussions by problem, issue, alternative—you'll notice on nursing homes we recommended uniform standards. We were pushing in that direction. And

I think the concept of HCFA has helped. I think that there has been a fair amount of integration. I think the program integrity operations have improved to some extent. I think the data processing and the data gathering have improved. When they talk about federal programs they talk about the two programs. Now I think with block grants it isn't going to be that way any more. People forget that we had a Long-Ribicoff-Talmadge-Dole bill in '77 which had catastrophic health insurance, a federalized Medicaid, and standards for private health insurance. People forget that a lot of this stuff was in the mill before. And in that context something like HCFA would have been important. If any of the Clinton things go through, it will be important.

In any kind of national program you still need a focal point and a coordinating point. I think the vouchers for health coverage—I've done a paper on that—would be a total disaster. An absolute fund breaker, the end of any effective anti-fraud activity because it would be so fragmented.

BERKOWITZ: Are you talking about vouchers for Medicaid?

CONSTANTINE: Medicare. We've seen the vouchers for Medicaid. I've got reports on what happened in California with the HMOs. These guys are hustling people, "Here's a hundred bucks. Sign up with us." It is an absolute disaster. If you really want to shove it to Gingrich on block grants to the states: "Mr. Speaker, in the Contract with America you talked about open government here and we've acted to require full disclosure and tight limits on expenditures by lobbyists here in Washington. But, if you think that this is a problem here, you ought to see the state legislatures in terms of lobbying activities. Wouldn't it then be fair to require that before a state get a blank check from the federal government, that it have lobbying restrictions at least consistent with or tighter than the federal requirements?" Because I've dealt with state lobbying. It is a bitch. It's infinitely more entwined and concealed.

BERKOWITZ: All right. Thank you very much.

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Telephone Interview with Rick Cotton

New York on October 4, 1996
Interviewed by Edward Berkowitz

BERKOWITZ: You have a brilliant resume and were in a lot of prominent places, both educationally and occupationally. What made you go to HEW in 1977? Who was it that brought you in? What was the appeal?

COTTON: The appeal generally was a focus that I had had, I guess through college, law school and certainly the years that preceded HEW, on public policy and the role that government, in my view, could play in achieving change. My particular interest had always been on the domestic side. Just prior—to go back between law school and my time in the federal government—I had spent two years in the government clerking for two judges in Washington. After that I had worked as a lawyer for the legal services program, then taught law for a year, and then worked for two and a half years for an environmental law organization. All of those experiences were very much focused on public policy issues. With Jimmy Carter winning the '76 election, I really became quite focused on the possibility of working in the new administration. The specific focus on health and on what was then the Department of HEW came from the work that I had done in the environmental movement, because it really seemed to me that after you spent some time working on environmental cases that much of the concern on the environmental side in fact was derived from concerns about human health. So I had begun to become quite interested in the relationship between environmental concerns and concerns about pollution and their relationship to health, and that led me to explore the possibility of working at HEW. I had not known Joe Califano, who was the Secretary designate, but I did know the lawyer that he had named as his soon-to-be executive assistant, Ben Heineman, and it was through Ben that I wound up talking to Califano about a possible job.

BERKOWITZ: How did you know Ben Heineman?

COTTON: From college.

BERKOWITZ: Therefore, when it was announced that Califano would be the Secretary—this was around Christmas time in 1976—and that Heineman would work for him, did you contact Heineman? Were you in the mode of thinking about moving to Washington and looking around actively?

COTTON: Yes, very much so. I called Ben and asked him if there were any jobs that I could talk to Califano about.

BERKOWITZ: Can you reconstruct what your thoughts about Califano were? You knew he had worked for Johnson and was a lawyer. Had you any other impressions of him?

COTTON: They were all at quite a distance, but he certainly had a reputation of being someone who was a skilled Washington insider and who had been involved in many of the major social policy decisions of the Johnson years and, therefore, it seemed to me that it raised the possibility of his being a very strong activist, and therefore interesting, Secretary at HEW.

BERKOWITZ: When did you get to Washington? What was your sense of what you were going to do? Did you know that you were going to have a health portfolio, or did you think that you would get there and sort out the various tasks? What was your sense of that?

COTTON: Originally I signed on in a somewhat undefined Special Assistant capacity to Califano. In fact—to finish the story of how I came to go to work there—Ben put me in touch with Jim Gaither who was doing the recruiting for Califano. Ben said that because he, Ben, and I had been friends, he felt it wasn't sensible for him to be involved in the interviewing and recruiting process. So before I saw Califano, I saw Jim Gaither, who was his primary recruiter. Then I met and talked to Hale Champion who by that point had been chosen by Califano as the Undersecretary designate. I saw Califano after having interviewed first Gaither and then Champion. Califano and I had a long, and I thought very animated, conversation, and he brought it to a conclusion by saying that Gaither was a very strong proponent of hiring me and that Champion (who, I should say parenthetically, was well known as being a skeptic about lawyers—Hale had clearly had his fill of talking to lawyers) was not in favor of having another lawyer around.

Califano said that he, Califano, hadn't really made up his mind and wasn't quite sure what to do. He said, "Why don't you come for thirty days and you'll see what you think, and I'll see what I think, and we'll decide then." I was sitting in Califano's office—this was actually the Tuesday before the Inauguration and with the new administration scheduled to start on Friday—and I said that I thought that since I had a full-time job in San Francisco, I thought that was the most outrageous proposal I had ever heard. I don't quite know what possessed me, but I started on a sentence to say if that was how he felt, I'd have to go back and think about it, and I stopped mid-sentence and said yes. I flew home literally that afternoon—I'd been arguing a case in court the preceding Monday and had stayed over a day to see Califano—and notified my employer that I was leaving on 48 hours notice, packed up my apartment, notified the moving people, and took the red eye back and started work on the first day of the new administration on Friday.

BERKOWITZ: And when you got there you saw a situation in which there was Champion and so on, but you haven't mentioned Fred Bohen. Was he in the picture as soon as you got there?

COTTON: I hadn't met him as part of the interviewing process, but he was there the first day. I met him and he and I actually wound up, as we both tried to sort out living arrangements, sharing a temporary apartment for a couple of weeks until each of us got our own place. He and I very quickly became good working colleagues and we wound up having a number of projects in those early days that we worked on together, on what was then an around-the-clock crash basis as everyone tried to get a handle on the breadth of the issues that come to the Secretary's office. I had a broad variety of projects in those first few months and Fred, who came in as head of the office called the Executive Secretariat, was figuring out how to staff that office and eventually came to me with a proposal that I become one of two deputies in that office. And I told him that if the portfolio of the deputy he was talking about was the health portfolio, I would be very interested. He agreed to that. I became one of two deputies to him in the Executive Secretariat.

BERKOWITZ: During that very period of time when you were trying to get everything initiated, there was a sort of crash reorganization of the department. Were you aware of that as you were trying to get up to speed? Was that one of the things that was in your consciousness?

COTTON: The answer is that it was treated as an extremely top secret, need to know basis, so I guess I was aware that it was going on, but I was not involved in the discussions of the specifics of the virtues of putting Medicare and Medicaid together and then the specifics of how the reorganization would work. The small circle of people right around Califano was certainly aware of the fact that he was preparing a reorganization plan, but he brought in Tom Morris as the person to drive that. I still remember that he used the Department of Defense chart makers—in secret so that this would not become a matter of enormous rumor and part of the gossip mill at HEW. So, probably two things I was aware of at the time were that Califano was working on a reorganization that was being held very, very closely, and that one of the key elements of the discussion was, in terms of running the department and developing coherent health care reimbursement policies—that the notion that you could have these two organizations running independently of one another and coming up with different policies that weren't consistent simply didn't make any sense. At the time, in terms of the traditional ways of thinking about the portfolio of HEW, it was an extraordinarily radical proposition. But the framework in which I would put that—and I remember this vividly from the early days because I frequently

was involved in some of both the policy meetings and speech making that Califano was doing back then—the other initiative that was going forward on a crash basis was the effort to develop hospital cost containment effort. I remember some of the early speeches that Califano made where he said that if there were not a serious cost containment effort, we were going to be faced with a situation where more than ten percent of what was then called the GNP would be being spent on health care. That was denounced by the then internal gurus of the department as the height of irresponsibility to suggest, that we would ever hit the ten percent.

BERKOWITZ: Preposterous idea.

COTTON: Completely. And the notion that a senior government official would give voice to it—! The framework here is that Califano came to the health issues—both in terms of cost containment and a number of the policy issues in disease prevention and other arenas—with an enormous amount of passion, which is his wont. The context of this was so at odds with the thinking that was then imbedded in the government processes that it's hard to overstate the degree of controversy and intense criticism that he was receiving internally—internally in terms of what was then the conventional way of thinking, and even externally in terms of many, many interest groups and Congressional figures who had vested interests in things staying the way they were.

BERKOWITZ: Let's talk a little bit about people then. As you picked up this health portfolio and got to meet some of these folks, were you involved in trying to actually, deal with people like Tom Tierney, the old head of the Medicare, and some of the people from the SRS which had Medicaid? Were you involved in particular in trying to pick a head for HCFA, in that sort of personnel politics?

COTTON: No. Again, in the really early months I was very episodically involved in the health care issues. I think it was June when I made the move to the Executive Secretariat where my portfolio really became exclusively the health matters. Jim Gaither was absolutely the focal point of the personnel discussions, and I very rarely got involved in those other than—well, all of this was so controversial and the reorganization obviously threw an enormous amount of existing assignments up in the air, so certainly these developments were looked at with a great deal of interest by a lot of people. But I was not part of those discussions.

BERKOWITZ: So then by June 1977, when you got the health care portfolio, Robert Derzon was already chosen as the head of HCFA. Presumably you start to work with him? On what sorts of issues, trying to create this new agency, perhaps implement...?

COTTON: I worked in the office of the Secretary, so my role was, to the extent that Califano was going to get involved in issues, to be sure that they were well staffed-out in terms of the views that were reaching him, not just the views of necessarily of a person proposing a decision, but that everybody within the organization had had an opportunity to think about it and either in writing or in person to have voiced their view as to whether a particular decision or course of action made sense. In terms of the issues that Derzon was struggling with, I would intersect with him at the point at which he would be bringing a decision or something which was specifically intended to be decided by either Champion or Califano. So what I would see in those, and I would frequently be in meetings where the discussions were: was the pace of change fast enough? what were the conflicts? how did you resolve the conflicts? The statutory authorizations of these two programs were very, very different, so in terms of putting them together the problems were enormous. The list didn't stop—inconsistent legal provisions, very different histories of the organizations, very different modes of administration—one being administered federally, one by the states—a history of inconsistent regulations and guidelines, obviously totally duplicative organizations in terms of different people doing the same thing—so that the discussion points with Califano became an enormous list of difficulties with putting the organizations together.

How did you make progress? That was the relentless set of discussions between Derzon, Califano and Champion. The role that I personally played was as part of an office of professionals which was intended to staff carefully and well the decisions that were coming to Califano. So to the extent Derzon would say he was struggling with, say, inconsistent statutory provisions, my role would be to be sure that the General Counsel's office had looked at that and really agreed that there was a legal issue, that this wasn't something that some part of the organization had invented because they were against change, to be sure the Legislative Affairs office had had a chance to voice any views of key members of Congress—again, so Califano would know exactly what land mines there were—he was not one who was afraid of setting off land mines—but the goal was not to set them off inadvertently. So we'd be sure that the legislative people understood the direction and what particular decision was up. There was a very important office of Planning and Evaluation, which at that point was under Henry Aaron and Karen Davis, so you'd be sure that they understood and had the opportunity to voice their views. The role of my office was to try to be sure that both views and issues were surfaced, so that at the point at which you got to Califano you didn't have a lot of people standing around debating the question of was there a legal problem or wasn't there. The decisions he [Califano] was making were the hard decisions of what he wanted to do,

with a lot of the underbrush having been cleared away and being sure that all of the problems with any particular course of action had been surfaced.

BERKOWITZ: In other words this was the effort to really make the Office of the Secretary work, as opposed to being a subsidiary of the Social Security Administration or the Public Health Service. This was going to be a way of seeing across the department?

COTTON: Yes. That's the role of the Secretariat. It wasn't so much being involved with Derzon as he grappled with those problems in the first instance. I would say that the absolute dynamic of those early months, in fact the entire time that Derzon was in that position, was Califano and Champion saying, "Faster," as against—sometimes for good reasons and sometimes for not-so-good reasons—the organizations saying, "We can't move faster. There are problems." In terms of surfacing those issues to Califano and to Champion was to get underneath the problems and try to understand whether they were real and whether there were ways around them. But it was always a staffing function, it was this coordination function of letting everyone express their view to Califano or Champion as to whether there were legitimate reasons not to move faster or whether the possibility to move faster existed and what was really being surfaced was merely an institutional preference to slow down the process.

BERKOWITZ: Could you see Derzon losing favor with Califano as this process of being told to go faster unfolded?

COTTON: That was why they came ultimately to a parting of the ways. Derzon was enormously smart and talented, brought an enormous amount of knowledge, but the disagreements came over this issue of how could you force these very disparate organizations—but who had roughly and equivalent type of mission in terms of financing of the delivery of health care—together at every level from policy to personnel.

BERKOWITZ: Obviously this was of great concern to the Department of Health, Education and Welfare; it's an important initiative of Secretary Califano's. Were there other interested parties here? Did the White House care? Did the Senate Finance Committee care? Were they part of this environment too, or was your work just focused so much on HEW that it was hard to see that? In other words who else would be concerned about these questions of whether Medicare and Medicaid could be put together? Is this something that would be a concern of the White House or the staff of the Senate Finance Committee? Were those factors visible to you?

COTTON: There were a lot of outside groups involved in different ways. The constituency for Medicare was very worried that somehow the political

support which Medicare had enjoyed over the years as a broad-based-100%-everybody's-eligible-for-it-once-you-turn-65 type of approach, that that generated a lot of political support for the program. Once you added in Medicaid, which in their view was perceived as a welfare program, you eroded politically the support for Medicare. To the extent that people shared that view in the House and the Senate they were strong advocates and expressed concerns. You have advocates of employees who were worried about their jobs and you have them expressing concerns. Sometimes that is filtered through Congressional voices.

In terms of the institutions affected, there were certainly health care providers who saw dangers from their perspective, that if certain changes got made in various rules that they might lose treatment that they regarded as favorable, so they would be expressing their concerns. I think the one dynamic that is hard to understand unless you've been in the government, is that almost every decision you're making has huge impacts on somebody and that, therefore, the challenge is to have enough focus on every decision to really understand—not to try to do it too quickly, not to try to do it without understanding its full ramification. So, I would say as a generalization that I don't think that there were any of these decisions that you didn't feel, or Califano didn't feel, an enormous number of eyes from Senators, Congressional figures who were very focused on these decisions, interest groups—the AARP, Medicare and Medicaid recipients—and the health care providers themselves who were receiving the dollars from these programs. It's hard to overstate the intensity of the interest coming from these various different quarters, and frequently that included very important and powerful members of the House and Senate.

BERKOWITZ: I'd like to ask you one more question about this, if I might. What was your role in staffing the Carter administration's hospital cost containment initiative? Did you help to package that for executive decisions by Califano?

COTTON: I attended a lot of those meetings. There were two aspects, the hospital cost containment legislative proposal which went up in the very early months. Again, I was in and out of those meetings. I was not remotely knowledgeable on health care at that point to be a serious participant. That was driven by Bill Fullerton and a group of people who I remember meeting at eight o'clock every morning on a forced-march drive to put together a hospital cost containment proposal. I sat in on some of those meetings, but I was certainly not a participant. At the point of the National Health Insurance debate—fast forwarding a year or two—I spent a lot of time, in terms of the discussions about the packaging of that, the politics of that, and the debate

which ran from the department to the White House in terms of what ultimately would be the administration's proposal.

BERKOWITZ: One last personal question: I see that you stayed with the department a long time and then you went to Dewey Ballantine Busby and Palmer. So you worked with Califano throughout this period. Did you develop a personal relationship with him that carried beyond HEW?

COTTON: I would be tempted to say that I probably was the person who worked mostly closely with Califano for the longest period of time. I don't know if that is literally true, but I was at HEW for the full two and a half years of the Califano era. I then actually went for a year to the Department of Energy, and then went into the small firm—this was before Dewey Ballantine—that he started right after HEW and then moved with him from that firm when it broke up to the Washington office of Dewey Ballantine. I would say I worked with him quite closely for 9 1/2 years, from 1977 through mid-1986.

BERKOWITZ: We realize how busy you are and we appreciate your doing this. Thank you.

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Telephone Interview with Karen Davis

Commonwealth Fund in New York on September 7, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: I want to ask you how you became interested in health economics. Was that something that happened when you were an undergraduate at Rice?

DAVIS: I got interested in economics as an undergraduate. I was a math major and then, in about my junior year, added economics as a double major. I basically thought economics was about poverty and unemployment and how to solve those problems. Then I got interested in going to graduate school in economics and did general economics training with a focus on microeconomics, industrial organization, theory of the firm. When I got ready to write a dissertation, my chairman, Gaston Rimlinger was an economic historian and had done a little bit of work on the spatial distribution of physicians and suggested that I think about doing a dissertation in the health area. I wrote a dissertation on pricing and investment behavior of non-profit hospitals, which was really more, how do non-profit institutions make pricing and investment decisions in a different way than for-profit institutions, so it was still kind of microeconomics/ industrial organization. After that I just stuck with the health field. I came into it through the microeconomics angle.

BERKOWITZ: I see. Gaston, of course, was interested in social welfare history and the welfare state. You stayed at Rice to get your PhD?

DAVIS: Right.

BERKOWITZ: And you managed somehow to get to Brookings by 1970?

DAVIS: It really was a Ford Foundation program run by the Brookings Institution for economic policy fellows. They took assistant professors of economics and put them in government jobs for a year, and then we were supposed to go back to the university and do policy relevant research. I'd been at Rice as a student and faculty member, so I thought it was time to try some time away. That was its appeal. Plus I was interested in data that the Social Security Administration had. Dorothy Rice was head of the Medicare research division of the Social Security Administration and offered me a position there for a year where I could work on a data base on hospitals collected pre-Medicare and then hospital cost reports post-Medicare to look at the impact of the introduction of Medicare on hospital costs.

BERKOWITZ: And Dorothy Rice was somehow related to the famous Joseph Pechman?

DAVIS: Yes, she was Joe Pechman's sister. At the end of that year she suggested to Pechman that they ought to make an exception and hire this particular economic policy fellow. So I went on staff as a research associate at Brookings in the summer of '71 and stayed there until '77 with a year away as a visiting lecturer at Harvard in the economics department.

BERKOWITZ: When we think about that group of people at Brookings like Pechman, we think about tax policy, fiscal policy. Were you the only health specialist?

DAVIS: Yes, I was the only health person. They have an Economics Studies Division and they have Henry Aaron, in Housing at the time, and Bob Reischauer in Education. They put out a book every year called *Setting National Priorities*," that Alice Rivlin and Charles Schultz edited and I did the health chapter. It was an analysis of the federal budget. Staff at Brookings covered the major federal agencies and would contribute toward the annual book on the budget.

BERKOWITZ: From Brookings I know that you went to work for the Assistant Secretary for Planning and Evaluation who happened to be Henry Aaron at the time who happened to have worked at Brookings. Joseph Califano in his book suggests that he hired you to look at health policy issues. Was it the Henry Aaron connection that got you that job?

DAVIS: Califano always insisted that it was his idea. They had had a Cabinet retreat at St. Simeon Island over the New Years holiday, and Ray Marshall who was Secretary of the Department of Labor had suggested me as a staff person. He and I had worked on a study of rural health care in the south from '75 to '77. But obviously I was close to Henry. The call itself came from Califano. I'd gone down to Atlanta to speak at the Ebeneezer Baptist Church on Martin Luther King's birthday and had a call from Califano waiting when I came back from that, wanting to see me the next day, and he basically offered me the job. I never quite knew whether it was Henry's decision or Joe's decision, but obviously they were both enthusiastic about it.

BERKOWITZ: What was your portfolio to be at ASPE?

DAVIS: I was Deputy Assistant Secretary for Planning and Evaluation for Health, so basically anything to do with health. But the main thing ASPE did at that time was to develop major legislative proposals. Certainly the decision at St. Simeon had been to start with hospital cost containment legislation and then to develop national health insurance legislation. Those

were the two main responsibilities, but we did a lot of things early on—getting nurse practitioners and physicians covered under rural clinics, proposing Medicaid expansion to pregnant women and children—but mostly developing major legislation and making recommendations to the Secretary on budget and regulations.

BERKOWITZ: Was that the same job that Stuart Altman had had earlier?

DAVIS: Yes.

BERKOWITZ: Were you in contact with him?

DAVIS: He took a sabbatical out at Berkeley and there was a civil servant, Sam Seeman, who was Acting, but obviously I knew Stuart well. But in some sense he didn't turn over the reins in that he was away, so it's really the civil servant whom I replaced.

BERKOWITZ: How did your basic reporting arrangement work at ASPE? Did you get a chance to see Califano or some of the people in the White House? What were the lines of health policy in the Carter administration?

DAVIS: It changed a little bit over time. I started a couple of days before the inauguration, and there were really only about five of us: Henry Aaron, Hale Champion, Fred Bohen, Califano and myself. It was a fairly small group that took President Ford's budget and re-did it. Early on I would say that I saw Califano once a day, and in the middle of his time as Secretary once every other day, and toward the end once a week. I was in meetings with the President, but over the course of four years I would guess it was maybe six meetings, so it wasn't as if it was something that happened often. When there were key decisions to be made on major legislation like the National Health Insurance bill, I would be there.

BERKOWITZ: Would you often go with Henry Aaron, or when it was health being discussed were you by yourself?

DAVIS: Again that varied a little over the term. For the most part Henry was there. There would be meetings occasionally with Califano without Henry. I don't recall any with the President that didn't include Henry.

BERKOWITZ: How about the people that worked for Stuart Eisenstat, like Joe Onek? Wasn't his specialty supposed to be health?

DAVIS: Right. I had a lot of close contact with Onek. I always viewed us as good friends. Califano felt strongly about interaction with White House staff. That went back to his days at the Lyndon Johnson White House. There was a formal policy that you were not to initiate contacts with White House staff,

and if they contacted you, you were to advise Heineman who at that point was his executive assistant. So Califano was always informed. He wanted to develop a policy in-house and then basically present it to the White House, so he didn't encourage a lot of informal contact. On the other hand, once policy was set you were clearly interacting back and forth on things.

BERKOWITZ: How about with the Hill?

DAVIS: Yes, a lot of interaction with the Hill.

BERKOWITZ: Would you, for example, go to see Henry Waxman by yourself or Paul Rogers or someone who was influential in health policy?

DAVIS: Yes. Testifying was different than it is today. With the reconciliation things move faster than it seems like they did on hospital cost containment or the Medicaid expansion to pregnant women and children. When you're up there for mark-ups day after day after day, you have a lot of interaction with Paul Rogers, Dan Rostenkowski, Russell Long, Edward Kennedy—both individually meeting with them and being the lead person at mark-ups or hearings.

BERKOWITZ: With Kennedy, I imagine it was a pretty sensitive relationship. If you had contact with him, were you expected to tell Frank Moore, the Congressional liaison, or someone at the department?

DAVIS: Frank Moore wasn't a major figure on the issues with which I was involved.

BERKOWITZ: Let me ask you about the two policy initiatives of the Carter years.

DAVIS: We had a very close relationship with Kennedy, and, of course, Califano had a close relationship with Kennedy obviously. But at the midterm Democratic convention Carter was nervous that Kennedy was going to run against him, and, of course, in the end Kennedy did run against him, so relations got more strained between the White House and Kennedy. But as far as the department was concerned, there were always cordial relationships with Kennedy and his staff.

BERKOWITZ: Was there anyone in particular that you would deal with on Kennedy's staff?

DAVIS: Mostly Larry Horowitz. To some extent Carey Parker, but mostly Horowitz.

BERKOWITZ: Would this be matters like data, for example. They would ask for data and you would give it to them? Would they ask for advice? What did they ask for?

DAVIS: There were some formal meetings around national health insurance, trying to see if there could be a meeting of the minds on it. But a lot of time it was other issues, such as funding for community health centers which was under the jurisdiction of Labor and Human Resources.

BERKOWITZ: Let's turn to the health policy issues of the Carter years and start on the bureaucratic level. One of the first things that Califano did was create HCFA itself. Was that something that was outside of your purview, or did he mention, "Yes, I'm going to create this new HCFA and that's going to be the beginning of administrative capacity to lead to national health insurance"? Did that figure into your thoughts at all?

DAVIS: I really don't feel like I was very involved in the decision to create HCFA. I had pushed for bringing Medicare and Medicaid closer together and treating them the same. Basically Medicaid was over in the Welfare agency and Medicare in Social Security, and they talked about Medicaid "recipients" and Medicare "beneficiaries," and I was always saying, "They're both beneficiaries in the public programs, and we need universal health insurance coverage. We need an integrated approach; they should be treated the same. We should pay providers the same under both programs." So certainly the sorts of things I pushed for—the logical way administratively of dealing with it was the creation of an agency that had both—but I can't really say that I was involved in the decision to set it up.

BERKOWITZ: What about when HCFA got established? How did you try to coordinate? ASPE is in some sense a policy shop for the Secretary, and HCFA had research capability on health care finance issues. How did you try to coordinate?

DAVIS: It worked really well for a while, and my main feeling is reasonably good all the way through, but I think it changed over time as HCFA matured as an agency and got more capacity. It was clear that ASPE was the lead policy shop on all important policy initiatives. So on national health insurance, hospital cost containment, the Medicaid expansion to pregnant women and children, we had the lead. Then there would be working groups and people from HCFA would sit on them. What HCFA came up with were more incremental improvements in Medicare and Medicaid. But then as they developed more policy capability, for example eventually the legislative lead on the Medicaid expansion called CHAP [the Child Health Assurance Plan] moved to HCFA. I would say in general in the department at that time there were a lot of hands shooting up any time there was something new to be

developed—"I want the lead, I want the lead"—and normally ASPE had it on anything that was major. But if there were a task force, let's say looking into converting health centers to HMOs, the Public Health Service might get the lead.

BERKOWITZ: How visible to you were events in HCFA? For example, one of the things that happened was that the first Administrator of HCFA, Mr. Derzon, was essentially fired by Joseph Califano and Leonard Schaeffer was brought in. Is that something that was on your screen at all? Do you have any sense of those events? Why Derzon might have been fired for example?

DAVIS: I thought he did a great job, so I was a big fan of Derzon's.

BERKOWITZ: One of the things that people say about this is that Leonard Schaeffer was a much more dynamic leader? Was that apparent to you at all?

DAVIS: I guess I'm reluctant to get into personalities. I don't think that Leonard Schaeffer had a health background.

BERKOWITZ: Right. Whereas Derzon did. He had been a hospital administrator somewhere?

DAVIS: Right.

BERKOWITZ: Why don't we look then at what in some ways was the main initiative of the Carter administration, at least in retrospect, and that is this whole question of containing hospital costs. That was something that started pretty early, as I understand it, in the administration. It went through several iterations. Presumably you were involved in helping to formulate and plan this measure, is that right? Can you describe how that process unfolded, who would have been involved and so on?

DAVIS: The basic decision to have a hospital cost containment bill was made, as I said, at St. Simeon's between Christmas and New Years, based on the view that you needed to control health care costs in order to convince people to pay for coverage for the uninsured. The public wouldn't support buying the uninsured into a health care system that was running out of control. At that point hospital costs were going up something like 16%, 18% a year because you'd had the Nixon Economic Stabilization Program from '72 to '75, and when those controls came off health care costs had a marked acceleration. Overall inflation in the economy was about 6%. People were worried about it. There was OPEC and Gerald Ford's Whip Inflation Now buttons, so inflation was a problem. But health care inflation was a bigger problem. It was just a sense that in that kind of environment if you went up

for expansion of coverage immediately people would say, "This makes no sense until we get this under control." The decision was made very early to work on that first. So when I started just before the Inauguration, and we were redoing the Ford budget, certainly a hospital cost containment proposal was the major legislative item. The others were the expansions of Medicaid to pregnant women and children. If we weren't going to go immediately to universal health coverage at least we would get some more poor people covered. Also coverage of nurse practitioners and physician assistants and rural health clinics were proposed. I think we proposed reducing the Part B premium. That was short-lived, but there was a proposal like that.

BERKOWITZ: The premium would be picked up by general revenues?

DAVIS: Yes. But anyway, we agreed within a week in a meeting with Bert Lance, the Director of the Office of Management and Budget, and Califano had a meeting with the President and the President agreed to cost containment, the Medicaid child health expansion and the rural health clinic initiatives. That was announced in early February as the President announced the major restructuring of the Ford budget. The actual legislative proposals were drafted and formally submitted to the Hill in about April. I was basically the lead on that, testifying and defending the hospital cost containment bill for two years until it was defeated in November of '79.

BERKOWITZ: I've read the book that you did with the folks at Hopkins about hospital cost containment, and it's really quite striking to me how technical it is in the sense that this is not the kind of legislation that you can declare the basic objective—that you want to contain hospital costs—but the formulas and all are pretty complicated technically. How did you go about working on that as a technical problem?

DAVIS: We had a task force within the department, so you had experts from Social Security, since HCFA didn't come into being until a few months later, and back and forth with some Congressional staff, but it was mostly an internal task force. In my shop their were people like George Schieber and Joe Eichenholz. Schieber was a PhD economist. Schieber went on eventually to head research at HCFA and Eichenholz went to the insurance industry.

BERKOWITZ: Had there been previous work in ASPE on that?

DAVIS: Sure. Eichenholz had staffed Stuart Altman at the Cost of Living Council, part of the Economic Stabilization Program. There was a special health group headed by Stuart and Eichenholz was his staff person, so they had been around those issues. The first person I hired was Brian Biles who also had had a lot of Hill experience.

BERKOWITZ: At that time is it fair to say that there was one part of the department that was working on welfare reform, something that apparently interested President Carter a great deal, and Henry had already worked on that, it was something he was already involved in. Then you were the lead on the health stuff. Is that true? Did Henry stay away from the health stuff and concentrate on welfare, leaving you to do it, or did he kibitz and ask his usual kinds of questions?

DAVIS: We had a very good relationship because we'd been colleagues at Brookings. Henry is a brilliant writer and he's a sharp analyst, so certainly anything we drafted—a memo to the President, the design of a bill, whatever—there would have been a meeting with Henry to go through it and get his input. He would have polished anything that we worked on. So he wasn't distanced from it if you're talking about the ideas and the analysis and the arguments and the data. It's not as if he weren't involved. It's true that welfare reform took a lot of his attention, but even there he had Mike Barth who was my counterpart in income maintenance. He had a whole modeling team that was working on that. They had a lot of interaction with the Department of Labor. But, yes, I think it's fair to say that that consumed relatively more of his time than the health issues.

BERKOWITZ: In looking at that health care cost containment, it's true that a lot of the problems are technical ones; how to work out something that would keep the costs down, but you could also say some of the problems are political, in the sense of areas of the country or teaching hospitals. Do you remember any of these issues in particular as being thorny ones for you to decide how to handle?

DAVIS: Basically I think it is a difficult issue. You're trying to control something in the private market by the government. It's different from having a hospital whose budget you directly control and operate a system where you own the system and you're allocating resources. Here you're trying through a combination of sticks and carrots to get the private sector to do what you want it to do. That's one problem. The other problem is you have a very heterogeneous industry out there, all kinds of hospitals taking care of all kinds of patients, and their costs are at all kinds of levels, so you can either do something that's simple and unfair, or you can do something that's fair and complicated [laughing]. And you're constantly torn between those two. I would say that in the end, the bill leaned toward complicated to try to make it fair. You did have adjustments for teaching hospitals. We developed that when Jerry Anderson was working for me. He developed the whole methodology on teaching hospitals mostly because we were seeing that in Medicare what were called 223 limits on routine costs were disproportionately affecting teaching hospitals and hospitals in different

geographic parts of the country. We realized that you needed these kinds of adjustments. For instance, if you think inefficiency is randomly distributed, it's odd that it happens all in the West [laughing], so you decide there's something wrong with your formula. Yes, there was a lot of attention to that. I would say some of the things eventually that complicated the legislation were more political concessions. You know, there's always such strong support for rural hospitals, so you leave out what are called "sole community providers." Then you have specialized hospitals like Mayo, and then you've got Florida that says, "But we've got lots of people down here in the winter [laughing]." So you wind up putting in lots of adjustments. It just was difficult politically for the Congress to swallow it.

It was really Rostenkowski who came up with "voluntary targets" that wasn't in the original Carter bill, but it was in the Carter proposal introduced in the next term of the Congress two years later. "Voluntary targets" and if you meet it nationally then you don't trigger mandatory controls, but if you don't meet it nationally but you do meet it on a state basis, then maybe the state is exempted from mandatory controls. And what do you do with the states that already have a rate payer commission? Well you have to have a little waiver, an exception for them. Then the labor movement is concerned about how all of this will affect collective bargaining, so you exempt wages of non-supervisory personnel in hospitals. But the thing that was interesting to me when I went back through some of the testimony that we prepared and Califano gave, is this whole issue of DRGs. Basically we were saying, "The right way to do it is the rate per case based on diagnosis, and we don't have that methodology now, but we're working flat-out to develop it." There was a lot of testimony given that this was a transition toward a diagnostic-specific case-based payment system. In my view in '82 when TEFRA passed, they basically adopted the Carter hospital cost containment bill for Medicare and Medicaid only. They left out the private insurers but basically took that methodology and limited the rate of growth of spending per patient in Medicare and Medicaid. And that's where they really got the savings. Then the hospital industry that obviously had fought this tooth and nail the whole way through said, "If you're going to save some money, we'd rather be paid on a prospective diagnosis-based method." The '83 Social Security amendments that brought in the DRG prospective payment system basically didn't aim to save money. It was revenue-neutral. So having taken the budget hit with TEFRA, they moved to the DRG PPS system in '83, which was a different—and I think better—methodology, but one that just didn't exist back in '78 when we were working on it.

BERKOWITZ: So you'd say that ASPE should get a lot of credit for the development of the DRGs, that you did the methodological work?

DAVIS: Yes.

BERKOWITZ: I was thinking as you were talking, it's pretty clear with this hospital cost containment, as you say, you keep putting in all these different things whether for good or bad reasons. It gets more and more complex. It seems to me that it gives the American Hospital Association more reason to complain that it's complex, it's a Rube Goldberg-like contraption.

DAVIS: They complain either way. If you don't make these adjustments they say it's insensitive to the special circumstances of these institutions. Then if you adjust they think it's too complicated. But in general I don't think they mind complexity and are often behind it, so I don't think that complexity is the issue once you work it out. Nobody complains about Resource Based Relative Value Schedule for payments of physicians under Medicaid. At one point when it was new, there was a sense that it is based on work effort and how do you really know time, intensity, risk to the patient, difficulty, but you develop a methodology, get it implemented and although few physicians understand how the different relative values are actually calculated, it is accepted. It is a reasonable system, it's working, and everybody accepts it. So the only real fighting is over the level of the conversion factor which affects the total money being paid to physicians. It's not the complexity of the formula. Sometimes something's off somewhere in the formula such as you don't have office practice or the rents right in the physician's geographic cost of practice index and there's some complaining about that, but eventually people support the formula. The main issue is how much money are you trying to save overall. If it is a lot, then there are lots of reasons why the industry is against it.

BERKOWITZ: The late 1970s are the peak of the deregulation movement. That was one of the things the administration was for. Did you get a lot of cross-currents there? On the one hand the administration is for deregulation, but in the case of hospitals you were actually trying to regulate them.

DAVIS: Yes, a little bit. Certainly one of the attacks on hospital cost containment was that it was paper work and regulation and bureaucracy and would reduce quality of care and lead to fiscal bankruptcy of hospitals. We got those arguments, but I don't really think they were major issues. When you get into the federal budget process and you see what 16% to 18% rates of increase in hospital costs are doing to Part A of Medicare, it's not very acceptable to sit back and not do anything about it. The leaders of the opposition were Congressmen David Stockman and Phil Gramm. By '79 when it was defeated, hospital costs were going up about 13% and general inflation was about 10% or 11%, so hospital costs looked good relative to the rest of the economy. I think that's what took a lot of the steam out of the push to control hospital costs. The legislation was defeated in November

of '79 and within four months hospital costs were going up 20%. So when you went into the Reagan budget in '81, here they are again up at the 15% to 20% rates of increase in Medicare Part A spending.

So yes, people opposed it, but I think it was mostly because the industry didn't want it and were making their views known. But if you get the bulk of moderate Republicans and Democrats who worry about the budget, it wasn't so much that it was an inappropriate role for the government. Congressman Jim Jones on the Ways and Means Committee, later chair of the Budget in the House, offered at one point to take the Carter bill and just do it for Medicare and Medicaid only. The people concerned about the budget thought, "Well, even if it's controversial to try to control costs for private insurance, the government needs to look out for its own programs and control it for Medicare and Medicaid only." The Carter administration thought that if you controlled Medicare and Medicaid and didn't control the private insurers, you'd get a wedge in payment levels for publicly and privately insured patients that you'd never be able to eliminate. It was bad to go a Medicare/Medicaid only approach. But there were members of Congress who were a little uncomfortable about regulating the private sector who might have gone along with controls on payments under Medicare and Medicaid, and obviously that's what happened in '82.

BERKOWITZ: Let's talk for just a bit about Medicaid politics. It seems to me that the notion of extending Medicaid to pregnant women is much more straightforward thing to understand, a lot less technical. It may be difficult because there are fifty states, but was that a more straightforward issue for you analytically and politically?

DAVIS: It was, although it's really odd. We had a complicated formula there too, of increasing the federal matching rates to try to make, in general, states not have to bear the additional cost of the mandate. It was mandating coverage, but with the notion that you'd have to use federal dollars to have expanded coverage to keep the states supportive, which they were for the most part. The real problem with it was abortion, and this was before the Hyde Amendment on restricting Medicaid funds for abortion. In any event, the CHAP bill got an abortion rider on it when it passed the House, that no federal funds could be used for abortions. Before that, this had always been written into appropriations language, but had never been part of authorizing legislation. The Senate just didn't want to touch having to vote on abortion one way or another, so it just never even came up in the Senate. That was the main thing that happened. I basically went back to work on it in '82 when I chaired a legislative committee for the American Public Health Association. I urged Congressman Henry Waxman to try again just to get incremental expansions in Medicaid. And we did what we laughingly called a

baby step, a very modest voluntary Medicaid expansion of pregnant women and infants. I forget exactly what the percent of poverty was, but it was children from birth to age one. It was a lot less than what we had proposed in CHAP, but eventually what went through was everything and more than what we proposed in CHAP.

BERKOWITZ: After you left ASPE you went to become the Administrator of the Health Resources Administration at the tail end of the Carter years. Maybe you could tell us a little about what that did and how you got the job.

DAVIS: Patricia Roberts Harris was the Secretary. Califano left in July of '79, which I think had a lot to do with the Carter National Health Insurance bill not passing. It was hard to switch leaders at that point and keep it moving. She asked me at the end of October of '80 to run HRA. Hank Foley had run it before then. It was getting toward the end of the first term, people had been at it a long time, some people had a lot of doubts about Carter's re-electability. I wanted more management and administrative experience. I don't believe in long deliberations, so I accepted her offer immediately, called my parents who were on vacation, they flew in overnight, and I got sworn in the next day. [laughing]

BERKOWITZ: What was the mission of this Health Resources Administration?

DAVIS: Eventually it was merged with HSA to become HRSA—but the HRA piece was health planning, health manpower, and health facilities. It actually administered some hospital construction loans for HUD. Harris's plan, which was never realized once Carter was defeated, was to move the National Center for Health Statistics and the National Center for Health Services Research into HRA. HRA was basically concerned with infrastructure. It would have manpower, planning, facilities, and would have been expanded to include research and statistics.

BERKOWITZ: That was a totally new bureaucracy for you to go into. Was that hard?

DAVIS: It was a terrific experience. It was very short since I obviously left at Inauguration in January of '81. But, yes, it was a terrific experience, the idea of energizing what was a demoralized agency and setting quite concrete goals about what was to get done in terms of moving the regulations out, putting the budget in place and making some difficult personnel decisions in the end. I recruited Bob Graham to come back to the agency, who had done a year's sabbatical with [Senator] Kennedy. I made him my deputy. Then he was made the head of HRSA in the Reagan administration.

BERKOWITZ: After you left the Carter administration you worked both at Hopkins and then at the Commonwealth Fund, two excellent places to get an overview of health policy. We've had two generations. We've gone from the Carter attempt at health planning and health insurance to the Clinton plan. From where you sit—you have this great vantage point—was there any policy learning that was taken from one to the other?

DAVIS: I guess I've felt extraordinarily good about my experience in government. When you think about great experiences, I thought they were a great four years, the opportunity of a professional lifetime. I also felt good about the end result. A lot of people think Carter didn't accomplish a lot because he tried too much. But some things got done, like expanding funding for community health centers and getting nurse practitioners and physician assistants covered. The CHAP legislation laid the way for Medicaid expansion to pregnant women and children in the '80s, and the hospital cost containment laid the way for the DRG reforms. Basically, the Carter National Health Plan, which very few people know about, was an employer mandate with universal coverage achieved with federal funding of subsidies for the uninsured. So the basic structure of the policies we developed dominated health policy initiatives for the next two decades. It felt important at the time and important later. I like the experience of all three sectors, government, academia and foundations. I feel like government has the most potential to do the most good, that if you have ideas you can move legislation that will improve the lives of millions of people. In academia you retool, do research, and learn a lot more and form a base for additional ideas. It's also the case that I did a lot of testifying while I was at Hopkins. I testified before Congressional committees about ten times a year, so you're very plugged into the legislative process from an academic base.

At universities, however, you don't have an immediate influence on policy the way you do in government. The way I feel about foundations is it's in-between government and university life. You can't have as much impact as you can in the government. On the other hand, you can do things with your resources to make things happen even if they're on a smaller scale. It's not so much that you're doing the research the way you are in academia, but you can certainly figure out what needs to be done and figure out good people to do it and make it happen. So it's less impact but more certainty that what you work on will actually be accomplished in the nearer term and not have to wait ten or twenty years.

BERKOWITZ: Thank you very much for talking with me. I think that's a terrific note on which to end.

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Interview with William Fullerton

Crystal River, Florida on October 20, 1995
Interviewed by Mark Santangelo

SANTANGELO: Mr. Fullerton, I'd like to walk through your career beginning with when you first came to SSA [Social Security Administration] in 1951. Where had you done your earlier studies?

FULLERTON: I graduated from the University of Rochester in the Class of '51 and a couple of weeks later I went to work for the Social Security Administration at its district office in Rochester, New York. I stayed there about a year and a half and went down to the district office in Reading, Pennsylvania, in the fall of 1952. I got a couple of promotions and then went over to Lancaster, Pennsylvania, for a year. Then I was promoted into a job in the central office in Baltimore, Maryland, working in the Division of Field Operations, in late 1954.

SANTANGELO: What were your responsibilities there when you first got to Baltimore?

FULLERTON: I worked in mostly the management side, opening Social Security district offices. I managed the test that was given to new claims reps. I wrote it, marked it and evaluated it all by myself. We didn't have many people to do a lot of things in those days. I worked on other things like the criteria for establishing new district offices, other management-type things. While I worked there I was promoted from Grade 9 to Grade 11. Then in April of 1957 I was promoted again and took a job in the Division of Program Planning. That was a "where is Social Security going to go" type thing. I worked in a lot of areas in that. I stayed there, getting promotions and was transferred over from working on cash Social Security benefits to Medicare in June 1961, right after we got those first amendments through after Kennedy went into office. I stayed working there until Medicare was passed in 1965. At that point Art Hess asked me to work on inviting a whole bunch of pressure groups of various kinds into the Baltimore office and telling them what our general plans were for the administration of Medicare. We invited just about everybody and his brother. I ran managing getting them in, presenting people, and making presentations myself to a whole bunch of groups.

Then when HIBAC [Health Insurance Benefits Advisory Council] was formed I was still on detail from the Division of Program Analysis, but I organized HIBAC and was the first person to run the staff of that organization. I stayed there, working on that, until April of 1966 when, for primarily personal

reasons, I went over to Washington and took a job as Assistant Commissioner on Aging in the Administration on Aging. I stayed there until December of 1966. Then I was offered a job in the Congressional Research Service. I reported there in January '67 and worked on Medicare, cash Social Security benefits, Medicaid, and Public Welfare. I had a pretty broad reach at that point. I worked there for three years. In those days Ways and Means and the Senate Finance Committee didn't have their own staff working on those subject areas, so whenever they took up that kind of legislation we would go over there to the committees in their executive sessions and act as staff to the committees. So I got experience working both with Ways and Means and with the Finance Committee. I guess I had done enough penance time for the administration in the executive branch of the government that I was hired as permanent staff on the Ways and Means Committee in early January 1970. I stayed there for the next six or seven years.

SANTANGELO: You've given a good overview. Now let's go back and talk a little bit about your time in SSA, particularly when you were up in the higher levels in the Baltimore office. This would have been the period when Medicare was just coming into being as we know it today.

FULLERTON: At that time Social Security, as we call it today, was in the Bureau of Old Age and Survivors' Insurance in Baltimore. The Social Security Administration at that time including Welfare and other things was headquartered under commissioners in Washington. Bob Ball who was Deputy Director of the Bureau later became Social Security Commissioner when the term Social Security took the place of what was the Bureau of Old Age and Survivors' Insurance. Welfare and other things split off into their own administrations. During this time I was working as the Deputy Branch Chief with Erv Wolkstein whose name is well known in Medicare circles, of course. What we did mostly was act as staff to the Bureau directors and to some of the people from Labor who were interested in the legislation of the Kennedy administration. We prepared background books for the Secretary when he testified, we answered all kinds of questions, we answered letters, we developed new legislation and rationale, developed numbers, made up charts—all the kind of staff work that goes into getting a major piece of legislation passed.

SANTANGELO: Is it correct that Medicare was the largest initiative at that time?

FULLERTON: Oh, yes, as far as we were concerned.

SANTANGELO: Were there other large initiatives that perhaps have been over shadowed by Medicare from this period?

FULLERTON: Earlier, there was the beginning of Disability under Social Security. That started out back in the early 60s, really the late '50s, with first a provision that if you were permanently disabled you would have that period of time that you were disabled excluded in computing your benefits, so it wouldn't reduce your monthly benefits. From that it moved, I think in '54, to cash benefits. All that was done during the Eisenhower administration, which was much more liberal than the Republican administration these days [chuckling]. That was the other initiative that I had any contact with, and my contact with that was relatively peripheral. Other people concentrated on the Disability program; I didn't concentrate on that until it became part of Medicare.

SANTANGELO: So Medicare was the main issue that you concentrated on in this period?

FULLERTON: Yes, it was the largest one, by all means.

SANTANGELO: Can you describe for us how the idea developed and how it worked through to ultimately being passed?

FULLERTON: Other people have written about the beginnings of it, people left over from the times when they couldn't pass national health insurance. Then some people had the idea that maybe they could start with the aged because most people depend upon employment, and not even retirement from employment, in order to get health benefits. People were arriving at 65 with nothing and it cost twice as much because of individual coverage and there were high administrative and sales costs, etc., etc., etc.. We pounded out that kind of rationale day after day. But essentially I think they were sound. I believed in the program and worked hard at it for that reason, as did a lot of other people. I said we had a branch. That meant we had Erv Wolkstein as Chief of the Branch, me as Deputy Chief working on Medicare, there was another Deputy who worked on Disability. The organization that actually worked on Medicare included about 5 analysts. Among them were people who have made a name for themselves since then like Paul Rettig and others. Paul Rettig was an intern in those days, and we used to use him to run things back and forth to Washington because he had the fastest car. He'll remember that. [chuckling]

SANTANGELO: Let's talk a little bit about the legislative strategy. Was that something you had a role in or did it come down to you?

FULLERTON: By and large it came down to us, but that didn't mean we didn't have a chance to comment and make suggestions. And we did. Erv and I did it, Erv did a lot of it, but most of the strategy was developed by Bob Ball when he would take his vacations up in New Hampshire in the

summer. That's when he would do a lot of the thinking. We used to dread when he came back from vacation because we knew he was going to have a whole bunch of stuff for us to do. That was pretty much the situation then. The whole idea of covering physicians was a Johnny-come-lately. We didn't pay any attention to that at all. It was all hospitalization. That was the biggest single cost. We didn't know how to handle physicians anyway. We didn't give it a lot of thought. We had plenty to do justifying the hospital insurance and then the alternatives like home care and skilled nursing care, trying to make them part of the package.

SANTANGELO: Did you work directly with people on the Hill?

FULLERTON: On the Hill, no. There wasn't anybody on the Hill to work with because the committees didn't really have any staff. There weren't any connections between the people who worked in the Library of Congress and the executive staff, so there was very little communication there. Any communication at that point was handled by Bob Ball or Art Hess or, more likely, Wilbur Cohen who dealt directly with the members and with the chairmen in particular. Of course that meant the guy you had to get first was Mills and the guy you had to get second was Long.

SANTANGELO: How important was this to Wilbur Cohen, to get Medicare passed? Did you get a sense of that?

FULLERTON: He wanted it very much. That was always our sense. I can remember in late 1960 between the election and the time that Kennedy was sworn in that Wilbur and Wolkstein, Art Hess, Bob Ball and I were all up at conference at one of the universities in Michigan. I still remember a discussion about how they were going to administer Medicare and Wilbur Cohen was telling Art [Hess] about how they were thinking about this and getting ready for it, because even at that point there was thought about the selection of the man who was going to run it—which was about six years later, as it turned out. People thought maybe in those early days of Kennedy some really big things were going to happen fast.

SANTANGELO: There was legislation that was developed in each of these years, is that correct?

FULLERTON: Oh, yes.

SANTANGELO: Did you get a sense of what held them up?

FULLERTON: What kept them from going? Essentially they just didn't have the votes. Wilbur Mills had had an experience with an unemployment compensation bill along in that time where he had gone out onto the floor

when he didn't have unanimous support from his committee, and it was a bad deal. He didn't make it. It was clear that he was never going to do that again. He would go to great lengths to get unanimous support on both sides. Of course he couldn't do that on something as big as Medicare. And it was also during this time that any new member who wanted to get on the Ways and Means Committee had to go before the Speaker and swear that he would support Medicare whether he liked it or not. That helped. You can't do much of that these days—maybe you can with this new Congress—but that was the kind of thing that we weren't involved in but we would hear. We would get a lot of feedback down the line that would keep us going, keep us interested. We prepared, as I say, a lot of detailed background books.

We worked on a lot of stuff for the rationale as well as working on the bill itself. The bill was drafted not in the Congress but in the administration. Sidney Saperstein was the primary draftsman at the department level in those days and we used to work with him. We had a guy by the name of Manny Levine who was a good lawyer and knew a lot about drafting and had drafted a lot of stuff in other areas, and we used him too for drafting the bills and writing section by section.

SANTANGELO: Was it your sense then that ultimately Medicare was passed because the politics were right at that time and not that they had tinkered with it and found the right formula?

FULLERTON: Yes, I think it was politics. I think what got Medicare passed was the assassination of Kennedy which meant that the people who watched LBJ for a year, said, "He's OK. He deserves it." The overwhelming Democratic majority in the House, that's what really did it. In those days it was a 15–10 committee, but there was a time when it went to 17 and 8 in that Congress. That made a difference. A lot of backing up from Mills. Mills could see he had enough votes. Once that '64 election was over everybody knew—Republicans, Democrats—everybody knew this was going to pass. It was a foregone conclusion. Didn't have to worry about close votes in the Senate anymore. We knew it was going to happen.

SANTANGELO: How did your job change after the passage of Medicare?

FULLERTON: I'd been working over in the main building and then they set up across the street in a separate building a whole bunch of people. They brought people in there from the Division of Disability Operations to work on Medicare. Most of them had never had any experience with it. They didn't know what it was or what it was like. Only a handful of us had been working on it regularly. I had developed something of a reputation in analytical work as being able to manage things, get a group of people together and get something done on time and get it done right. Based in part on that kind of

thing, Art Hess and Bob Ball asked me to go over there as a detail from my regular job and help organize first that whole bunch of people coming in from all kinds of organizations—we just ran them through there by the hundreds in the late summer/early fall. Then we had to get ready for HIBAC. They asked me to do that. I was able at that point to go around and pretty much get whoever I wanted. It was fun days. I could say, "I want this guy, I want that guy, I want him." I put together a unit of really good, effective people and we did the job. And it wasn't just me. It was people like Bob O'Connor and others who were very smart and very able, very experienced.

SANTANGELO: Tell me about HIBAC. What was its mission in the early days? Who was telling you what you needed to get done?

FULLERTON: Essentially HIBAC itself. HIBAC was full of a bunch of very independent-minded people. Some of them physicians who were by definition that way, but there were some others that tried to represent the various physicians and hospitals. It was an interesting organization. I need to tell you a story that I think is very important. Remember that AMA, when they went before the committee when it was in executive session in early 1965 when they were actually working on the bill, had refused to testify on the grounds that they didn't like the whole damn thing and they weren't going to cooperate with making it better. But in between there, there was a change in the leadership positions and they decided that they would cooperate with the administration and give them feedback and comments on all the proposals to carry out the legislation.

Then in August 1965 they walked in for this meeting which was with the Secretary—Wilbur Cohen was undersecretary at the time—and we met in the chart room in the old HEW building. There were only two of us, Art Hess—poor guy had had to fly back from California on the red-eye that morning—and I was the only other one from the department in there. They brought in the AMA guys. The doctor who was president was a Doctor Apple who came from Lancaster, Pennsylvania. AMA in those days was full of people most of whom were alcoholics, and that included Apple. Their typical procedure was to caucus the night before and come up with what they were going to do the next day whenever they were going to have a meeting with anybody. They had obviously done that. They had written out on this long yellow legal-sized pad a whole bunch of stuff which Apple proceeded to read as a statement, the burden of which was that they were not going to start this meeting—which was the beginning meeting to supposedly lay out how they were going to get their input into Medicare—until they had a chance to meet with the President about legislation then going through Congress on the regional medical or health centers. They said they wouldn't do anything until they could meet with LBJ. But we persuaded them—Wilbur, not me, I was mostly

an observer—to go ahead and proceed with this while in the meantime we'd try to set up a meeting with LBJ. So the meeting went on and we talked about various things. Then late in the afternoon Wilbur came in and said they'd got them a meeting with LBJ from 6:20 to 6:40, something like that, a twenty-minute meeting, and that they were getting the cars to take them over there. Just after Wilbur announced this meeting with LBJ, their executive vice president looked at me with this expression on his face like he'd just seen a heavenly vision and said to me, "Bill, just imagine. Your president is going to meet with our president." This was the first time I'd ever dealt with any of these guys directly, and I thought, "Man, this is going to be big shit trouble [laughing] if that's the attitude they have." I still remember that very vividly. That's a little bit of a backtrack, but it's just to give you a little insight into things other people might not remember.

In the personalities inside HIBAC there were some interesting developments. There were at least two alcoholics, one a doctor who was very liberal and the other who was not. They got together and had a fine time, and that did a lot to keep down the animosity among some of these guys. It became a fairly decent organization for exchanging information. One of the things that they focused on almost immediately was completely unexpected on our part and that they spent a lot of time on was what they called "return on equity." In other words, for paying hospitals, considering what reasonable cost meant, an item should be included for the cost of the investment that hospitals have, a percentage return on their investment. It was pointed out that under the reasonable cost that we were talking about we would be paying for the interest on the loan to build something but not actually on the value of something that's already been paid off, which made some kind of sense, but the problem was it had never been taken into account in making the cost estimates. It was not part of a document put out by the American Hospital Association which put out in some detail how it wanted to be paid by third-party payers.

As a matter of fact, the legislation itself, not just the committee reports, included a provision that in considering reasonable costs it should be considered what the AHA had put out in that document. So they spent a lot more time on an issue that we all felt wasn't going to go anywhere, and it never did really. A good bit of their time was spent on that which, as I say, was unexpected. The rest of the time we prepared a lot of background material, we prepared detailed minutes of each of their meetings that they would consider at the first of the next meeting. The first chairman was very effective and respected by the other members, so that made a big difference and he was selected for that purpose.

SANTANGELO: What were the other groups that were represented on HIBAC?

FULLERTON: We had the nursing homes, the hospitals, the physicians and that was pretty much it. There were a couple of people who were students of health care and health systems. The last guy to be named was named from the White House directly and that was a doctor who was a member of (?) LULAC in Texas, a Latin organization that LBJ wanted to do something for. Turned out he was later on convicted of fraud under Medicare; it's a matter of public record somewhere. I actually only worked with them for about six or seven months, from probably September of '65 until the end of April in '66.

SANTANGELO: You were Executive Secretary for HIBAC?

FULLERTON: Yes.

SANTANGELO: In the time you worked for SSA, you worked under both Robert Ball and Art Hess at different times, correct?

FULLERTON: Art Hess only after Medicare was passed. He handled the Division of Disability Operations and I was Division of Program Analysis.

SANTANGELO: These were two big figures of the period. Can you comment on what you felt were their strengths and weaknesses as agency chiefs? What was it like to work with them?

FULLERTON: I worked with Bob [Ball] a lot on not only that, but earlier on other subjects. He was interested in legislation, of course, and the program aspects of it, and I was in that organization so I would come in contact with him in many ways. I shared, with a lot of others there, a great deal of respect for him, both for his positions on things, which seemed to us mostly rational positions, and also on his ability. He was very good at thinking up the right rationale and the right kind of approaches to people in order to get something done. He worked hard at it. At the same time he had, still has I'm sure, a good sense of humor, and he was never somebody who would put anybody down, was supportive of people. He was a charismatic leader in many ways. Many of us felt that. I didn't always agree with him later in some of the developments when I was on the committee, but that was always a matter of respect back and forth. We had worked together closely on the Kennedy-Mills bill later in 1972 when national health insurance was a big issue. That's another whole story.

SANTANGELO: How about Art Hess?

FULLERTON: I liked Art Hess. He was a good guy, easy to get along with and all that sort of thing. The only thing that used to bother me about him was personal—he talked a lot [laughing]. When he covered a subject, he covered it one way and then he covered it another way and then he crisscrossed it again just to make sure. But that was a matter of personal reactions. He wasn't like Bob Ball who said it once and covered it all.

SANTANGELO: In 1966 you left Social Security and went to the Administration on Aging, is that correct?

FULLERTON: Yes. That's right, in April.

SANTANGELO: And how long did you stay there?

FULLERTON: Nine months. I went over there as an Assistant Administrator.

SANTANGELO: In those nine months were there any major things that you were dealing with at the time?

FULLERTON: No, I wasn't dealing with anything. It turned out to be a marked time and I was quite unhappy with it. I didn't even talk to my wife about what was going on while I was there. I guess you'd have to say a "nothing period" for me.

SANTANGELO: After nine months you managed to find something?

FULLERTON: What happened was that I wasn't really looking for anything else. I was thinking about looking, about where I would go. Then I got a call from the Library of Congress asking whether I would like to come and work over there in the Legislative Research Service, and I did. I went to work on January 1st or 2nd, 1967.

SANTANGELO: I understand that in this period the Legislative Research Service was really like staff to the Congress, much more so than would be true today, is this correct?

FULLERTON: Oh, yes. That's exactly right. Both the Finance Committee and the Ways and Means Committee had nobody on their staff who worked on the Social Security Act. It was all done with Fred Arner and his people, and they had been doing that for some time. Fred Arner was head of that division, worked on Medicare for the Congressional side to the extent the committees or anybody in the Congress wanted him to.

SANTANGELO: What sort of things were you doing then?

FULLERTON: One of the first things we did was work on legislation for the committee. You'd get all kinds of requests from individual members of Congress and from the committees in order to respond to a constituent or answer a question about why is this bill working this way or how does Medicare really pay for hospitals. You'd have to develop materials and write letters to respond to that sort of thing. That was a day to day thing. At the same time we would go over to the committees and whenever they needed something they would call on Fred. Fred would decide who was going to get the assignment and we'd do it. When they had hearings we'd go over and act as staff. We would stand up on the dais behind the members and answer their questions, give them questions to ask the witnesses, really acting as staff. When it went into executive session we would sit down inside the committee at a separate little table from the people from the executive branch, and we would be there to answer questions or make comments on what they said.

In a sense we were there to keep them honest because they knew we were sitting there and they knew we knew enough. We'd spend many days on that when the committee was working on the subject that we had. Remember at this point it was anything in Welfare and that included Medicare and the whole Social Security Act, Unemployment Compensation. I didn't work on that so much. Bill Kelly did. We had a Division of Labor too. But anything that they took up: Old Age Assistance, AFDC, Medicaid, the earlier stuff before Medicaid which was still in existence in many states, and all of Medicare, even Social Services. I got involved a lot in Public Welfare, AFDC, Public Assistance issues. I just had to learn it while I was there.

SANTANGELO: So in many ways what you were doing was analogous to what we think of committee staff doing now because there really was no committee staff per se?

FULLERTON: That's exactly right. Even when they got letters, when they weren't doing something on the legislation that we were involved with, they would send them over to us and we'd prepare a reply and send it back to them. We weren't on site like we were when there were hearings or executive sessions, but we were a couple of blocks away.

SANTANGELO: If there weren't specific requests coming over from the committee were there specific things that you were working on or projects of your own, or was it mostly directed by requests from Congress?

FULLERTON: By requests from Congress. That's what we were there to do. If we were doing anything on our own, it was to prepare ourselves better to do that job. Of course, at noon time we could wander off in that whole library and do anything we wanted to [chuckling].

SANTANGELO: So you wound up working there for about three years, is that correct? And in 1970 was when you joined the staff of the Ways and Means Committee?

FULLERTON: That's exactly right. January '70.

SANTANGELO: How did it come about that you joined the staff of the Ways and Means Committee?

FULLERTON: I got a call from the Chief Counsel one day wanting to know if I'd like to take the job over there.

SANTANGELO: Who was the Chief Counsel at the time?

FULLERTON: John Martin was Chief Counsel at that time. They had experience with me, both the members and he and the top staff of the committee. They knew about me for three years. The committees decided that they were going to start having their own staff. Part of that came out of the fact that the committee had had problems with the administration while I was over there acting as staff de facto. The Nixon administration had given them bad information on occasions. The committee had for many years, decades and decades actually, used, for example, Treasury staff for tax questions, and used department staff as committee staff. That's the way Medicare was passed. The committee staff was Bob Ball, Art Hess and others who sat there and when the committee said, "Give us a paper on [this or that]," they would go do it. That's the way it worked. They were finding some places where they began to see they couldn't trust necessarily, or the expertise wasn't there on the department side, so we had been playing a bigger role from the Library during that period that the Republicans were in. At some point they decided they were going to get their own staff. That's not like they were going to hire a whole bunch. Bill Kelly and I went over there and between the two of us we handled the whole Social Security Act. It was not exactly what happened in 1974 and '75. I loved it in those days [laughing].

SANTANGELO: You must have had a lot of individual control over what you wanted to do.

FULLERTON: Yes, that's true. Individual control and not having to go through any kind of a hierarchy. It was a fun time.

SANTANGELO: Before you came over, had you met Wilbur Mills, established a relationship with him?

FULLERTON: Oh, yes.

SANTANGELO: How had you and he gotten along? Did he really know who you were?

FULLERTON: Within time. He didn't learn anything about that in January '67, but within a few months he knew who I was. I was working with Fred and I was a guy who was supposed to know all this stuff.

SANTANGELO: Was he as dominating a person as he is portrayed?

FULLERTON: No. He never came across to anybody as dominating. Highly persuasive [chuckling], but not dominating. There's a difference there, you understand. He loved to be able to persuade people. I can remember when we got Disability under Medicare—this is skipping ahead a bit—we were in executive session of the committee and he had used this argument on Johnny Burns and others, "You can't explain to a guy who's sixty-four and disabled and he can't get Medicare, and a guy who's sixty-five and working full-time and healthy can." This is the simplistic type of argument that was used, and he said, "I just can't understand that. We're going to have to do something about that," so he finally got that through. Just as he got that approved in executive session he had to put his coat on. I held his coat for him, which was not a common thing I hasten to say, and he said, "Bill, did you see how I did that?" [laughing] I said, "Yes, Mr. Chairman." That was the kind of guy he was. I remember, for example, when we would produce a committee report on a big piece of legislation, we'd take it over to him in H208 in the afternoon. He had to sign off on it. He would sit there and look at it a little bit.

I remember when Barber Conable, when we had just brought the committee report over for him to sign. John Martin was there, too. And Mills said, "Barber, you're just the guy I want to see." He's always say that. "Barber, sit down here and we're going to go over this whole committee report together." [laughing] Well, the last thing poor old Barber Conable wanted to do was that, which Mills knew, but Barber wasn't sure because he was as smart a guy as he was, he believed that Mills really did that sort of thing. Of course he didn't read it all. He was just too damn busy doing political stuff, but he trusted the staff. I know he wound up with that drinking problem toward the end, but I never saw any sign of that at all. It was as complete a surprise to me as it was to anybody when I saw in the paper one morning the kind of thing he had gotten himself into. I later asked a doctor who had sat around a whole day waiting to testify in executive session what he thought about that. He said, "This is a guy who must have started this very recently. He's probably a guy who's held himself in tight control all his life, been very rigid, and then something got into his brain because of a certain age, and he just went all the other way." He sat around there watching this guy [Mills], and he'd never leave his chair, and he was drinking water. If it

was gin he'd have had to go to the bathroom. The doctor said, "He never went to the john. I had to go twice." [laughing] That doctor convinced me that maybe it was something like that, not that he didn't actually get into the trouble, but that there was a different reason for it than a long association with alcohol.

SANTANGELO: Let's talk about some of the issues that would have come up while you were on staff at Ways and Means. You were working on the broad range of health issues, correct?

FULLERTON: The biggest one when I came on Ways and Means was welfare reform. That was the big issue and the one I spent most of my time on. I did a lot on the relatively minor Medicare changes, which today would be considered fairly major probably, but the thing I had to spend most of my time on because it was such a big issue was welfare reform, particularly the AFDC part.

SANTANGELO: Around when would this have been?

FULLERTON: This went from 1970 to '71 to '72, all three years, and even into '73 a little bit. It was a situation where we passed the thing twice in the House but it was never bought in the Senate. Of course it was the Nixon administration's proposal which Mills was going along with.

SANTANGELO: Was there any real opposition to it?

FULLERTON: There was real opposition to welfare reform in that day. From the liberals came that the money wasn't enough, $2,400 for a family of four was the federal thing with the states adding to it if they wanted to. And the conservatives were against any kind of federalization—although they didn't call it that—of the public welfare programs. I remember when we went out on the floor one day, and they had a teller's vote—I don't think they do that much any more. When they had a teller's vote, they had to line up and go forward and vote yes or no, you had your little card. I stayed down in the well with Mills. One fellow looked over and saw all these liberals and conservatives in the same line and said, "Mills, you must be doing something right when you can see something like that." [chuckling] These are little vignettes that stuck in my mind.'

SANTANGELO: That's part of what history is. What about the FAP [Family Assistance Program]?

FULLERTON: That's what I'm talking about, the Family Assistance Program. Later it was FIP, son of FAP.

SANTANGELO: And how about the Disability item that you were referring to earlier. When would that have been?

FULLERTON: Putting the disabled under Medicare? That must have been a little bit later. In '72, the same amendments. We had everything in the world in that bill.

SANTANGELO: You must have been very busy that year.

FULLERTON: Oh, yes. In those days we worked a lot of nights. The committee would do things during the day, and then if we needed to draft things, we'd go over to the Legislative Counsel's office and sit around there, order pizza and work on the bill. We'd get it all drafted up, and we'd leave about midnight. In those days we could send it off to the GPO at midnight and we'd have rough drafts of it when we got into the office at 8:00 in the morning. Depending on what was going on, we spent a lot of weekends working on drafting bills. But one of the parts of the process that I liked the most actually was the drafting sessions. There were only four of us that were in the drafting session on Medicare: Larry Filson, Wolkstein and I, and Sidney Saperstein from the department. Once in a while Bob Myers would come in.

SANTANGELO: Why didn't we get national health insurance in those years? It seemed like it was something that could have happened, but slipped through our fingers.

FULLERTON: I worked a lot on that subject, of course, because it was such a big thing. It came after the '72 amendments. You know about the Mills-Kennedy bill, the history of that.

SANTANGELO: Can you shed some light on that, add some more details?

FULLERTON: I can go back a little to when I first went to work for the committee. I was working most on FAP but I knew national health insurance was coming down the pike, so one of the things I had done was worked on a small pamphlet setting forth the facts and figures of the health care system of that day. Not a persuasive document, just background stuff.

In those days I didn't have any resources to do something like that very much, sitting up there by myself. I used Dorothy Rice and her people over in SSA to get this little document prepared and then I put it out as a committee document. This was in the summer of '71. It was spread around the committee, got around the Hill. Then I got a call from Mills one day and he said, "Bill, Kennedy is going to call you. He wants to see you over in his office. I want you to go over there and do whatever he wants, whatever he

says." So I grabbed a handful of these pamphlets and went over there and had a sandwich in his office with some of his staff, and I passed out the little pamphlet. I knew what Kennedy was doing was trying to find out, "Where is this guy Fullerton coming from? Where is he going to be on anything I do in health insurance?" So I took that along just to let him know that we were working on it, that we weren't sitting over there being dumb. What it amounted to was that he didn't know very much about the health care system at that point. He learned a lot later, but that was the beginning of it.

And I remember he sat in the corner and read the pamphlet while I talked to his staff in front of the fireplace eating a sandwich. But that's about all that happened. Nothing developed from it. He wanted his staff to get to know me and vice versa. Of course I had a lot to do with him later. I used to go to his house, but that was later. So that was the beginning of national health insurance. We had hearings later that fall. Of course I got ready for the hearings. I used that pamphlet early. In later sessions when we took up national health insurance that's when I woke up early one Saturday morning with this idea in my head about a background book on national health insurance. This is when it was getting to be a really hot topic in '72, '73. So I laid out the whole thing in outline form and then I went back to bed. That was Saturday morning. I took it to the office Monday and I called all of the people over at the Congressional Research Service and said, "This is what I want to do," and they couldn't believe we were going to do all that stuff. But we worked on it that spring. I used to carry the thing around with me all day long, going over the proofs before we published it. That was a big document, and I did this for the simple reason that I knew the committee didn't know shit from shinola about national health insurance, any of them, nor many people on their staffs, and I wanted the Congressional appearance of the committee to be that they really did know a lot. That's why I put that book out. It was useful, but the main purpose, as I say, was to protect the committee.

I think there's something I need to say about that subject, not that other people don't know this, but I want to say it anyway. In those days the committee was substantially different in the way it worked and operated and in the way it viewed itself as a group from the way it is now or as long ago as the late '70s. They felt a unity among them regardless of party affiliation, that the idea of protecting the committee, its jurisdiction and its reputation, was paramount in the chairman, ranking member and most of the members. I think this is extremely important to keep in mind as you look at how things were and things today, because it made a big difference. The ranking member in those days, Johnny Burns, was very smart, very able, but a problem-solver, not an ideologue. He had definite ideas about things and a strong personality. And Mills knew this, but those two got along very well.

They both thought that what came first was to protect the committee. I knew this, I had sensed all this, and that was one of the reasons I wanted this book—to protect the committee. Not just to inform them so their decisions would be better, but to protect the committee from criticism that they didn't know what they were doing. Now I've made my point. Of course there were later editions of that book put out after I left.

SANTANGELO: So out of these hearings was a bill developed?

FULLERTON: No. No committee bill was developed. I need to say something about that. The committee never accepted somebody else's bill. They always started over and made their own bill, primarily because they wanted it done by the legislative people, the draftsmen in the House, who were the best, and also because the committee didn't accept any bill without a lot of changes anyway. In those days we not only worked in drafting sessions, we worked on committee reports as well as manning the committee whenever they held public hearings, sitting up there and being there to answer their questions and give them questions. Things the staff do today.

SANTANGELO: I think we're building up toward the Kennedy-Mills bill. Tell us about how that developed and what happened to it.

FULLERTON: One of the things that was unfortunate about that—this is an aside—in 1993 here in Florida my house was flooded. I had twenty-two inches of water, and one of the things I lost was something I did at that time, which was that every night, no matter how late it was, I wrote down what happened during the day during the whole Kennedy-Mills thing because I thought if it ever went, it would be an interesting document to have, but I lost it in that flood. I was never inspired enough to make a copy, but I remember a lot of it anyway. So with that caveat, I'll proceed. Kennedy and Mills were brought together by Bob Ball on this subject.

There were some meetings back and forth for a couple of years before 1974. Usually what would happen at the meetings was that Mills and Kennedy would immediately start talking politics and we'd sit around wondering when they were going to get to the subject. Not until early 1974, just about the same time I was working on the background book I just described, did they start in earnest. What happened was that Bob Ball, who was the guy from the outside at that point, me from this committee and Stan Jones from Kennedy's office were the ones who worked up the bill with input, of course, from the two principals as needed. Essentially what happened was that they agreed to go ahead and do this sometime in March. Kennedy had to leave town in about two weeks, but he wanted to get the bill written and introduced and still leave a period of several days before he had to leave for Europe. We had something like 14 to 18 days to get the bill agreed on and

drafted and introduced, so that was a fairly hectic period of time. We were meeting very regularly and working up the thing and meeting with the draftsmen. We were getting it drafted in the House Legislative Reference Service because Mills was going to introduce the bill, so it was perfectly appropriate. We just spent that whole two weeks just working hard on the bill. It was a contributory system.

I remember I had a hell of a time figuring out how we were going to get the welfare aspect of it, the Medicaid side, built into the program. I was really struggling with that, but finally one night I said, "I've got it. What we'll do is make all the people who are on cash welfare make contributions just like everybody else." Then we put a little sleeper provision at the end of the bill that said, "States will make up the difference in the grant." We did things like that to make the whole thing seem workable, and it was a relatively good bill.

The most interesting part of it, of course, was that it brought together people like Mills and Kennedy who were viewed on the Hill in those days as pretty far apart on the political spectrum. I had written a bill for Barber Conable, on my own, quite frankly, because I knew he was interested in the subject—it was on long-term care—and I took the bill to him to see if he was interested in introducing it. He liked it very much, so it got introduced as the Conable Bill, but I also wanted to see it as part of Kennedy-Mills because it sort of rounded out the package. So I had to go to Barber Conable to see if it was OK to do that. We worked it out so that he introduced it first and then said, "Go ahead." During that conversation he said—I'd told him I was working on the Kennedy-Mills—"There's nobody in this house that belongs here if he can't find himself between Mills and Kennedy." That was why we thought maybe this thing was really going to go, not necessarily without some changes as it went through the legislative process, but at least would form the basis for something that would really go. The big problem, of course, after that was working the administration into it. And that's when we would have meetings with the people for the administration and Stan and I. We would have meetings to see how close we could come to coming up with a bill that could be acceptable on all sides without trying to fight it out in the Congress, which was the mistake that was made [chuckling] by Mr. Clinton. We used to even meet up in a church on Capitol Hill as a place where we could go that we figured nobody would find us.

SANTANGELO: So what wound up happening?

FULLERTON: What wound up happening was we went into executive session on national health insurance. At this point there was a big change in the rules, that executive sessions were no longer private but were public, and I had a hell of a time over how I was going to work that. Ordinarily in a

public hearing situation the committee used to sit up on a dais and we'd sit behind them. In those days when the committee met in executive session, it sat down on the floor around tables. When they did that the Republicans and the Democrats switched sides. When you faced the committee, the Republicans would be on the left when you were down on the floor and on the right when they were up there in a public hearing. But they sat around there and then they'd have three or four little tables right across from the chairman and the ranking member who sat right across from them there'd be a little table where the staff was going to be.

By this time I'd gotten Paul Rettig and a woman from the Library to come over and actually be on the staff by July 1st of that year. They'd come up, but they were too new to really know how the committee worked so I'm on the front line. At this point every health lobbyist in town is in there with his brother, and the committee room, as big as it is, was filled up with people lined up on the walls. I knew we were going to have to make sure we could control the situation. So I started to explain what the bills were and the members who supported those bills would talk about them, the hospital insurance bill, the commercials—the Blue Cross didn't have anything in those days—and so on. We'd have all these bills explained, they would use the book I'd prepared because we had descriptions of all the bills in there. They would ask for cost estimates sometimes. We had a guy who's big in other circles these days to be our actuary that we used from outside so that we'd have an independent source on cost estimates. But one of my biggest worries was, "What's going to happen when I'm sitting up there and somebody comes up and tries to say something to me?"

I knew that the first guy that did that I was going to blow him out of the water right there in front of all the public. I had to do that to the guy from AMA, Jim Forest, not a bad guy. He came up and started to say something to me and I just turned around and said, "Don't you dare come up and talk to me while I'm sitting in front of this committee [laughing]." I was trying to establish—but failed—that maybe the members would do the same thing? Didn't work. So the lobbyists can still come up and whisper to the members sitting around the table down on the floor.

What happened to the Kennedy-Mills bill? Essentially, we had worked out a proposal that Kennedy himself probably could have gone for and the administration, and Mills who at this point was seeing himself between the two. We came close to that agreement but didn't make it. We didn't make it because of labor. At one point they even told us to go ahead and draft a bill over the weekend. They didn't say what should be in it, and this was not a bill that was necessarily going to be a bill that the three parties would agree to, but just, "Draft a bill." And we did that over the weekend. On Monday,

before the committee meeting started, I went to see Mills because I wanted to find out what the hell was going on. He must have been talking to somebody over the weekend and I needed to know. So I went downstairs just when he was getting his hair cut and getting his shoes shined, which he did every Monday, and I said, "Mr. Chairman, what's going to happen today?" [laughing] And he said, "It's going down. We're not going to be able to do it, but I'm not going to say that right away, so just play along." So that's what happened and we started going over the bill and explaining cost estimates, and then I saw Mills's face and I knew he was about to start saying what he was going to say. I just closed up the book and pushed the chair back from the table and waited. And he made his statement. There were 12 or 13 votes the wrong way. The record's there.

SANTANGELO: But the real problem was labor?

FULLERTON: I wasn't in touch with labor at that point and I didn't spend a lot of time talking to Stan about it. What I find interesting today is that right after that meeting the current Chairman and the current ranking minority member came back in the back room where I used to have my office, and they wanted to see, "Is there something we can do, something we can salvage out of all this?" So we spent some time in the back room there, and I had my cost estimates there, how this or that might go. When that was over they saw that there wasn't going to be a way that they could do anything either. I find that fascinating today when I see those two charging at each other in front of the cameras. [chuckling]

SANTANGELO: Was that the last major initiative?

FULLERTON: That was it. As far as major legislation on the Ways and Means Committee, that was in the summer of '74. Of course we were making calls, or I should say the administration was making calls to Ford even when he was flying over us in his helicopter going out to the field to go somewhere.

SANTANGELO: How much longer did you stay with the committee then?

FULLERTON: The committee went into subcommittees in early '75. When that happened, in late December when they were dividing it up, Rostenkowski came to me—rough and tough as he is he grabbed me and physically hauled me into an office—and said, "If I take this health subcommittee are you going to stay here and work with me on it?" I said, "Yes, sir." I had no other plans at that point. So that began that relationship. One of the first things he did was he wanted to learn what Medicare and Medicaid were, how they worked, what do you mean by Part A and Part B, that sort of thing. We used to have morning sessions because he'd go off to

the Whip's meeting, sessions over in my office which at that point was in that old hotel diagonally across. He'd come over there and I'd give him lessons early in the morning on the blackboard. I still remember one incident when he got balled up on something and he got mad at himself for not understanding something. He got up in huff and he went over and opened the door and looked back at me and said, "Goddamn it, it's like being in school again," and he slammed the door [laughing]. I had to give him credit. He did work at it. He got pissed off sometimes, but he learned.

SANTANGELO: You worked for Rostenkowski for a while?

FULLERTON: Yes. I worked up there until I decided to retire. That was in March of '76.

SANTANGELO: There was just a short period after that when you wound up coming back to work for what became HCFA, is that correct?

FULLERTON: Actually what happened after the Georgia boy was elected; I think in early February, I got a call from Joe Califano. My name had been bandied about when they were thinking about things. He was big on hospital cost containment, and he called me up to come on over and see him about that. I told him that would be a very tough role, but like the old firehorse I would come when I was called, so I went to work for him as a consultant to the department and worked on hospital cost containment up until June. Then one day he said, "You want to find some place here in the department to stay?" And I said, "I don't know." Actually what had happened just before that was that the doctor from North Carolina who was Joe's first choice to run the Public Health Department had asked me to be his Deputy and I had agreed to do that. Not forever, but for a while until he got used to Washington's ways. Besides I was interested and I would have liked the chance to change some of the things over there anyway, so I agreed to do that.

But then he and Joe had a falling out and he decided he didn't want that job. So that went down the tubes and I was talking to a lot of people about what I was going to be doing outside of government at that point and Derzon and I had met and talked a little bit. Then, somewhat out of the blue as far as I was concerned, he [Derzon] came in one day and said, "I'd like you to be my deputy." I think what they wanted at that point was somebody who had at least legislative experience in both programs. There weren't many people who knew very much about both. I talked to Joe about it and I told them both that I would stay there for a year and a half or so to help get the thing organized, put together, so that it would have a chance of working. That was the understanding I had with both of them. And that's what I did. I worked

pretty hard on that. I worked night hours. When you work for the government you've got to work hard.

SANTANGELO: Was it a good idea, in your opinion, to create HCFA to put together Medicare and Medicaid?

FULLERTON: Yes, on balance I think it was. There were a lot of differences between the two programs in almost any category you can mention: differences in philosophy, differences in history, differences in the places people came from that worked on the programs, their backgrounds—a whole bunch of differences. Even things like the personnel departments, staff organization—they were different. On the other hand they did have some similarities. Obviously they both worked at paying for health care, both contracted out in a sense. Medicare with carriers and states, Medicaid with states and in some cases others. On both there was also an overlap among the people who received the benefits. So there were reasons for doing it. On the other hand, you could make an argument, and I could have made an argument at that time, that somehow a better way of coordinating the two might have been useful as well. I can remember a time when I was working for the committee when I introduced the guy who ran Medicare and the guy who ran Medicaid to Mills, and then I said to the Chairman, "These two people have not met before themselves, but I thought you'd like to meet them while they happened to be both here." That was an executive session over at H208. Of course, Jay Constantine had been working on this for a long time, so it was hardly a new idea. It was kicking around. On the other hand, Joe, who never really ran any big organizations before that I was aware of, didn't perceive the problems that these kinds of differences would create in turning two organizations into one. He had an unrealistic view of how easy it was, an unrealistic view of how fast you could do it.

SANTANGELO: Do you think that had something to do with his problems later with Derzon?

FULLERTON: Absolutely. It was the key to the thing. I used to have breakfast with Joe pretty regularly in those days. Derzon and I would both be up there and we'd talk about what we were doing and how it was going on. But on several occasions Joe would take his two hands and clench them together and say, "I want those two organizations pushed like this and I want it done now." If you'd gone too fast with it you could have disaster. You could go too slow, but just where that line was was the kind of thing you'd have to determine from day to day in that kind of situation.

SANTANGELO: Was putting together the organization pretty much your main task while you worked for HCFA for about a year or so?

FULLERTON: Yes. It was about 16 months.

SANTANGELO: Had you known Califano from before?

FULLERTON: No. I had not known Derzon from before either.

SANTANGELO: What were they like to work with?

FULLERTON: I liked Derzon, still do. We don't see much of each other. He's way out there in California. Joe—those two were bound to clash because their personalities were that different. Joe was a guy who liked to push through even though he didn't know what he was doing. I remember one time when we had to do something with Part A and Part B. He was making this presentation and he needed to know what they were. Before I left there the night before I gave him something to read on the subject. In the morning he came in and started asking me questions which told me right away he hadn't read it himself, didn't know what he was talking about. Sometimes he would get up in front of an audience and because he hadn't read something he'd make some mistakes and his eyes would get real wide and he'd look at me like, "Save me from this." And I'd pop up from the audience and say, "As you remember, Mr. Secretary..." But it was those sorts of things.

Derzon would explain what we were doing. It was a difficult job. You had not only what I described before, but you had the physical location. How do you bring them together? How fast can we get a building to put them in the same place? We never got good cooperation from Joe's people on that subject and I used to say that. One thing I used to tell him was, "I tell it like it is." He didn't always like it but he didn't fire me. I had done the same thing with other people. They knew that I was for them because I wasn't out there making a public name for myself, that I was acting as staff. If you get people to believe that you are like that, then they'll start believing you when you tell them something. I guess the part of that that leaves the sourest taste in my mouth, that really bothered me emotionally about the whole thing was the way it was done. I had told Derzon and Joe that I would stay there for a year and a half or so. In the fall of '78 there was a thing out from the government that said you could retire early, early-outs from the department wouldn't get penalized.

They established one of those things which was going to be up at the end of that year, and that made a difference to me in what I'd have in retirement income, so I discussed with Derzon that I was thinking of doing that. I let him know. He and I had come to an agreement about when that would be later in the year. I can't remember how Joe was informed, but his reaction to that, not at that point but later when he was talking to the under

secretary, was that, “If Bill’s going to leave there, maybe this is the time to get Derzon out of there too.” That’s what, frankly, pissed me off because then I felt really guilty, “Jesus, I’ve done in Bob,” and that was the furthest thing from my mind and I was really feeling guilty. In fact I got sick to my stomach and I didn’t even go to work one day, I felt so bad about it. As a matter of fact, I went to Hale Champion and said, “That son-of-a-bitch, if he’s going to fire somebody, that’s not the way to do it.” He did it so badly. I told Hale Champion that and he said, “You’re right, Bill, I tried to tell him too.” So that’s the way it was left, not a happy way to do it.

SANTANGELO: That brings us to when you left I. You’ve been out of government service for a while now. Looking back on what you did, sort of a whole overview of what you did in the health field, what do you think are some of the major developments, things that you are proud that you were a part of, or, looking back, that you would want to change perhaps?

FULLERTON: I guess the part that I look back on was working on I and my work with the committee. I did a lot of work before ‘65, but if you want to put it in a way that we were drafting bills, that there was action going on, that really began in ‘65, and for me it probably ended in ‘74, ‘75. If I look back from that standpoint I didn’t do a hell of a lot [laughing]. I didn’t have anything personally to do with making sure I was enacted. That was something else. I made some contributions and I can point to a bunch of little things that would have been worse if I hadn’t had something to do with it, but on big things like welfare reform, we didn’t get any legislation done really. We got some on I. I think I had something to do with quite a few of the changes that were made in I after the original enactment. I made some contributions there. If national health insurance had become something, I could point back to that, but it didn’t. So you can’t really say that my career was that positive in terms of things that actually finally developed. I could tell you some things that could have happened if I hadn’t stopped them, bad things, but that’s another story and it’s very hard to discuss.

SANTANGELO: Do you have any other final comments?

FULLERTON: No. I have to say I think that the legislative process is a lot worse than it used to be. I feel pretty sad about what’s going on, but I don’t know what to do about it.

SANTANGELO: Thanks very much.

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Interview with Paul Ginsberg

Washington, D.C. on August 22, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: I see that you are an economist by training and did your doctoral work at Harvard. With whom?

GINSBERG: With Martin Feldstein and some other people. When I was at Harvard, John Dunlop, who subsequently became Secretary of Labor, had become very interested in health care issues and had brought some funding and helped hire some younger faculty interested in that area. So when I was there, there was a core of faculty which included Dunlop, Feldstein, Ralph Barry and quite a corps of graduate students. In fact, Feldstein ran a seminar on health economics and Rashi Fein was running a seminar with somewhat broader focus on health care issues. This was in the late '60s. I actually finished in 1970 and got my degree the following year.

BERKOWITZ: That's an interesting bunch of people. Martin Feldstein seems so different from the other two. John Dunlop was an old institutional economist, not that well-versed really in modern econometrics, Rashi Fein is a character plain and simple, much more liberal certainly than Martin Feldstein in his political outlook. How did that all work out in terms of both politics and hardness of the economics?

GINSBERG: When I think of it, my colleagues and I worked most directly with Feldstein, and I saw Feldstein as the one who had taken the somewhat backward field of health economics and brought modern economics techniques to it. I think his dissertation, which was on the British health system, certainly forgotten now, was a very important book in demonstrating to a generation of health economists how they could use an empirical tool to analyze the health care system. I actually wasn't aware of any political conflict at the time. Feldstein was, at the time, more focused on methodological issues than into policy. So in a sense I felt they were complementary. Rashi Fein bringing this institutional focus on the health care system into it, whereas Feldstein was showing people how to use econometrics to analyze health care issues.

BERKOWITZ: So that although we think of his work on the savings rate in Social Security as being his big policy play in the social welfare field, he earlier had this interest in health care?

GINSBERG: Oh, yes. I would say health care was perhaps at that time in the late '60s probably his principal interest in economics, although it certainly wasn't his sole interest.

BERKOWITZ: How about Dunlop? Dunlop had not yet started this discussion group on health care. That was later, as I recall.

GINSBERG: Yes, that was much later. I'm not as aware of what Dunlop was doing there. For some of my fellow students who were older, who had started earlier, like Frank Sloan and Joe Newhouse, Dunlop was their thesis advisor because Feldstein hadn't arrived then. But when it came to my peers in my year, I think all of us worked with Feldstein.

BERKOWITZ: Newhouse went on to Rand, is that right? Did he hire you?

GINSBERG: No.

BERKOWITZ: How did you get from Harvard to Rand?

GINSBERG: Oh, that was twenty years later. I'm sorry, yes, he did hire me later. I didn't know Newhouse that well at Harvard. I got to know him much better in subsequent years.

BERKOWITZ: So what happened after you graduated from Harvard? The next thing I know about you is that you became a senior economist at the Rand Corporation.

GINSBERG: A lot of things happened before. There's an interesting story. When I finished Harvard, I had been planning to work in the New York City government in the very dynamic health services agency. I think it was broader than health department commissioner. But the military said, "No, that's not good enough. You should go into the Army." So instead I obtained a commission in the Public Health Service. Along with many male health service researchers of my age, I was used in place of civil servants at what today is the Agency for Health Care Policy and Research. So for two years, I served as a project officer for grants and contracts in health economics that that agency was funding. I decided to go to academia after that and taught at Michigan State in economics and community medicine. One thing I should mention is that for my last three months in government, I had been detailed to work on the Price Commission which was a component of the Economic Stabilization program.

BERKOWITZ: John Dunlop, didn't he work on that?

GINSBERG: He was with a related organization called the Cost of Living Council, somewhat of an umbrella organization. There was a price agency

and a pay agency. I developed some of the regulations for hospitals under those wage and price controls and subsequently did some research on the effect of those limits on hospital costs.

BERKOWITZ: Were they effective?

GINSBERG: More of an effect on revenues than on costs. But it is extremely difficult to evaluate an experiment without a control. Hospital cost increases slowed down a great deal during the period, but they had been slowing down for about a year and a half before that.

BERKOWITZ: Sort of post hoc, propter hoc fallacy?

GINSBERG: Yes. It was difficult to make inferences. Actually in the early days of the Clinton health reform when the President raised the possibility of price controls, or a freeze, on hospitals and physicians, many people started reading the literature, including mine, about that expense. It was interesting to go back to it and find that my memory wasn't perfect. I don't think I can tell you today precisely what the conclusions are. I would have to go and open the book and see. Probably research that was done years later had a better chance of evaluating it because of the ability to add information on the post-control period.

BERKOWITZ: In what year was it that you got to Michigan State?

GINSBERG: '72.

BERKOWITZ: Did you work with Dan Hammermesh?

GINSBERG: Yes, he was a colleague there. I don't think we did any research together.

BERKOWITZ: You were somewhat similar? He was a labor economist. He's an outgoing sort of guy, right? And interested in policy stuff too. More on unemployment compensation than on health care, but the same kind of what I call applied micro-economics.

GINSBERG: Yes, that's right. I was there for four years and then was recruited by Duke to its Public Policy School, which I did from '76 to '78. Then I came on leave of absence to the Congressional Budget Office in 1978. After being there about three weeks, I decided I wasn't going back because I found it so much more stimulating than academia.

BERKOWITZ: Really? Why is that? It seems to me that there was a big fad for those public policy schools and the Duke one was one of the ones that was just getting under way then?

GINSBERG: Yes, it was a fairly new public policy school. It differed from the others in the sense that it offered undergraduate teaching and an undergraduate major in public policy. In fact we used to tell our undergraduate majors, "You don't want to go to any master's program in public policy because you've learned most of it already."

BERKOWITZ: But the Congressional Budget Office was more stimulating. That also was relatively new, right?

GINSBERG: Yes. I think it was three years old at that point.

BERKOWITZ: And you liked it better. Why?

GINSBERG: I liked it better because I liked having clients to do my analysis for. It was much more meaningful if a committee in Congress needed to know about something than if I just sit back and think about what might be publishable. I also found it fascinating to have contact with real policy makers and find out what was important to them and what they needed to know to make their policy decisions. I found right away that that was very stimulating, that a major policy maker needed to know something, and I thought they weren't mistaken. That was a more exciting thing to work on.

BERKOWITZ: Maybe you could tell us a little bit about the role of the Congressional Budget Office in making policy. At one time the Congressional Research Service in the Library of Congress was almost like staff to the various committees that were making policy. CBO, if you read about it in literature, is portrayed as more neutral, that they would come in and make cost estimates and say, "This is the cost estimate." The idea being that they were not too corrupted by the political process.

GINSBERG: There was more of an arm's-length relationship.

BERKOWITZ: Is that correct? Is that how you would go about your work?

GINSBERG: Yes, very much so. Actually, having multiple masters can confer great independence on an organization and, in fact, is critical as far as not being corrupted, to be able to give someone results that they're not going to like, because there are others that will defend you and they will see virtue in your independence.

BERKOWITZ: Do you remember the major piece of legislation that you helped estimate the costs of?

GINSBERG: Oh, I did cost estimating only occasionally. I was in the report writing component of the Congressional Budget Office. During the years I was there, this component has probably had more of a long term impact, but

it didn't get the day-to-day attention of the component that does the cost estimates.

BERKOWITZ: Another thing that has always confused me is that the GAO also writes reports and also responds to requests from Congress. How is the CBO different?

GINSBERG: There are two differences. One is the budget hook and being the experts on the budget. We'd look at issues that had budget implications. In a sense that narrowed what we did. We didn't do any auditing. The other difference is that the CBO has a much, much stronger staff than the GAO does, or did. The GAO has improved somewhat. The GAO at that time was mostly accountants. What the CBO was doing was really the cutting edge of applied micro economics. It had people that were trained to do that.

BERKOWITZ: So the Congressional Budget Office, then closer to economics, could estimate things at the margin. The GAO would say, retrospectively, you used 56 paper clips last month.

GINSBERG: I don't know if I'd characterize it like that. There's a whole paradigm about how to analyze policy that is taught in public policy schools, and a lot of economists know that. The CBO is able to say, "Here's the issue. Here are the options. Here's what the likely effects will be." Whereas GAO, with its auditing background, would take a different approach to it.

BERKOWITZ: When you wrote these reports were they in the health policy field?

GINSBERG: Yes, they were in the health policy field. For a while I was supervising income security work also, but most of my interests were in health. Ironically, one of the most important things I did in the early years I was there was actually a cost estimate. It was for the Carter hospital cost containment initiative. The relationship I had at that point with the cost estimators was that when there was a really big one, I would come and work with them. CBO still functions this way. With health reform, the report-writing side of CBO got involved with the cost estimates, whereas the people in what's called the Budget Analysis Division would do estimates every day but did get important help with the major ones.

BERKOWITZ: How pure is this Congressional Budget Office then? Let's take the Carter hospital cost containment legislation. Obviously that was pretty close to the surface of the interests of the Carter administration, if not maybe as big a deal as the President's Program for Better Jobs and Income, but still pretty important to them, probably their lead health initiative. The whole idea behind that legislation was that it was somehow going to reduce

hospital costs, so therefore the empirical questions are real critical. It's not a good government question, it's not a crime question, it's an empirical question. Were you free then to say, "Here's the legislation as we have it, and here's what we think is going to happen," or was there negotiation about this with the White House or with HHS?

GINSBERG: No. Negotiations never took place. But there was some contact. In fact, the interesting thing was that we thought in general that type of policy was a useful one, but we had two negative things to say. One, we had some trouble with some of the details. And the other is that it's not going to save as much money as the administration is projecting. We actually found out later that the economists in the Secretary's office at HHS had estimates very similar to ours. But it was the HCFA Actuary, even to this day, who calls the shots on those things in the administration, and I think the biggest quarrel was really with the actuary rather than with the economists in the Department. Basically there was no negotiation. The Department was very unhappy with what CBO had done. That's the way it's always worked. I'm not aware of any negotiation ever between the administration and CBO.

BERKOWITZ: And you simply announce your results. Do you give them an advance copy?

GINSBERG: We tried to. We weren't always as good at that as we should have been.

BERKOWITZ: You're sort of the representatives of Congress rather than the administration?

GINSBERG: Certainly we're a part of Congress, work for Congress, but we don't represent Congress either. It's just a loose cannon that the Congress has set up figuring that more times than not it will be valuable, but that it really is not under anyone's control.

BERKOWITZ: Was Alice Rivlin the head of the CBO at the time?

GINSBERG: That's right.

BERKOWITZ: Your relations with her were good?

GINSBERG: Yes, very good. In fact Bob Reishauer was her deputy for part of the time I was there. He actually was my first boss, when we was Assistant Director.

BERKOWITZ: Alice also is a Harvard PhD isn't she? Another economist?

GINSBERG: That's right.

BERKOWITZ: Is that part of the connection that got you the job?

GINSBERG: I didn't know her before then. Most of the people that worked for her were economists.

BERKOWITZ: Kind of a no nonsense type, is my sense of her.

GINSBERG: That's right. She was a very important Director because she really set the tone and set the model for how reports were going to be written and issues of objectivity. I think future Directors pretty much followed what she set up, never tried to change very much.

BERKOWITZ: Why did the Carter hospital cost containment legislation fail in your opinion?

GINSBERG: I think it failed because the hospital industry defeated it, and I think it also failed because there was a lessening of hospital inflation at the time, which was associated with the voluntary effort by the industry. It also failed because the notions of a competitive health system were born at that time. Richard Gephardt was a major figure in defeating that legislation because he had taken up a more competitive model. In fact he had written a piece of legislation with Dave Stockman, the Gephardt-Stockman bill. It would be interesting to go back and reread that bill. There are probably some important links between the Clinton plan and that Gephardt-Stockman bill.

BERKOWITZ: When you say that the Gephardt-Stockman bill was more market-oriented, more competitive, what exactly do you mean?

GINSBERG: That bill was going to change the tax system because there was a pretty broad consensus among economists that the tax system was encouraging overly extensive use of health insurance, and health insurance at that time clearly was a contributor to health care cost inflation by substituting for a normal purchaser a passive third party payer. So a lot of the emphasis was on tax system changes. There was universal coverage in that bill. They were going to basically finance it by taxing excess health insurance and providing tax credits to purchase health insurance. That's why I call it a competitive bill. The notion was, "We're going to convince people to get more cost sharing in their health insurance, be more likely to use an HMO if they have a choice of that." So, in a sense, between HMOs and cost-sensitive consumers that was going to control cost in the health care system.

BERKOWITZ: So the basic insight is that the marginal cost must be greater than zero for a visit to the doctor?

Ginsburg: And if you enroll in a cheaper plan to make sure that you get the savings, so that you'll have the incentive to economize in choice of a health plan. It was a common situation that people that joined HMOs at the time often didn't get much of a reward from their employer.

BERKOWITZ: So this was an attempt to change the meaning of "consumer." The consumer is no longer just the employer; the consumer is also the actual consumer of health care, and they would act more rationally if they got good market signals. So you were at the CBO from '78 to '84, and you saw the Reagan era?

GINSBERG: Actually a lot of my work after hospital cost containment was on what I'd call the competitive approach to health care. In fact Alan Enthoven was very prominent and influential at that time, the early '80s, as the guru of competition and health care.

BERKOWITZ: Were you reunited at all with Martin Feldstein in this period? He came back to Washington in 1981.

GINSBERG: Yes, he came back to Washington to head the Council of Economic Advisors. Yes, he would talk to me periodically whenever a health care issue came up.

BERKOWITZ: That's an example of somebody in academia using their academic contacts to facilitate their Washington career. That's interesting. With the understanding that you could talk to him in ways that probably were much easier for him than someone calling up somebody at HHS.

GINSBERG: Oh, yes, because, actually there were some very interesting back-channel things. People at OMB used to be more comfortable talking to people at CBO—in a different branch of government—than talking with people at HHS, because they were always having to negotiate with HHS. Whereas the relationship with Congressional agencies was much, much looser.

BERKOWITZ: Did you play a role in the big event of those years that you were at CBO, the 1983 legislation which brought in DRGs at Medicare?

GINSBERG: Oh, yes, yes.

BERKOWITZ: What role did you play in that?

GINSBERG: I think a pretty important role, basically analyzing the Administration's proposal for Congress. The background of the DRG legislation is very important. Legislation the previous year, the TEFRA [Tax Equity and Fiscal Responsibility Act] legislation of 1982, was the main

political event. This was the first time there were very major budget cuts for hospitals, and it put the hospital industry in the position that it had to come up with a substitute for what was on the books in that TEFRA legislation. It did lead the AHA to make a proposal for a hospital payment system. It wasn't that close to the ultimate legislation, to the DRGs, but it was an important event. My feeling was that the blood had been drawn (through TEFRA), and the hospital industry was left with finding something that would be budget-neutral, that would be easier for it to live with over the long term.

BERKOWITZ: You say that TEFRA really put pressure on the hospitals. Exactly how?

GINSBERG: TEFRA had some very strict caps on Medicare reimbursement. I think what the hospitals disliked the most about TEFRA and valued about the DRG system was that TEFRA didn't permit them a chance to actually make money if they did well. In other words it was cost reimbursement still, but up to a cap, whereas the DRG legislation said, "This is what we're paying and if that's more than your costs, well then you can keep it." TEFRA took some principles that were developed during the Economic Stabilization Program and put them into force in Medicare. Basically it was a series of caps which set the stage for the DRG legislation. CBO played the role of advising and doing analysis for the Congress all along.

One of the most important things we did was simulation models of how the administration's proposal would affect different types of hospitals. Who were going to be the winners and the losers. Our simulations did result in a number of modifications of legislation that have been with us ever since. One was the separate schedule for rural hospitals, because we showed that rural hospitals are going to make out like bandits under this. We regarded this as an indication that the case mix adjustment was not sophisticated enough.

Also we pointed out the teaching hospitals were going to be major losers. Teaching hospitals with their enormous political clout were actually able to get a bigger teaching adjustment than our simulations—and HCFA's simulations—called for. An interesting perspective on history there was that we found that after we had given our simulations to the Congressional committees that HCFA acknowledged for the first time that yes, it had simulations too, and they were fairly similar, but HCFA had not acknowledged previously that they had simulations, probably in the belief that the less known in Congress about the details, the better.

BERKOWITZ: Do you remember anything about the actual political packaging of that? Because it was unusual that such a major change in health care plans was tacked onto something else that was fast-tracked

through Congress with the Social Security rescue. Do you have memories of that whole business?

GINSBERG: Yes. I think it was something where that legislation had gotten to the point where it had a lot of support and no significant opposition. Some of the specific opposition had been bought off. The teaching hospitals were bought off. And the hospitals were very eager to replace the TEFRA provisions with that. So this was a situation where a particular train was leaving the station and to get that legislation to hop onto it. In a sense I guess you'd had a fairly short process of Congressional consideration, but this was a program, unlike Physician Payment Reform, that had undergone significant development by the Administration. That probably was the last major health policy proposal by the administration until the Clinton health care reform came. Congress, I think, did have some time to modify it. So I guess that's why it was able to go by that process, because it was fairly well agreed to. Even at that point—it's gotten much worse since—there was an appreciation that free-standing pieces of legislation have a difficult time, and it's really worthwhile to attach them to something that has to pass.

BERKOWITZ: And that's maybe Clinton's problem, but the modern legislation was so big it was difficult to think it could be part of anything else.

GINSBERG: Oh yes, and there are a lot of other problems too.

BERKOWITZ: One other institutional detail I want to ask you about. This TEFRA legislation of 1982 set caps just for Medicare? That would be hard for somebody on the outside thinking about this to comprehend. Medicare in a sense is driving the whole politics of the issue. You could argue that the hospital industry might say, "Well, it's just Medicare, but most people are not old."

GINSBERG: Actually there was one major shift between the Carter hospital cost containment and TEFRA and the DRGS. The Carter proposal was designed for the whole health care system. It was going to control everyone's health care costs. With the Reagan administration the focus turned very much to, "We're running these programs. We have to run them better, more efficiently. We have to economize our expenses." So it went from policy to deal with the hospital cost problem to policy to deal with Medicare's budget problem. That was a very important shift. What it lead to, as you went through the '80s, was increasing concern by the employers about cost shifting, but it really was a focus that it was OK for a conservative Republican administration to work to get a better price for this government purchaser.

BERKOWITZ: And that's an interesting policy detail too, isn't it, that big reforms have so much harder a road to travel than reforms that look like incremental changes to existing programs.

GINSBERG: That's right.

BERKOWITZ: In addition, the other thing that stands out about that legislation is that it's a lot like Richard Nixon's trip to China in some ways, that it's the Republicans who can use the government's regulatory clout.

GINSBERG: Yes, that's right. Oh, but there had predecessors under the Democratic administration. In the 1972 Social Security amendments there was authority given to the Secretary to pursue a number of cost containment initiatives that in the late '70s were starting to be used for physicians—have you heard of the Medicare Economic Index?—limits on the screens, on how fast the screens could go up. That was from some very general language in the '72 amendments that in 1975, I think, the Secretary concocted that. And a similar thing with some general hospital language came in the so-called Section 223 limits on amounts paid per day for hospital care. Then, as part of the budget process in the early '80s, what started happening is some tools available to the administration that had been used gingerly, the Congress would actually use the same tools through legislation and get credit for the savings in the budget process.

So, in a sense the TEFRA legislation took some of the methods that had been developed by the Secretary or previous Secretaries under Section 223 and used them in a much more Draconian fashion and then scored in the budget process. So what you found happening during the 1980s is things that would have been considered regulatory initiatives through the rule making process started showing up in legislation, because the score keepers would tell the Congress, "There's too much potential slippage between your giving a general directive to the administration and them actually writing regulations and implementing something that saves money to your giving them a very specific directive." So that's why you started having legislation looking like regulations through the 1980s. You could almost say that TEFRA was an example of that. TEFRA had the formulas in the legislation whereas previous legislation had given the Secretary very general authority.

BERKOWITZ: So if there had been Wilbur Cohen in the 1960s he would say, "We'll handle that in regulation," where as by the 1980s too much had happened in the Congressional-Executive relationship. Too much had happened to the budget to permit that.

GINSBERG: I think it was the budget process, the reconciliation process where the Congress had to pass legislation saving a certain amount over a

stream of years. It just fell to them. The connection was just too indirect, whereas in the '70s or '60s you give broad authority and the administration takes initiative to do things. That just wasn't good enough for the score keepers. It was, in a sense, a relationship problem. When we get to the story of physician payment reform, one thing I'll tell you is how something that had been started to be developed in the administration my commission came up with a faster, quicker way of doing it, gave it to Congress and Congress just wrote it into the legislation. It wasn't as if they were having tug-of-war about how to do these things. It was really, "It's more feasible for us to write it in detail in the legislation than for you to keep working on it through regulations."

BERKOWITZ: I want to talk about that, but we might as well fill in your biographical story. At some point the honeymoon at CBO ended and you decided to leave?

GINSBERG: Yes. My model is that I seem to get tired of a job after six, seven years, and that's really all it was.

BERKOWITZ: That was in 1984, and you went on to where?

GINSBERG: Then I went to Rand to work with Joe Newhouse. The health insurance experiment had been finished for some time, although I think he and his colleagues were still writing papers from it. I did a variety of things. Actually a fair amount of the work I did was for HCFA. One of the more important things was on DRG creep. I was able to develop estimates of the magnitude of DRG creep and they were used by HCFA in calibrating the payment rates.

BERKOWITZ: Maybe we could demystify that. DRG creep means?

GINSBERG: This is a system where there is a specific payment based on the DRG of the patients. Each DRG has what's called a weight, basically reflecting the resource intensity of that type of patient. Over time, particularly in the early years, the patient mix was becoming more expensive, more difficult. Actuaries suspected that some of it might be real and some of it was due to the fact that hospitals all of a sudden had an incentive to code more accurately. Previously, the diagnostic data on which DRGs are based was of use mostly to clinical researchers. It had nothing to do with payment. So if the doctor was supposed to put down a primary diagnosis and a secondary diagnosis, and the doctor didn't bother putting a secondary diagnosis down, there wasn't much motivation to police that system internally. But now that if there's a secondary diagnosis, it might put the patient into a higher value DRG, it all of a sudden became in the hospital's interest to do a thorough job of coding. Certainly that increased

the complexity level. A lot of it was legitimate. The actuary had actually estimated how much the average case mix would go up because of that incentive. It turned out that the actuary had underestimated the degree of what we call coding change, or DRG creep, so that work was on trying to quantify what the DRG creep had been. We tried to separate out the real change from the change due to better coding.

BERKOWITZ: That's interesting. So you went from Rand, doing this sort of quantitative work, to the Physician Payment Review Commission or is there another step?

GINSBERG: That's right. I would have been happy to continue at Rand but was approached by Phil Lee after he'd been appointed chairman of the commission.

BERKOWITZ: Let's try to get this institutional detail straight for the record. This Physician Payment Review Commission comes from what?

GINSBERG: That came from one of the budget reconciliation bills. It came from COBRA [Consolidated Omnibus Budget Reconciliation Act of 1985] which was not enacted until April 1986. There was a stalemate late in '85 and the legislation was delayed. The origin of the provisions setting up the commission was Congressional staff being very pleased with what they'd done in the hospital (DRG) legislation, that they had done a thing very constructive, and wanted to do something in physician legislation.

Unlike hospital legislation, they saw little prospect of leadership by the administration. What was happening in the administration is there seemed to be about four factions. There was one that was supporting a fee schedule, one that was supporting greater use of capitation, one that wanted to do something like DRGs for physicians, and the White House just wasn't interested in resolving what its policy would be. There was support in Congress for rationalizing the payment system. Another thing that led to it was after TEFRA and then the DRG legislation, come 1984 they had another round of budget legislation and decided it was the physicians' turn to take the hit. They didn't have many policy ideas.

They wound up with a freeze that they were all very unhappy about, and also they were hearing from the internists and family physicians about distortions in the payment system which were starting to hurt more under an era of constraints on fees than they would have when fees were more generous. They were hearing from the rural physicians that they were being underpaid. So there was a lot of interest in a restructuring of the payment system and clearly not much expectation that the Administration would propose something.

So they decided to set up their own commission to do that and they modeled it after PROPAC [Prospective Payment Assessment Commission] but gave it very different assignments. PROPAC was set up as part of the DRG legislation because of Congress' not trusting the administration to implement that legislation properly. They basically set up a watchdog in PROPAC that would comment on what the administration did and then tell Congress, whereas my commission was created to develop policy. Rather than just refine and make sure a piece of legislation is implemented properly, we were created with a mandate that asked for policy recommendations on these issues. We had about ten issues in our mandate, a very specific mandate that Congress would update periodically.

BERKOWITZ: This is a much more traditional use of a commission then. This is an example of a commission somewhat similar to the one that produced the 1983 Social Security amendments, that when Congress either can't decide on something or if the issue is controversial, push it off to something outside of both the executive and the legislative. Is that right?

GINSBERG: I think that's right, yes. Of course we did have a link with the legislative branch, but it was a neutral link because the Office of Technology Assessment was assigned, like they were with PROPAC, to appoint the members of the commission and to report to Congress on how the commission was doing its job.

BERKOWITZ: So in 1986 you became the first Executive Director of the Physician Payment Review Commission. How did you get the job?

GINSBERG: I got the job I think in a number of ways. First, being well known in Congress. But there was another dimension that you might find interesting, and I find it very interesting from a personal perspective in that, after I'd left the CBO and gone to Rand.

The Ways & Means had a major retreat on Medicare and I was invited by the organizers to speak. And what was the topic? Physician payment. I didn't know a lot about physician payment, but was sure that I knew as much as anyone else because it hadn't been a major policy issue in Congress. As a result of the presentation there, I was invited to testify at some hearings during 1985 on physician payment. So I became one of the policy analysts outside the government most known to people in government on this topic. So I think there were a number of people in Congress who had recommended to Dr. Lee that I be the Executive Director. I also had known him in the past. He had once recruited me to come to his institute at UCSF [University of California at San Francisco].

BERKOWITZ: So you were picked to be the Executive Director, and on a thing like this I guess the Executive Director has a lot of power, because your people were famous people like Dr. Lee that were in other jobs.

GINSBERG: Yes, the commissioners were part-time and, as a political scientist once told me, there's a big difference between a staff-driven commission—whenever there's a big staff the staff plays a large role. Your typical commission might have a very small staff which can just Xerox things for the members and set up the meetings, but this was a case where Congress very generously funded this commission and our staff size was in the low twenties.

BERKOWITZ: Really? How many were professionals?

GINSBERG: All but five or six.

BERKOWITZ: Did you recruit health economists primarily?

GINSBERG: I call them health policy analysts. Actually many of them were not economists, but most of them had PhDs and had experience doing health policy analysis, quantitative work. Maybe not all were quantitative.

BERKOWITZ: Who were the players on this commission? My experience with presidential commissions is that there are a few people who somehow take an interest in it, and then they become involved. Others fly in, fly out and go to other meetings quickly. On your commission who were the people who actually showed some interest? Dr. Lee was one?

GINSBERG: Yes, certainly he was one. But I would say a fairly high proportion were quite active in it. The commission got a lot of attention from the beginning and met the public. If one looked on they had a sense that this was going some place. The commission had an interesting mix of members. I would say roughly half the members were there because of their expertise, and the other half were there because of their ties to constituencies. OTA had a policy that they would never appoint an employee of an interest group, could only be a volunteer leader, so that the people could be somewhat independent of the constituency that appointed them. They wouldn't lose their job. Some of the principal most active people, the constituency people were Tom Reardon from the AMA, Karen Davis, John Eisenberg who succeeded Phil Lee as chairman many years later, a gentleman from the AARP. Jack Guildroy, who was a member of their board, was also very active.

BERKOWITZ: Physician?

GINSBERG: No, he was just an elderly person. He always talked about this as his second career.

BERKOWITZ: The AARP have lay people at all of their things, so he had had probably some experience with groups like this.

GINSBERG: That's right. Oh, and Walt McNerney, former head of Blue Cross/Blue Shield. I think those are the more influential people. Oh, and Uwe Reinhardt who was then, as he is now, an economist at Princeton.

BERKOWITZ: He became also a player in this health care economics field, although I don't think he was originally, was he?

GINSBERG: He got his degree in the early '70s and has been a significant figure among health economists for a long time.

BERKOWITZ: Did you have a specific deadline? Was this going to continue in existence?

GINSBERG: This was an issue. Those that wrote the legislation envisioned this as a permanent commission. The House Appropriations Committee, which didn't like the idea of all these Congressional commissions, wrote in its first report that this should be viewed as a temporary commission not to exceed two years. Certainly there was a lot of pressure on the commission to produce quickly, feeling that if it didn't produce quickly it wouldn't survive.

BERKOWITZ: And as Staff Director, again there's a lot of choices. You can have Washington-based hearings, you can do what they used to call in the Carter administration "outreach," where you'd go off to different parts of the country, or you can dispense with that entirely and just do research. Which of those options, or combination of all three, did you take?

GINSBERG: Yes. I would say some combination. Interestingly, PROPAC had taken the third approach of just doing research. We actually had taken the approach of once a year devoting a day or a day and a half to hearings. We had a fair amount of outreach to talk to the interest groups. What we would do each year is tell them, "Here are the issues we're planning to write on for our annual reports. Why don't you come in and tell us about which ones are important to you and what your views are." Then we would sometimes invite a particular group to speak on a particular topic, maybe on a panel. But probably we only spent maybe 20% of our meeting time at most on hearing from interest groups. Most of the meeting time was actually spent on discussing the issues with presentations by staff and discussion by the commission and then making decisions at some point. We spent roughly

seven two-day meetings a year in public meeting. Being a Congressional commission, none of the laws about Freedom of Information or Open Meetings Act applied to us. We just made choices as to what would seem most effective in doing our job. As I said, we didn't have to meet in public at all, but clearly meeting in public had advantages. We attracted a lot of press and trade association people into the audience. That really helped a lot. People knew what was going on, what we were talking about.

BERKOWITZ: Is it fair to say that the main thing that you had to do was to come up with something like an analog to DRGs, except for Part B of Medicare? How did that work proceed, that effort to get the physician reimbursement methodology done?

GINSBERG: There was one thing that was on going, based on the same legislation that had created the commission that directed HCFA to conduct a relative value study. That is what led to the Hsiao study. At the time we weren't doing this. First of all we discussed the notion that a resource-based fee schedule was a useful approach. We actually didn't see much potential in capitation as a physician payment mechanism by Medicare. We also did not see much potential for a physician DRGs, which had been raised right after the hospital DRG proposal.

BERKOWITZ: May I ask you how you saw those things?

GINSBERG: A physician DRG proposal, which was only suitable for in-patient use, would be to make a payment to the physician based on the case, and the reason we weren't enthusiastic about physician DRGs was that first of all, given the lack of limitation on balanced billing, we felt that going to a payment system that diverged greatly from fee-for-service would wind up mostly affecting the beneficiaries rather than the physicians. A lot of physicians would simply say, "This is my bill," and the difference between that fee-for-service bill and a DRG-based bill would wind up in the patient's lap.

BERKOWITZ: Therefore that idea appears that doctors are unlike the hospitals, which are big and can do lots of things with their losses and have more clout.

GINSBERG: Actually that's a different issue. Hospitals have had mandatory assignment from the beginning of Medicare, so that if you decided to pay hospitals a different amount, well all they can do is decide whether they want to drop out of the program or not. It doesn't affect the liability or cost sharing that the beneficiary has to deal with. For physicians, where there was no mandatory assignment, no limit on what the physician can bill the beneficiary, a sharp departure from fee-for-service would cause havoc for

the beneficiaries. Another issue was the one of small numbers that you were getting at. Often physicians do not have enough Medicare patients to average out those who need more or less resources than the norm. Some analyses showed that the DRG methodology, which was fairly useful for hospital care, was much less effective as a way of aggregating or summarizing care for physician services. It worked fine for surgery, but part of that was definition of a procedure—surgeons already were paid on a global fee. So it was not a surprise that surgical DRGs probably made some sense but on the other hand wouldn't have accomplished much because most of the physician charges for an operation were this global fee that went to the surgeon. In a sense, surgical payment was already bundled.

BERKOWITZ: And surgical stuff is closely linked to hospital stuff.

GINSBERG: Yes, that's right. This was why we rejected the DRG approach, the capitation approaches, and thought that there was a lot that could be accomplished with a fee schedule. We debated various aspects of a fee schedule. One thing that people don't often perceive is that the contribution by Hsiao was just a portion of the fee schedule. This was what should be the relative payment for the component reflecting the physician's time and effort. There was also the component reflecting practice expense. And there was the geographic dimension of the fee schedule. Should there be specialty differentials? How should the geographic locality be defined, the area in which the geographic adjustment would be uniform? The Commission discussed all these aspects of the fee schedule and in our 1989 report had a pretty detailed blueprint for what the payment reform should look like.

BERKOWITZ: It seems to me that these are pretty opaque matters. It's not immediately clear how it's going to play out and therefore put emphasis on staff because it's an analytic question and it's not clear from the front that, "Yes, you do this, this happens." It has to be an econometric sort of thing. You have to simulate this thing, and it's complex.

GINSBERG: Yes, but don't use the word econometric, because I found that I did very little econometrics ever since arriving in Washington. There's much more what you called simulation. Econometrics involves hypothesis testing. A lot more of the work here is simulating what's going to happen, who will be affected. It's quantitative, but it's not econometric. In econometrics you're estimating multiple regressions. In a sense, you're estimating relationships, whereas a lot of this is more accounting. Like the impact on different specialties. If you go from the current system to a resource-based payment system, what happens to general surgeons? Well they lose 15%. How do you calculate that? With a claims file which you aggregate to the physician level and literally count all the services they did how much they used to get paid, how much they get paid now, how much

they would get paid under this payment arrangement. Sum up the difference. It's conceptually very simple stuff. A lot of the complication is in using data that was not developed for researchers. It was developed for administrative purposes, not to use for research or analysis purposes. A lot of it is tedium as opposed to showing off savvy in statistical techniques.

BERKOWITZ: OK, I got you. You were starting to tell a story, and you were up to 1989.

GINSBERG: Yes. Actually, I need to go back to 1987 where I would say the key vote was taken in the Congress that lead to physician payment reform. The commission started its work in November of 1986. Maybe in February 1987 or so it was asked by the Ways and Means Committee, "We have a budget reconciliation coming up. Could you give us your suggestions as to how we can cut the budget in physician payments?" And I got a lot of conflicting advice. My call was that the risk of a major, significant policy change happening that we're not involved in is far greater than the risk of all the enemies we might make by proposing something, so we actually did it. We came up with a proposal called Over-valued Procedures, which involved identifying certain medical procedures that were relatively over-valued, were paid too much by Medicare. How did we find the procedures? The first year we had accumulated a bunch of relative value scales that had a resource basis. One was an early version of Dr. Hsiao's. One was what was used in the province of Ontario. That actually got a lot of flack, using something Canadian. There was one used by an HMO and PPO that paid physicians fee-for-service. And we set a rule that something that was over-valued by all or all but one of these scales we were using would be a candidate for a reduction in its Medicare payments.

BERKOWITZ: What does over-valued mean?

GINSBERG: Over-valued means that, in a relative sense, let's say that an office visit is paid $30 and a surgical procedure is paid $200—that would be a ratio of 200 to 30—maybe these other scales were showing that there was less of a ratio in that surgical procedure to the office visit, so we would declare the surgical procedure over-valued.

BERKOWITZ: In the sense of costing out the resources that they're using for the surgery, costing out the resources for the office visit?

GINSBERG: Just the ratio of the payments. It's not in line with the ratio of the resources used, the resources being the physician's time and efforts.

BERKOWITZ: But the surgeon and the internist are in different markets, so their time might be different. This doesn't sound very economics-y to me. That's what I'm trying to understand.

GINSBERG: The economics behind it was that the current market was distorted by the payment system. The fact that surgery was more heavily covered by insurance. The fact that it was a passive payment system and that insights that we had into a more rational payment system had a different structure of payments. What we did with this first cut, which was done in just two months, was identify some procedures that failed this screen and should be singled out. It turned out all but a couple were surgical procedures. I think a couple were done by internists—gastroenterology procedures. We were told that surgeons were the most powerful and they would be able to quash this, but Congress bought that approach. Initially they didn't alter our list at all. In fact Congress has never involved itself in the details of this stuff, but I think the late Senator Heinz added a procedure that he had been long concerned about, pacemaker insertion. So he added one to the list and basically this was enacted. I always considered this a test vote.

BERKOWITZ: Enacted in the sense that the Medicare reimbursements were changed for those particular procedures that you had identified? Another example of regulatory advice from the Congress to the agency.

GINSBERG: Yes, that's right. This was when Congress and the Commission were inspired by the fact that HCFA had done some work singling out cataract surgery as a service that was overpaid, and they had actually spent a lot of money and a lot of time developing a basis for doing this. We felt that this was the right path, but it was going to take forever to go through all of the services to do that. Our mechanism of gathering relative value scales and using them was, I thought, a practical improvement over what HCFA was doing, and Congress grasped it as well. "We can meet our budget reconciliation targets in that way," so it was enacted and it substantially increased the credibility of the commission by having recommended something as controversial as that and Congress enacting it.

BERKOWITZ: So that was in 1987 and that emboldened you then to look at this more broadly.

GINSBERG: That's right, or in a sense it gave us more credibility and people paid more attention to what we were doing. It paved the way within the Congress. This was a test vote that the surgeons lost, and this surprised people. This was a victory for the internists and the family physicians over the surgeons.

BERKOWITZ: Dr. Hsiao was doing his work under contract to HCFA, but he was not a member of your commission?

GINSBERG: No.

BERKOWITZ: But you were, in a sense, looking at his work as it was developing.

GINSBERG: If history had been different, probably he would have been doing the study for us. But instead we took an arm's length approach and in 1989 we evaluated his study to make a judgment as to whether it was suitable as a basis for Medicare physician payments. That's how it worked out, given that he was doing this for HCFA.

BERKOWITZ: Can you get us to the end of the story?

GINSBERG: There was pretty broad support in Congress for these ideas. Dr. Lee and I and other members of the staff were invited into private meetings with staff, and sometimes with members, to talk over legislation to include a fee schedule. The fee schedule was just one of four parts of the package. The fee schedule couldn't have passed without the other parts of the package. This was an example of packaging which I think was critical. The other components of physician payment reform: one was what we called expenditure targets.

One of the limitations of a fee schedule is that that was a device to restructure payments, but the issue came up, "How was this going to save us any money?" And we came up with this idea which we called expenditure targets, which was a combination of an incentive mechanism, though a collective incentive, and a way to allow the government to set a budget for spending for the Medicare program. Basically what it involved was setting a target for spending for physician services and then comparing that target with what spending actually was and then increasing or reducing fees in a subsequent year to reflect whether spending came in over or under the targets.

So you can see how it was both a budget mechanism and an incentive mechanism as far as the physician community as a whole was at risk and had incentives to take an interest in controlling spending. This was often criticized by my fellow economists. They'd say, "How can you have an incentive with hundreds of thousands of physicians?" My response was, "Really the incentive is to their organizations, that their organizations can do things like developing practice guidelines, providing political support for an effort to reduce fraud and abuse. They can affect costs." The incentive was to the physician organizations, not to the physicians. This was extremely

important to the Reagan administration—I guess it was the Bush administration by then—this aspect of the physician payment reform, that it would have a mechanism for controlling spending. Another aspect that had to be debated, and this was the most difficult one for us, was the issue of balanced billing. What happened was that whereas the Medicare program began when physicians could charge beneficiaries anything they wanted, unless they decided to accept assignment which would mean that the government's payment would come directly from the Medicare carrier, and they would just have to collect the co-insurance from the patient.

But to do that, they had to agree to limit their charge to what Medicare approved. So physicians on a claim-by-claim basis could decide whether to accept assignment or not accept assignment and just send the patient the bill. The patient would be reimbursed by Medicare for the government's share. There had been increasing limits on physicians right to balanced bill on unassigned claims that started with the 1984 freeze. Not only was there a freeze on what Medicare paid, but there was a freeze on what physicians could charge patients. This was to ensure that the budget savings from that policy were borne by physicians rather than by beneficiaries. As that freeze was removed, limits on balanced billing that remained—on charges remained.

The most difficult debate was, "Should there be limits on charges?" The physicians wanted no limits on charges. The AARP wanted mandatory assignment. The compromise that we proposed was limited balanced billing: that for an unassigned claim, a physician could bill up to a certain percentage over the fee schedule amounts. As I say, that was the most difficult. I remember as staff director and strategist deciding to defer that question as long as I could, to work first on the easy stuff where we could readily agree. And then at the end, when people were really invested in what we had, then take on the issue of balanced billing. That might have been one of the more important things we did for the Congress by basically thrashing out that compromise. And that's what they adopted.

BERKOWITZ: So that was it, the budget targets, the thing you just mentioned.

GINSBERG: Yes, the expenditure targets—which were adamantly opposed by the AMA. The AMA supported the fee schedule, opposed the expenditure targets and opposed the balanced billing limits, but their fervor seemed to be focused on the expenditure targets, not on the balanced billing. They knew there had to be balanced billing limits for this to pass. The administration said they could live with the fee schedule if there were expenditure targets, and they had no problems with balanced billing limits. I believe they supported the balanced billing limits. The fourth element was a

government role in sponsoring outcomes research and development of practice guidelines, and that actually led to the creation of the Agency for Health Care Policy and Research. Of course, there was an existing agency there that just had its mission expanded. That was not as integrally connected, but it was the thing that, "If we're going to be pursuing cost containment, making demands on physicians to reduce their rate of growth, their volume of services, we need to give them some tools, so we need government support for outcomes research and development of practice guidelines." That was the fourth leg of the reform, although, to some people that may have been moving anyway. The other three parts were absolutely integral. If any of those had dropped off, the legislation wouldn't have moved. I thought the outcomes research and practice guidelines was not as integral.

BERKOWITZ: It sounds to me much more traditional.

GINSBERG: That's right, it's much more traditional. But this was a major event politically. We had this package. It went to Congress. The major event politically was that the American College of Surgeons, which had long been at odds with the AMA, made a deal with Pete Stark that they would support the expenditure targets if there was a separate one for surgeons. The commission wasn't very enthusiastic about that. It could live with it. That, I think, was a key political thing. Ever since DRGs, the Republican administration had not been very active in health policy, but due to the efforts of Bill Roper who, when he was HCFA Administrator, was very much opposed to a fee schedule, I believe the combination of expenditure targets and the outcomes research and practice guidelines was sufficiently attractive to him that he seemed to move the administration into a position of strong support and then actively lobbied the Congress. That's when he was on the White House staff. So I think he was an important player.

BERKOWITZ: I'm thinking that it's hard to identify a Democratic and a Republican interest in this, isn't it?

GINSBERG: Yes. And that's the way, really all of the health policy that I've experienced since I've been here, until health care reform, was not particularly partisan. People had disagreements, but they didn't line up by party. Going back to the Bush administration, if ever anything related to health reform surfaced, they lined up in a partisan way, and it was seen as a vehicle to score partisan points. Whereas these issues really weren't partisan, and here you really had a situation of the administration and the Democratic health leaders in Congress moving in the same direction and working together. I think a principal person in the Senate was Jay Rockefeller. The situation was interesting, because the Chairman, Bentsen, was not opposed to the legislation but didn't seem to be that willing to

provide leadership. It really fell to Rockefeller. In the House it was the traditional leadership of Stark, Waxman, Rostenkowski and Dingell, often working with the Republicans. Gradison was a significant supporter of this on the Ways and Means Committee.

BERKOWITZ: OK. Thank you.

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BERKOWITZ: You were the HCFA Administrator from when to when?

HAYS: I was the Acting Administrator for approximately a year. It was basically the better part of the first year of the Bush administration. Bill Roper was the full-fledged HCFA Administrator who left at the beginning of the Bush administration, and it took them almost a year to find, nominate and have confirmed the full-fledged HCFA Administrator appointee, Gail Wilensky. Just as a footnote, I also spent approximately a year as the Acting Deputy Administrator of HCFA at the end of the Bush administration/beginning of the Clinton administration. That was when Bill Toby was the Acting Administrator of HCFA.

BERKOWITZ: I know that you're a lawyer by background, is that right? And you had been in the federal government for quite a while before you got to HCFA?

HAYS: I joined what was then HEW back in 1973 and was the head of the Child Support program from '75 up until about '81. Then I spent a couple of years in the Social Security Administration, then a couple of years working for the White House in the Office of Domestic Policy. That's where I got to know Bill Roper. When he was selected by the administration to be the HCFA Administrator he asked me to go with him as his Associate Administrator for Operations. That was in the spring of '86—whenever Bill Roper became HCFA Administrator basically is when I went to HCFA as Associate Administrator for Operations.

BERKOWITZ: In the White House did you work on health policy?

HAYS: A bit, yes. I was involved more in the process, so to speak, than I was in the substance. Bill Roper was the health policy person in the White House. He worked for the Assistant to the President for Policy Development. I also worked for the Assistant to the President for Policy Development, sort of like the Executive Assistant. I was responsible for the flow of paperwork and policy material within that policy shop. So my "policy involvement" was somewhat more from the process standpoint than from the substantive standpoint.

BERKOWITZ: Was that Jack Svahn? Was he your boss?

HAYS: Yes.

BERKOWITZ: And you had met him at Social Security or at Child Support earlier? When did you meet him? Both?

HAYS: Yes, both. When I came to HEW he was one of the people in the old Social and Rehabilitation Service which ran AFDC, Medicaid and Social Services who I worked for. He was the head of AFDC and then I think he became the Deputy Administrator of the agency, and I think he was finally the acting head. I don't think he was ever the Administrator. So I worked for him back in what I refer to as SRS days, and that continued through Child Support for a while. Of course he left when the Carter administration started. Actually I think he left sometime towards the end of the Ford administration. And then I again worked for him when he became Commissioner of Social Security during the Reagan administration.

BERKOWITZ: What was your assignment during the Carter administration? Did you work at SSA in those years?

HAYS: All of that period I was the head of the Child Support program. Child Support started off being sort of an appendage of SRS. When SRS was abolished in 1977, actually at the time that HCFA was set up, Child Support was transferred—sort of—to the Social Security Administration, so I worked for Bruce Cardwell who was the Commissioner of Social Security, and then I worked for Don Wortman who was the Acting Commissioner of Social Security. There was a strange thing in the law that Russell Long put in that said that the Child Support program had to be a separate organization and that it had to be headed by somebody who reported directly to the Secretary. They didn't really want to set up an additional appointee who would report directly to the Secretary, so when it was initially set up whoever was the Administrator of SRS was designated as the Director of the Office of Child Support Enforcement. I was the Deputy Director, so I had a de facto Director who spent almost no time on Child Support because that person was really running SRS, and then the same thing with Social Security.

BERKOWITZ: Do you have any memories of the founding of HCFA, which was one of Don Wortman's jobs? That was early in 1977.

HAYS: Only in the sense that I was working for Wortman, but I think he was spending much of his time setting up HCFA. I was very much observing from the sidelines. I had no real involvement in that at all. Then all of a sudden they made the big announcement that SRS was abolished, that they were taking Medicare out of Social Security, Medicaid out of SRS and creating HCFA. They put AFDC into Social Security for a while, and, of course, then

they took it back out again. I was switched from SRS to Social Security. Bruce Cardwell was the Commissioner of Social Security and I think Don [Wortman] was his deputy.

BERKOWITZ: So if it hadn't been for the creation of HCFA you might not have gone to Social Security?

HAYS: Yes, if SRS had stayed in business. When I say I went to Social Security, I was still doing the Child Support program, so it wasn't all that relevant a change for me. What it meant was that once a week I had to go to a staff meeting with Bruce Cardwell in Baltimore. That was about the only practical change. It wasn't until 1981 that I really went to Social Security and had a job within the existing Social Security structure, as opposed to this appendage called the Office of Child Support.

BERKOWITZ: So you felt then that this whole reorganization in 1977 basically had no effect on what you were doing in Child Support?

HAYS: For me personally it had very little effect at all.

BERKOWITZ: Some people would say that SSA was such a higher morale organization—it's hard to think of that in 1977—and that SRS was such a low morale organization that this was a morale booster. Is that true?

HAYS: No, because the Child Support program was still an infant and we were very much in a high morale situation within the Office of Child Support Enforcement, totally independent of either SRS or Social Security. We had a very clear and specific mandate from the Congress. We were brand new. There was a tremendous amount of enthusiasm. We had a lot of young people, so internally to the Office of Child Support Enforcement, there was essentially no impact by being switched from SRS to SSA. And I guess for me personally, the fact that Don Wortman had been involved in SRS and then became involved in Social Security, that made it easier for me. In fact somewhere in there I got my promotion to what is now the Senior Executive Service. I had good relations with the political leadership during the Carter administration, and whether I was SRS or Social Security really didn't make much difference.

BERKOWITZ: Did you lose your Civil Service status when you were in the White House or at SSA? You remained a Civil Servant even when you were detailed to the White House?

HAYS: Yes, I've always been a career federal employee.

BERKOWITZ: What sort of vantage point did you have on the political events of the 1980s, for example in 1983 when the super Social Security

Rescue bill went through, which had the DRGs put into it? At that point were you involved with ALJ matters and outside of that venue?

HAYS: Let's put it the other way. I certainly didn't have any involvement with Medicare or DRGs at that point. I was involved really only with the ALJ process, and somewhere during that period of time I also was given responsibility for trying to fix the Disability mess beyond the hearings and appeals level.

BERKOWITZ: So you were not involved in the legislation in 1983, but maybe you were involved in legislation in 1984 then, the Disability legislation?

HAYS: A little bit, but that legislation probably went through after I had left and gone over to work in the White House. I was involved in some of the Congressional hearings that lead up to that. I can't remember, to be honest with you, when that bill was actually passed versus when I left Social Security, but it was either right before or right after I left. I wasn't around to really implement the results of that. Ironically a lot of the things that were passed in the bill were things that we were trying to do administratively.

BERKOWITZ: The obvious question is when did you turn your attention to health as opposed to Disability or Child Enforcement? When did this filter into your consciousness?

HAYS: Really when I went to HCFA with Bill Roper. The first two years that I was with HEW before getting into Child Support, I had some involvement with Medicaid. I worked sort of across the board in SRS—AFDC, Medicaid, the Social Services. So I had had some Medicaid experience. I had not had any Medicare experience. Bill Roper really hired me for my management experience and abilities as opposed to my "health policy strengths," so to speak. I had to learn Medicare after I got there.

BERKOWITZ: You had to learn Medicare in the White House?

HAYS: No, at HCFA.

BERKOWITZ: Even later, at HCFA. That must have been quite a crash course. Wasn't that odd to have a career bureaucrat that was not up on the programs in a high level position?

HAYS: Most of my counterparts at HCFA were certainly long-time HCFA or Social Security bureaucrats. Most of them had grown up in the old BHI before HCFA was set up. The organization that I lead, Operations, was more management oriented than policy oriented. At least initially I could function without being an expert in Medicare policy. I knew enough about Medicaid

from my both direct and indirect exposure and involvement with Medicaid over the years to be up to speed on that. It was really more a matter of getting the lay of the land on the Medicare side. As Associate Administrator for Operations, for example, I wasn't responsible for developing and refining DRGs or RBRVS on the physician side. I was responsible for making sure that the Medicare contractors were being properly managed and that we were trying to get rid of poor performing Medicare contractors. I was responsible for making sure that we were overseeing the Peer Review Organizations properly. I was responsible for, in effect, managing the ten regional offices. Over time I got more involved in the policy matters, but the Associate Administrator for Operations job as it existed at that point was not really a policy job. By the time Bill Roper walked out the door at the end of the Reagan administration, by that point I had had enough exposure and involvement to be much more comfortable from a policy standpoint. That really was not a problem for me.

BERKOWITZ: Let me just make sure I have this chronology straight. You were the Associate Administrator, Assistant Administrator?

HAYS: The title was Associate Administrator; that has now been combined with one of the other Associate Administrator jobs, but at the time it was Associate Administrator for Operations.

BERKOWITZ: This is when Bill Roper was the head of HCFA that you were the Associate Administrator for Operations. That was from when to when?

HAYS: That was from the spring of 1986—March or April—until approximately January 1989 when Bush came into office and I became the Acting Administrator. In point of fact, that was my position of record virtually the entire time that I was in HCFA. When I became the Acting Administrator, the Deputy Associate Administrator for Operations moved up to become the Acting Associate Administrator for Operations while I spent the year as the Acting Administrator. Then when Gail Wilensky was confirmed I went back to being the full-time Associate Administrator for Operations.

BERKOWITZ: So you had a good run at that job then, as Associate Administrator for Operations. You were talking about the issues that you had to face then. One was fiscal intermediaries, right, appointing them and making sure they were processing things on time? That kind of thing?

HAYS: I inherited them. They were already there, and then over time we were able to weed out some of the bad apples. Getting rid of Medicare contractors is a little bit like closing a post office or an Army base. It's not easy to do that. Overseeing the carriers and fiscal intermediaries, overseeing the Peer Review Organizations (the PROs), overseeing what's called the

Survey and Certification Process that HCFA's responsible for, approving hospitals and nursing homes and home health agencies and other assorted organizations for participation in Medicare and Medicaid. That's part of the responsibility of this office. And overseeing the ten regional offices.

BERKOWITZ: Did the administration have any interest in trying to put some of its point of view into these things? For example, the idea of overseeing all these hospitals and nursing homes is pretty regulatory. It's not what you think of as a Reagan era initiative. Maybe they would have thought there's some better way to do this. The same with the fiscal intermediaries or the carriers. You'd think they'd believe in competition, putting it out for a bid and having the best person win every time. Was there any of that kind of initiative? Why don't we start with the regulatory one, looking over the hospitals?

HAYS: First of all, it's all pretty much spelled out in federal law, the Social Security Act, and the Congress has tended to be pretty prescriptive in the laws that they pass with respect to hospitals and nursing homes and the like. So, regardless of what any given administration might want to do or not want to do, the starting point is fairly clear. Whether it's an administration that wants to be highly regulatory or non-regulatory, there's not a whole lot of flexibility. Again, this was before I was at HCFA, but I think in the very early days of the Reagan administration there had been an attempt on the part of the Reagan administration to put out nursing home regulations that were less stringent. The hospital part really was never an issue.

The real issue or battle was over nursing home regulations. I think that all happened before I got to HCFA. During the time I was there I didn't see anything other than the normal tensions. The nursing home industry comes in and lobbies whoever they can talk to, whether it's the working level bureaucrats in HCFA or the political appointees in HCFA or the White House or OMB or wherever they can get a forum to try to claim that nursing home regulations are overly burdensome. But I never really saw anything. Because of the bad experience at the beginning of the Reagan administration, and because of what was written into the law, I didn't see any particular attempt on the part of the administration to try to deregulate. They realized that it was a lost cause probably.

BERKOWITZ: The bad experience at the beginning of the administration was the inability to do this?

HAYS: A battle over nursing home regulations, and I think the Congress stepped in and passed some legislation that basically slapped their hands.

BERKOWITZ: How about on this other business about competition for people getting these contracts, which I guess are pretty lucrative?

HAYS: There's a lot of money involved because it's just such a massive operation. It's almost a billion claims that are processed by the Medicare contractors every year. This is something that really started before I got to HCFA. We were able to accelerate it a little bit. We made a very conscious effort to make it a more performance-based proposition where the contractors had to meet certain performance standards and, at least in theory, if they couldn't meet them then they could be terminated from the program. The Medicare program was specifically set up to basically take those existing large insurance companies, particularly the Blue Cross/Blue Shield plans, and sort of grandfather them in. They made a conscious decision to use those existing organizations to process claims rather than setting up a federal bureaucracy or to put it all out for a true competitive bid.

I think regardless of who the administration was, there was always a real political problem of actually terminating contractors because it wasn't so much the politics in the executive branch as it was the politics in the Congress. That's where the analogy to closing military bases or post offices comes in. Take any given member of Congress, they're willing to talk about, "We need to cut back and we need to be more efficient and we need to reduce the number of contractors and we need the low cost contractors," but as soon as you talk about the contractor in that person's district it's usually a whole different proposition. We were able to do some consolidation and get rid of some of the poor performing ones, but I'm talking about a number that you could count on the fingers of one hand.

BERKOWITZ: By standards do you mean, for example, time in processing claims?

HAYS: Sure. Basically a combination of quantity standards and quality standards and cost. Things like how fast you process the claim, how accurately you process the claim, and at what cost? They also have various standards that go to the quality issue. Contractors are also responsible for doing things to safeguard the trust funds, making sure that the claims are for things that are legitimately covered services under the Medicare program, basically that the providers aren't gaming the system and trying to be paid too much or for things that aren't supposed to be covered. They're required to do audit work and various payment safeguard activities. Every year they would be, in effect, audited on these various standards that went to all of these things that I have mentioned.

BERKOWITZ: And you took a random sample and just did the claims yourself and did it that way, or how?

HAYS: It was a combination of reviewing reports from the contractors and actually sending regional office staff out on site to look over their shoulders at the various things they were supposed to be doing.

BERKOWITZ: It's a lot like the state Disability Determination Offices, it sounds like, that there are the same questions about accuracy. It occurred to me that by having Blue Cross/Blue Shield as the major choice, which was the decision in 1965, was pretty clever because it's so decentralized. If you had picked the Mutual of Omaha, you could have had that guy from Omaha versus everybody else, but by having Blue Cross/Blue Shield it was pretty brilliant.

HAYS: Actually it was both. Mutual was one of them, but, yes, I don't know the extent to which that was a conscious part of that decision or not. The single biggest surprise to me, going into HCFA, was discovering that Medicare was not, and I think probably still is not, truly a national program that's uniform throughout the country. I just assumed from my other federal experience that here you have the ultimate federal program, Medicare. It's much more federal than Medicaid, it's much more federal than the Child Support program was. Theoretically it's run and directed by the federal government, and what I soon realized is that there isn't a single Medicare program. There are 50 Medicare programs. What gets paid for and how much it gets paid for differs in remarkable respects from state to state and carrier to carrier. It took me a while to figure that out. There's this disconnect here, and it was so strange that the people who had grown up in Medicare, the "bureaucrats," by and large didn't have any problem with that. They didn't think of that, they couldn't understand why anybody would think that that was a problem. Political leadership I think viewed that more as a problem to be solved rather than just a fact of life to be accepted. I think that there are things going on now to try to make Medicare a more uniform program from state to state.

BERKOWITZ: I'm trying to think how that could be, because certainly the law says an X number of days, it now has DRGs—I think regionalized but still has DRGs—so what kind of play would a guy in location X have?

HAYS: I'm talking primarily about Part B Medicare. The question of what is a covered service, most coverage decisions are not based on a national policy determination from HCFA. They are based on local carrier decisions. Now, over time many of those coverage decisions become either de facto or de jure national coverage decisions because everybody is following them. But you know, I assume, health care is very dynamic and new procedures and

new treatments spring up constantly, and the initial decision as to whether that is going to be a covered service is usually made at the carrier level. And the amount to be paid for that is usually made at the carrier level.

In fact, one of the tensions, one of the reasons why, so far as I know, the decision has been made to continue that current system is that if you required all of those decisions to be made nationally and centrally, there would be an incredible delay in making those decisions, and it would cause a real problem at the working level to decide on whether or not this is to be a covered service. It's much easier said than done to say we've got to centralize all this stuff. We can't allow this variation from state to state, from carrier to carrier. We'd see it all the time because we'd get letters from doctors. You could see it right in the same area because state lines and carrier lines intersect major metropolitan areas, so you'd get a complaint from a doctor or from a Congressman that, "When I provide the service in this jurisdiction I get paid for it, but when I provide it over in that jurisdiction I don't get paid for it." It's an interesting little quirk.

BERKOWITZ: Yes. What's the legal status of that?

HAYS: I think that's the way it was envisioned. I can't remember any more, to be honest with you, the extent to which it's specifically addressed in the Social Security Act, but I think it's one of those things that was done as a pragmatic decision when the I program was initially set up. Whether it was a sop to the medical community or whether it was recognized that it would take forever if you had to wait for all of these decisions to be made by the federal government I don't know, but it certainly has its origins in the way in which I was originally set up.

BERKOWITZ: That's interesting because when you think of I in 1965 they were pretty hierarchical and they had all sorts of procedures for everything. Meetings and minutes and so on, so you would think that there would have been a health insurance advisory council or somebody would have heard each one of these things and somehow would have reached a decision.

HAYS: It would have taken a long time.

BERKOWITZ: That's interesting. When you became the acting head of I in 1989, you were sort of promoted, did you meet with the Secretary every week or so? How did that work? What was your reporting arrangement? Would that have been Dr. Bowen at that time, in 1989?

HAYS: I think it was during the interregnum. Lou Sullivan and his staff were coming in. I have to stop and really think who the real Secretary or Acting Secretary was. The new people were all coming in in a transition status.

They were all there, but they weren't yet officially in their jobs. I remember Sullivan and Connie Horner who was the Undersecretary. It was a very difficult time because, even though it was a shift from a Republican administration to a Republican administration, the incoming people are just as distrustful of the outgoing people as happens when there's a transition from one party to the other party. One of the things I've observed over my years around the federal government is that when the president changes, it doesn't make too much difference as to whether it's Democrat to Republican, Republican to Democrat or Republican to Republican. There's still a lot of skepticism and mistrust of both the outgoing political appointees and the high-ranking career officials. Every incoming administration assumes that the loyalty of the career people that they suddenly find themselves dealing with still lies with the old crowd.

BERKOWITZ: Let me ask you an idiot question. I'm having trouble in my own mind. Reagan's HHS Secretary was Sullivan, right? And Bush's was Bowen? Or the other way around?

HAYS: Actually the first Secretary under Reagan was Schweiker, then Heckler, and then I guess Doc Bowen. Bowen was the Secretary under Bill Roper. I can't remember exactly when Bowen left. I don't know if he stayed there until the bitter end or not, but even if he did stay there until the bitter end, on I 20th—that's Inauguration Day—the Congress does not necessarily sit and confirm all of the appointees.

BERKOWITZ: So you don't remember who you started out reporting to, whether it was Bowen or Sullivan. Is that what you're saying?

HAYS: Yes, but I'll tell you this. As a practical matter, I was dealing with the new people. I was dealing with Connie Horner, I was dealing with Kevin Moley. That was before he became the Assistant Secretary for Management and Budget. So I was dealing with the new people. I never had any dealings with Bowen, and I can't think whether it was because he was no longer there, or because he was irrelevant by that time.

BERKOWITZ: I find it interesting that if you were dealing with either one, you were dealing with a medical doctor. I was curious as to whether the guy might say, "Well, I know about that stuff because I'm a doctor."

HAYS: That was a relevant point after Sullivan was confirmed an in office and we were formally officially dealing with him, but there was a period of time, probably a month or maybe more, where basically you had to try to figure out how to communicate with these people, how to establish I because people weren't officially in place. They didn't know me, I didn't know them. It was a very interesting and awkward period of time where I

would spend my time trying to figure out, “How am I going to communicate this?” and, “We have to have a decision on a certain thing,” or, “I know that we’ve got a big issue here with a particular member of Congress. How the hell am I going to actually do business?” because there was no real structure set up. Later on it gets relatively simple because there’s a pretty clear process in place and there are people to talk to, and you can get meetings scheduled with the Secretary or the Undersecretary, or you can deal with people in the so-called Executive Secretariat. You can send up decision memos. But during that interregnum it’s a challenging moment in the life of the bureaucracy.

BERKOWITZ: I wonder how they read you? Were you read as a career bureaucrat or were you read as somebody who had worked in the Reagan administration?

HAYS: I guess I really don’t know for sure.

BERKOWITZ: Was there a Bush theme at I, something that could distinguish the Bush years from the Reagan years?

HAYS: I wouldn’t say so. I think that the Secretary’s office was probably. . .Maybe it was just because I had more direct involvement under Sullivan than I did under Bowen. I think it goes back to your comment about Lou Sullivan being a physician. Of course Bowen was a physician too, but Sullivan clearly took an active interest in what was going on and there were many times when it was challenging for me to be able to explain what we were doing and why we were doing it. Bowen obviously was a physician, but I think he was much further removed from the practice of medicine than was Lou Sullivan. I think Bowen was first and foremost, by that time at least, a former governor and politician—not necessarily in the bad sense of the word. Sullivan, I think, knew every doctor in the country, at least every black doctor and an awful lot of the white doctors as well. He came from heading up a medical school. I think he came in with much more of the suspicion or maybe even hostility about I that so many physicians have, so I had to spend a lot of time and energy trying to explain that we weren’t really doing terrible things to doctors, or if we were it was because we didn’t have any choice. We had a lot of long meetings with him over big issues.

BERKOWITZ: Such as? Do you remember any of the issues in particular?

HAYS: Probably the two biggest events in the yearly life of the I administrator are the annual DRG updates and adjustments to the hospital payment system and the annual adjustments to RBRVS, to the physician payment system. I know that we had meetings and discussions around the physician payment issues, particularly around how much the primary care

physicians get paid versus specialists. He took a major interest in that. We had discussions over issues coming out of the PRO [Peer Review Organizations] program. Those are the organizations that review the quality of care particularly in the in-patient setting. We were in a major transition where we were trying to move the PRO program from the old fashioned quality assurance approach where you've got to single out the "bad apples" and do something to them, to a more TQM [Total Quality Management] mode where you're trying to basically improve quality in general and taking a more information-based and education-based approach. So we had discussions over that. During that time that I was the Acting Administrator I suspect that we had at least one major policy decision meeting with the Secretary a month.

BERKOWITZ: Did he ever say, "What's this going to do to Morehouse?"

HAYS: Not specifically, but certainly in the issue of graduate medical education. That comes up in the DRG process, so, yes, we certainly had conversations on—not on Morehouse per se but—on the issue of graduate medical education in general, on the issue of what do about the problem of medical schools turning out too many specialists and not enough primary care physicians. He was very interested, of course, in the medically under-served issue, both rural and inner city and the adjustors in the DRG system that are supposed to address, at least in part, medically under-served areas. He was very involved in all of those issues.

BERKOWITZ: Did he ask the bottom line kind of questions like, "What's this going to do?" or did he actually have a grasp of formula and all that sort of thing?

HAYS: I'm not sure if anybody, other than a handful of longtime bureaucrats in I, really, really have a full grasp of those intricacies, so that's not a fair question. He was probably more bottom line than into the intricacies of exactly how it works. I have to tell you that sitting here now, it's kind of hard for me to fully distinguish between that period of time when I was the Acting Administrator and the time that I was the Acting Deputy Administrator because for most of those two periods of time I was dealing with Sullivan, and even though I was the Acting Deputy Administrator the second time around, the Acting Administrator relied on me pretty heavily to carry the ball on a lot of the policy issues. It's real hard to separate those two periods of time in my mind.

BERKOWITZ: When Gail Wilensky came in you remained there?

HAYS: I remained in I, but I reverted back to my real job as being Associate Administrator for Operations and continued that up until the time that she

left to go to the White House. At that point Bill Toby was appointed as the Acting Administrator and I was appointed as the Acting Deputy Administrator. Both Gail Wilensky and her deputy, Mike Hudson, left at about the same time.

BERKOWITZ: Gail Wilensky is hyperactive and energetic. Do you think that makes any difference to the life of an agency? Will you be able to look back and see a little blip there, that was Gail Wilensky or not?

HAYS: That's a good question. I don't know. I really haven't thought about it from that perspective. I think certainly at the time it feels different when you have a real, as you say, hyperactive administrator. I think the agency becomes somewhat more stressed out because that type of person always wants more, more, more, is very demanding. The agency, with some exceptions, runs at a fairly peak level all the time. There's just so much to do in I. It's not an over-staffed agency, or at least it wasn't, so a real demanding Administrator comes in and I think the real effect is to have the place more stressed out than normal. People who report to her directly are probably more stressed out because there's not much more capacity to do things much faster or in greater quantity than there was before she walked in the door.

BERKOWITZ: Thank you very much.

HAYS: I hope that's helpful.

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Telephone Interview with Benjamin Heineman

Connecticut on October 24, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: We'd like to ask you a series of questions about your time at HEW during the Carter administration.

HEINEMAN: Let me say at the outset that I co-authored a book, Memorandum for the President, which includes a chapter called "Cautionary Tales" about the failure of the Carter administration to enact welfare reform or health insurance. This chapter directly related to the creation of HCFA, but it covers many of the policy and political conflicts surrounding the whole health care area. I'm not going to repeat in this conversation what's in that chapter, but if you want my point of view it may be worth looking at that chapter.

BERKOWITZ: We'll be certain to look at that.

HEINEMAN: The chapter provides, I think, a broader context of the problems relating to health care policy in the Carter administration.

BERKOWITZ: Why don't we ask you then some personal sorts of things we may not be able to get from the book, beginning with your recruitment.

HEINEMAN: Very briefly, I was at Williams, Connolly and Califano prior to Califano's selection by Carter. I think I was the first person he called after Carter called him and asked him to come to HEW, so we really started together in December of 1976. I think Califano was one of the last people selected. I was in his law firm and had done a lot of work with him, and he called me.

BERKOWITZ: May I ask how you got into his law firm? I know that your dad played a very big role in the Johnson administration, as did Califano. I'm curious about that connection.

HEINEMAN: It is actually a long story. I was a Supreme Court law clerk and then was a public interest lawyer at the Center for Law and Social Policy in Washington. After about three years there, I was going back to Chicago. It's a long and complicated personal story which doesn't have any interest for you. I had severed my ties with the Center. My wife was going to the University of Chicago law school. I got an offer from the Ford Justice Department at a relatively senior level at an early age, but it was blocked in the White House. At that point my wife had gotten a job in Washington at

The Washington Star. I had made her flip-flop twice, so I decided I would stay in Washington because she had gotten the job she wanted. I decided I would go into private practice at that firm. I was a litigator, and the firm did a lot of things that interested me. I talked to Califano and to Edward Bennett Williams and was hired.

BERKOWITZ: Let me ask you about the Center for Law and Social Policy which seems to have been important.

HEINEMAN: It didn't hurt, I'm sure—I'd like to think that given my record I would have been hired if my name had been Ben Smith—but the reality was that my father had done a number of projects with Califano during the Johnson era. He was one of the few businessmen in the '60s who was a Democrat, and was used a fair amount by Johnson on welfare reform, on a government reorganization task force, on a civil rights conference—a number of things.

BERKOWITZ: When you worked at the Center for Law and Social Policy did you work for Allen Morrison?

HEINEMAN: No. Morrison was not at the Center for Law and Social Policy. He's a litigator at one of the Nader groups. The Center was a Ford Foundation funded public interest law firm.

BERKOWITZ: Who was the head of it?

HEINEMAN: First a man named Charlie Halpren who's currently head of the Cummins Foundation and then a man named Joe Onek who was in the Carter administration. I guess he's the reason you're talking to me. He's now at a law firm in Washington.

BERKOWITZ: So you came to HEW at the beginning of the Carter administration, is that right?

HEINEMAN: Literally within a couple of hours after Califano had been called by Carter.

BERKOWITZ: You worked first on transition sorts of things. In those transition days, did Joseph Califano talk with you at all about his reorganization plans? Did your conversations reach that, or were you concerned with other matters?

HEINEMAN: If you're talking about HCFA per se, I think the real driver behind HCFA was Hale [Champion], not Joe. That's my recollection, bearing in mind that it's nearly twenty years ago.

Looking at the complexities of the administration of health care financing as opposed to new policy, the division was that Joe was worried about the major legislative initiatives and Hale was responsible for the day to day running of the department. My sense is that he was the driver behind the creation of HCFA. That was not something, to my recollection, that was discussed in the transition very much. It could have been, it's just not my recollection.

BERKOWITZ: Were you involved in the decision to hire Hale and other key personnel?

HEINEMAN: Yes, in a sense. In 1976 I was probably all of 32 years old. Joe consulted me. He didn't consult me too much about Hale, although he had me interview Hale, which I think in Hale's mind was fairly amusing since Hale at that point was about 58 or 60 and fairly experienced to put it mildly. He was probably wondering why he was talking to me. Then we were all involved, the three of us, and Joe hired two of his friends, well, didn't "hire." He asked Larry Levinson and Jim Gaither who worked with him in the White House to come in and help him for a month. Larry was then in business, Jim at a law firm. Joe very much followed what he thought was the McNamara model of the early '60s in terms of having autonomy to staff the department and not have to deal with the White House, which was one of the many sources of conflict between him and the White House.

BERKOWITZ: Once the administration began, how would you define your responsibilities in the department? Would it be fair to say you were a trouble-shooter?

HEINEMAN: Incidentally, I think in the book there is general discussion of the transition and I've also written articles about it. I don't know how much you care about the transition in your piece on HCFA.

BERKOWITZ: This is not really a piece, this is just a series of interviews that we're doing for the Health Care Financing Administration itself, which is trying to find out a little bit about its background, and trying to talk with people like Joseph Califano and Hale Champion and others that were involved in its inception.

HEINEMAN: Again, my guess is that I'm only tangential. I was working primarily for Joe on large policy initiatives and less on administrative matters with Hale. I always joke that at the end I became Assistant Secretary for Planning and Evaluation, or as I refer to it the Assistant Secretary for Lost Causes. Hale was much more involved in the selection of Schaeffer and the structuring of HCFA and all of those activities. Talking to people like Gene Eidenberg or Mo Steinbrunner who worked for Hale you'd have a better

sense perhaps, and [Leonard] Schaeffer, of course. Again, I was involved in a wide range of policy issues and HCFA was not really at the center of what I was doing. My initial responsibility was as Califano's executive assistant, and, again, he followed the model of McNamara in that that job was an assistant to both the Secretary and the Under Secretary. We had lunch every day, and I was involved in one form or another in virtually everything. There are only so many hours in the day, and on any number of issues I wasn't deeply involved. I was also responsible for relations with the White House, so that to the extent that Califano wasn't involved, most of the issues that went to the White House went through me.

BERKOWITZ: Did you work with Stuart Eisenstat mostly or with Frank Moore?

HEINEMAN: We had a legislative person at HEW, Dick Warden, who worked with Moore. I worked with Eisenstat and OMB.

BERKOWITZ: As you worked on these substantive issues, welfare reform and health insurance—the big-ticket items at HEW—what impression, if any, did you have of this whole initiative to start HCFA between January and March of 1977? Did it affect your plans one way or the other, or was it simply a background administrative matter?

HEINEMAN: It was an attempt; obviously, to try to make the two big financing programs work better and more effectively. Welfare reform came first in the Carter administration for reasons that are discussed in my book, probably wrongly so, and health insurance per se was really delayed, although at the end of the day we did have a publicly funded segment of our Phase I national health insurance bill into which HCFA would have evolved. My impression was that that was really not in anybody's mind at the time HCFA was created. The fundamental first year issue for HEW on the national Congressional legislative front was going to be welfare reform and hospital cost containment. Again, it was an all-payors hospital cost containment bill, so, while HCFA was certainly important, the controversy was not about the government program for Medicare and Medicaid but rather an all-payors approach, which ultimately, of course, foundered. I don't want to say they were separate, but I do think that HCFA was viewed as something that needed to be done from an effective administration and organizational point of view, and which would possibly evolve into national health insurance. But I don't think it was really intended per se as a building block of any national health plan.

BERKOWITZ: Let me ask you then about welfare reform. Was there any consideration of the fact, which I've certainly never seen, of the relationship

between Medicaid and welfare reform and, hence, HCFA being relevant to that?

HEINEMAN: Of course, if you go back and look at our plans, yes, that's one of the many insoluble problems in welfare reform. I think when HCFA was put together we were proceeding along on separate tracks. How we were going to deal with all the issues in Medicaid was over in the welfare reform side of the process, and HCFA was going to administer whatever was there. Its strength was not policy development. The people who developed the initiatives were really not in HCFA. There really was, I think, a fair separation between the people who were running HCFA—which did not have a strong policy shop at the time, at least that is my recollection in the broad sense—and the Assistant Secretary for Planning and Evaluation's office, which at that time had been built up into one of the premier policy offices in the government and where a lot of the "health and welfare planning" took place.

BERKOWITZ: Was it your understanding, to the extent that you remember about HCFA, that it was supposed to have budget implications that would save money, either to be spent on the Program for Better Jobs and Income or for national health insurance? Were you aware of any of that consideration?

HEINEMAN: The major initiative that was going to deal with that was hospital cost containment legislation, which, as I say, was an all-payors approach. I think that was where we were hoping to restrain health care spending increases more than something like DRGs which followed and was a purely governmental program. I don't believe anyone was thinking that we were going to wring out a huge amount of money from administrative efficiencies, not anything like the amount of money that was going to be necessary to fund the national health insurance or welfare reform.

BERKOWITZ: If that's the case, then what was really driving this? What was the motivation behind the creation of HCFA if not for that kind of efficiency?

HEINEMAN: I think again that you should talk to the architects, and I was not one. I think again the theory was that you had these two government financing programs, they had a lot of similarities and they ought to be under the same house and a single administrator, and they would, therefore, be more effective. They had many common issues. It was more that than some sort of gross savings that were going to finance these monstrous new programs. To my recollection, there was no illusion at the beginning that HCFA per se was going to lead to a dramatic cost savings in these programs. I think everyone recognized that rising health care costs was a big issue. The world has changed dramatically, but the view at the time—you could

talk to someone like Karen Davis—the greater cost increases were in the private side of the health equation, not the government side, although the government side was rising. That's why everyone was focusing on an all-payors approach. Obviously now, to some degree, industry—at least the company I work for—has done a better job at restraining costs than the public programs. But at that time the view was generally that health care costs were the problem and you had to have an all-payors approach to deal with it.

BERKOWITZ: Let me just run past you the name of Don Wortman. Do you recall him coming in and out of Mr. Califano's office?

HEINEMAN: Sure, but it's very vague. I know Don, but, again, this was just not my issue.

BERKOWITZ: And you were not really a doorkeeper for Mr. Califano, is that right?

HEINEMAN: Not really. I certainly wasn't the appointment secretary and I didn't attend every meeting. I couldn't. There was just too much. Again, I really believe this was much more Hale's initiative than Joe's.

BERKOWITZ: Who was your counterpart on Hale's staff?

HEINEMAN: Initially he didn't really have one, and then I think Gene Eidenberg was his first assistant. I'm not sure what his precise title was.

BERKOWITZ: Do you have any picture of Gene Eidenberg coming to the daily lunch that you describe?

HEINEMAN: No, he did not come. It was just Califano, Champion and me while I was executive assistant. At a subsequent time we added Fred Bohen who was the first executive secretary. In some sense I was dealing with Califano's priority issues, although I worked for both Hale and Joe. Joe being Joe, I tended to do more of his things. Bohen as executive secretary had the flow of the department really coming through him. He was more the paper gatekeeper than I was. That was the division of labor. I was much more dealing with the crises, the White House and Joe's top priorities. Fred was dealing with the overall flow of departmental business.

BERKOWITZ: Let's move on to the next phase of your HEW career. I'm curious about how you got to succeed Henry Aaron at ASPE.

HEINEMAN: Basically, I had been doing the job in part almost from the beginning because Henry, who is an enormously capable analyst and a very strong public policy thinker, was not either a great communicator with the

Secretary or particularly—how shall I say it? —adept at politics, either bureaucratic politics or Hill politics. So very early on I was working closely with that office because so much of Califano's interest was in policy development. He hoped that he would be able to complete some of the work of the Great Society through of the enactment of some of the large initiatives. A lot of the analytic work for those initiatives was being done in ASPE and yet Aaron was not always able to communicate effectively to Joe or to the White House. He was a great analyst, but oftentimes the briefings would be enormously complex and somewhat confused. So I was early on responsible for trying to connect that office with the Secretary. A lot of my work was translating and digging into those issues and also being part of an HEW team that would go to the White House on welfare reform or cost containment.

BERKOWITZ: When you got to ASPE how did you get up to speed on the econometrics, the things that Henry Aaron really understood about marginal tax rates and welfare reform and reimbursement?

HEINEMAN: I was never an expert. I like to think I'm modestly intelligent. I used to laugh that I was the only lawyer in an office otherwise populated by PhDs and ABDs. But it wasn't all bad because I was not afraid to ask obvious questions and try to make sense out of what they were saying. You can be as smart as you want, but if you can't communicate it, or you're not explaining what the key trade-offs are, or you're not really understanding what the five or six core decisions are in any one of these policies where the joints work together against themselves, it doesn't really matter how brilliant you are as an econometrician. I have no doubt that a smart person can run that office with some effect. I hired as a deputy immediately a man named John Palmer, currently the dean at the Maxwell School at Syracuse, who was basically Henry-like, in that he was an economist and had the skills to advise me if I ever needed it about the computer models. But at that point the models were the models. Whatever they were, they were. That was probably even true when Henry came in. I doubt very much if Henry spent a lot of time fussing around with the models. Maybe he did. But that wasn't the issue—the problem was the huge policy tradeoffs and the intractable politics.

BERKOWITZ: Getting that job, was it Joe's idea? Was it your idea?

HEINEMAN: It was Joe's idea, I think. The sense was that Henry was unhappy. He didn't enjoy the confidence of the Secretary. It was a little bit of a mismatch. Not everybody has governmental skills; Henry has tremendous intellectual skills. It was Joe's idea. It was not my idea. Again, since I had in effect for the first two years been spending a huge amount of time with that staff—in some indirect way directing that staff—I guess it made some sense.

BERKOWITZ: Do you recall Karen Davis being someone you could talk to in terms of bridging this gap between technical person and political person?

HEINEMAN: Yes, although Karen too—part of the problem with all those people down there, they're enormously bright and talented, they are hardly to blame. You'll see when you read the book, the whole Carter administration was ridiculous in the agenda that it had, given the economic and political temper of the time. There were just way too many initiatives. As you'll also see in the book, health insurance was never a real issue. It was just a phantom issue. At some point we lost welfare reform and hospital cost containment and Carter's credibility was plummeting. The economy was having fits of distemper. There wasn't a chance in the world that there would be a health insurance bill, so that was just a game that was being played to placate Kennedy and the liberals. It was never very realistic that we were going to have national health insurance in the first Carter term, and there wasn't a second one.

BERKOWITZ: As one last issue, let's focus on hospital cost containment. That was a real issue I take it.

HEINEMAN: It was a real issue. I think we lost by one vote in the house.

BERKOWITZ: I think Mr. Rostenkowski was a key player.

HEINEMAN: Right, but the key vote against it was Gephardt, who I think subsequently said he was wrong, not that it did anybody any good at that later point.

BERKOWITZ: What was your particular role in that?

HEINEMAN: I was at that point executive assistant and my role was just to be part of the team. That one probably had gotten started before I was deeply involved in the spring of '77. It was an extremely complex program, which was one of its problems. Although I was not present at the absolute creation, by mid to late spring I started to get more involved on a daily basis, both trying to get it through the White House and then beginning to get involved in the legislative fights because of all the complexities.

BERKOWITZ: Did your relationship with Mr. Onek help in dealing with the White House on this issue?

HEINEMAN: To a degree, although basically Califano truly resisted the White House, ultimately leading to his demise, I might add. He felt that the White House staff really didn't know much about the subject and were not very political or sophisticated on these subjects or didn't have a clue about the Congress. So to some extent, though Joe Onek and I were good friends,

there was a lot of tension between Califano and the White House staff as you well know. Ironically, often the person in my job who deals with the White House, the White House connection, is the one who creates the friction in the relationship and then the Secretary comes in and smoothes things over. In a way it was the other way around with us. There was a lot of friction created by Joe and my job was to continually try to smooth things over between the department and the White House.

BERKOWITZ: Let me ask you one last question about HCFA. At the beginning of the administration HCFA was part of a major reorganization scheme at HEW, much heralded by Secretary Califano. Did it make any difference in terms of legislative outcomes or in any public policy sense?

HEINEMAN: It certainly didn't make any difference in terms of legislative outcomes since there weren't many domestic successes in the Carter administration. It probably didn't hurt, but it really didn't help. And I really can't speak to the details of the administrative initiatives undertaken by Schaeffer and company. That just wasn't my area, and even if it were I'd have a hard time remembering this far away from it. There are many others who are better situated to speak about it.

BERKOWITZ: So in the long run then, hospital cost containment and welfare reform were destined to fail, and HCFA was irrelevant to that whole story.

HEINEMAN: I guess I would say that. The thesis of my book is that the Carter administration failed to think strategically about a domestic agenda. It dramatically overloaded the domestic agenda. It had no sense of Washington. It's amazing, looking back, at how naive they were. There was no sense of priorities or how hard these battles were going to be. The country had changed dramatically from the '60s in terms of where the political center was. On top of that the economy, for a variety of reasons also discussed in that short chapter and well known anyway, was in great difficulty. There was just no way that all these huge initiatives were going to get through the Congress in a four-year period. So what happened was that Carter basically screwed up in the first year and lost his credibility, (much like Lyndon Johnson in his last year) and never really recovered it. By the time we got around to national health insurance it was just a joke. There was never a real debate. There was never a chance in the world that the Congress was going to do anything before the 1980 election. One of my favorite stories is of Al Ulman, then chairman of the Ways and Means Committee, meeting with Carter on welfare reform and saying to him, "The difference between you and me, Mr. President, is that you live in a world of enchantment, and I live in a world of reality." By the time Carter, much as I

admire him as a person, began to understand how to be president, he was heading back to Plains.

BERKOWITZ: I think that's a very good note on which to end. This interview is very helpful because it gives us a look into that inner structure of the department.

HEINEMAN: I really think that the key, although Joe loved to trumpet the organizational changes, was Hale. Much more Hale.

BERKOWITZ: I think that's a very good insight. Hale was pretty deferential and politic and said that he was the one that was concerned with administrative things, and that Joe was very enthusiastic about these things.

HEINEMAN: I think that's true. Joe loved initiatives, Joe loved change, Joe loved shaking things up, Joe loved motion. He wanted to show that he was in charge and things were moving. But in terms of both the conceptualization and the implementation of HCFA, as opposed to being the rocket launch of it, it was Hale who would sit and grind through endless meetings with health insurance staff. Much less so Joe. Joe would listen to Hale, after Hale had done a lot of the grunt work.

BERKOWITZ: Thank you very much.

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Interview with Arthur Hess

Charlottesville, Virginia on July 8, 1996
Interviewed by Edward Berkowitz

BERKOWITZ: You were born in Reading, Pennsylvania, is that correct?

HESS: Born in Reading, Pennsylvania, graduated from public high school, went to Princeton.

BERKOWITZ: Did you have money to go to Princeton? That must have been quite something to go to Princeton during the depression.

HESS: Not much money. My dad swung it for me and then my two sisters claimed that they weren't able to go to college because I exercised my male prerogative. I was the oldest. It didn't cost quite as much then; I did have a small scholarship, 'though. I graduated in '39. I was in the class of '38 but had to drop out for a year for medical reasons and came back in '39. I had had an award to study in Europe in '38, and I was at Nuremburg when Chamberlain and Hitler negotiated the great Chamberlain retreat from the conflagration that was about to break out. I came back and because of my health problems—I was 4 F—I was not in the military.

But I had taken a Civil Service exam and got on a register from which Social Security was recruiting in 1939. It was a Civil Service register made up primarily of social science majors and other persons who were able to pass a special entrance examination that was designed [to be] for professional assistants in various agencies. Social Security had just been amended and recruited widely. I was recruited into the field in Pennsylvania and [then] became a manager later in New Jersey. After five years in the field, I had an opportunity to go into the central office.

BERKOWITZ: How did one get up to this level? It seems that all the people who succeeded in the agency somehow made this transition, but I'm never sure how it was actually done. Did you have to know somebody in Baltimore?

HESS: Let's put it this way: somebody in Baltimore had to know about you. In the first five years of the expansion of the Social Security program there was a tremendous amount of central office attention to the field organization. They were actively recruiting and promoting; they were training and holding conferences. Every region had a conference at least once a year to which all the Baltimore people came, from the Director on down. By participation and by getting to know people through these

conferences, you became identified as a performer. There was so much movement, the program was expanding, so that I moved pretty quickly—well, not so quickly—but after a couple of years from a field representative in Wilkes Barre to a manager in Easton which was a small office.

Within two years I was offered the managership in Perth Amboy, and, had I stayed there, I would have probably ended up in a Class 1 office because I was identified—as were many others including Bob Ball who worked in the New Jersey district office, too, for a while—I was identified as someone who had experience and good sense and who was restless and unsatisfied to remain in the field. I think the field experience was very important, and in all the recruiting of others that I did later on for Disability and Medicare in the central office, I always looked first for people who had had good field experience; because they had had the experience of working with the masses of population and with program procedures. They knew what it was like, as I did in Wilkes Barre, to have to deal with a big foreign element in the population—Poles, Slovaks—and first generation immigrants. They knew what it was like—I should emphasize—in those days to deal with small business people in the field who detested having to make out Social Security reports and a lot of people who didn't want to have Social Security numbers.

One of the things we spent a lot of time with in the first couple of years was chasing what we called Collector's letters. The Collector of Internal Revenue said, "I have a tax return and it's got this amount of money on it but there are no names," and we had to go out to employers who said, "Well, this fellow worked a little while, but I didn't get a card from him because he didn't want a card and I didn't care." So we tried to track down both employers and employees. You know the history. We've still got in Social Security early earnings that have never been attributed to anybody because people refused to sign up. You had to give employers a pep talk right from the beginning.

The Social Security Board did a wonderful job of training field people. Old Francis McDonald had six-week control classes in Washington, and you were identified in those classes as to whether or not you were quick on the draw and whether you were interested and committed. I'd say that a lot of later promotions were based on recommendations from one level of supervision to another, and I don't remember how I got into Baltimore except that people knew I was looking for something in central office administration. I think all they had to do was to check around and say, "Who have you got out there that might want to come and who's good," and they would have mentioned Hess or somebody, and this continued for a long, long time. That's how people got in. It wasn't so much that you knew somebody. I could have

gone to the central office if I knew somebody, but I didn't know those people. I came in cold.

BERKOWITZ: Like Ball, you worked with Francis McDonald as a matter of fact.

HESS: Yes, in one sense. But Ball actually worked for him.

BERKOWITZ: Now you came to the central office in 1944? And you worked for what bureau?

HESS: The Office of Management and Planning. Roy Touchet was the head, and it was an office at the level of the Director of OASI [Bureau of Old Age and Survivors' Insurance], which was part of the Social Security Administration in those days.

BERKOWITZ: The Social Security Board still in 1944.

HESS: Yes, OASI came under the Social Security Board. It was the operating arm of the Board.

BERKOWITZ: Management and Planning, was that something that you had a special interest in?

HESS: Well, of course, I had majored in government and had a good deal of course work in public administration. Then I had five years of field administration, and this was the first opening somebody offered me. If they had offered me program analysis, where I ended up, I would have gone right away, too, although I had probably no greater expertise in one field than another. I hadn't had a lot of experience in organizational planning, but I had good mentors. I did a lot of work on surveys. For example, we surveyed the whole accounting operation in the early days when the first IBM equipment was over there and much of it still involved rudimentary procedures and ad hoc administrative structures in terms of keeping records.

BERKOWITZ: By "over there" you mean downtown Baltimore at the Candler Building?

HESS: At the Candler Building, yes. So in good time I got to know Alvin David and Bob [Ball]. He was head of the Division of Program Analysis [DPA]. Briefly, Bob left OASI to work on a detail to the Advisory Council and Alvin David became the head of DPA which did planning on benefit amounts and legislative analysis. This was at the Bureau [OASI] level and had a very tiny Disability group; also, a considerable coverage group because this was before we had coverage of agricultural labor and the self-employed, and they did a lot of work on all areas of coverage expansion. The function of

DPA was partly research but not of the esoteric or elevated, comprehensive kind of research that ORS [Office of Research and Statistics at the Board level] did. Ours was research with an administrative focus—servicing congressional committees, preparing materials for hearings, preparing testimony for whoever had to testify, covering the hearings, etc. We didn't have the cabinet level Department at that point. The Social Security Board and, later, the Social Security Administration handled legislative liaison but OASI helped service legislative requests. This was done in the Division of Program Analysis.

BERKOWITZ: How did you get from Management and Planning to the Division of Program Analysis?

HESS: They asked if I wanted to come down.

BERKOWITZ: And it was Alvin David that asked you?

HESS: Yes.

BERKOWITZ: Alvin David is also an interesting guy. He never quite made it as far as Commissioner.

HESS: No. He's still around, he moved to Chicago. Linda died and he's by himself and he's close to 90, so he went to Chicago because he's got a daughter in Chicago. He is a person of great professional accomplishments. I remember he told me that during the Great Depression he was a taxi driver in Chicago, and he worked his way up just like Jack Futterman. {I think Jack had an MBA or a PhD and he started work at Grade 1 in the Candler Building in 1937, I guess.} There were a lot of job opportunities for people who were tuned into New Deal programs and were interested in government. I think that we had a remarkable collection of people with various kinds of professional backgrounds and great dedication in the central OASI staff.

BERKOWITZ: What year was it that you went over to Program Analysis?

HESS: I'd say I was over there by '47 or '48. I had stayed in Organizational Planning for about three years, but I became more and more interested and identified as the person who could be thinking about what we were going to do if the Disability program went through. DPA had a Disability studies unit. But that was four or five years before we set up what I called a "shadow" administrative planning activity which was at the Director's level where we pulled in people from other divisions and from the field simply on the basis of, again, their reputation as being knowledgeable experts in one or another aspect of the Social Security operations.

BERKOWITZ: When you were working for the Division of Program Analysis Alvin David was your Division Chief, right?

HESS: Yes.

BERKOWITZ: You said you zeroed in on this Disability. Why? How did that come to attract you?

HESS: There was a vacancy in that branch chief position, and I was attracted first of all by the opportunity presented by this vacancy. I also had been exposed in management planning to the rudimentary Disability program that the Bureau of Old Age and Survivors' Insurance had during World War II for volunteer, non-federal civilian employees. So there was an opening in this small branch which had about four professional positions. I don't know whether Herbert Borgen had already gone down there or whether I brought him over. Maybe he was already down there. He was the person who had carried out the early Civilian War Benefits program that had ben set up by Executive Order in case there had been an invasion or people had sustained wartime injuries working in this country. It was for civilians. Mostly volunteers, for example air raid wardens who were injured—stumbled down steps in the dark, things like that.

BERKOWITZ: If we'd been invaded it would have been different.

HESS: Yes, right.

BERKOWITZ: Borgen had expertise from developing this little mini Disability program in the Second World War?

HESS: Yes, and afterwards he developed a program with a doctor from the Public Health Service to conceptualize and systematize disability evaluation. They spent lots of time—weeks and weeks—sitting in on the adjudication processes at Railroad Retirement which already had a Disability program and at the Veterans' programs for pension and compensation—mostly for compensation—because that's where the most sophisticated measurement of Disability took place. Also we had somebody who'd followed the experience of the insurance companies because throughout the testimony in the '40s and '50s of the insurance industry it was always stated that you couldn't make valid Disability determinations; you couldn't run Disability programs; insurance had tried it and gone broke in the Great Depression. They had sold a lot of insurance—

BERKOWITZ: And lost a lot of money.

HESS: And lost a lot of money, and we said well, that was because of poor underwriting. It wasn't necessarily because you couldn't establish a valid

process of determining total disability. And also because they never did scientifically adjudicate with the right kind of medical evidence. When they got a claim, if incapacity was bad enough they'd pay it off, and if it wasn't very bad they'd see if they couldn't avoid having to pay it off. That's the way a lot of insurance worked that had anything to do with anything less objective than death. That's also what we found later when we got into Medicare and we had the insurance intermediaries who were alleged to have had a lot of experience in health insurance. We found a lot of private insurance was done on a very rudimentary, cut and dried basis. If you were in the hospital, you'd get ten dollars a day for being in the hospital. All you had to do was have the dates of hospitalization and have somebody certify it. If you'd visited a doctor, that was pretty easy to certify. There wasn't the depth and comprehensiveness of disability or health experience in the insurance companies that we expected to find. Of course it was before automation—I'm talking now especially about Medicare.

Sorry. I've jumped ahead—but the analogy is the same. The place where there was experience aside from the federal programs I mentioned was the insurance industry. We followed very closely their bad experience so as to avoid the pitfalls.

BERKOWITZ: This group that we're talking about now is a group within the Division of Program Analysis, a little Disability study group?

HESS: Right. Of course we kept track of what was going on in the Office of Research and Statistics at the Washington level which was doing the broader programmatic designs for the Wagner/Murray/Dingell bill and so on.

BERKOWITZ: This was in 1949 that you started this?

HESS: No, earlier, '47 or '48.

BERKOWITZ: So you're looking at a time when the House of Representatives was going to pass it in 1949?

HESS: Yes. Actually, SSA had been working on this long before I came down to Program Analysis. There were some of these people who'd been in it for three or four years already. It was not a new setup, but I was brought in to head it up, and I had to get up to speed on all of these things.

BERKOWITZ: And you recruited Borgen and, was it Sweeney, the Public Health doctor?

HESS: No, I don't remember his name, but we didn't recruit him. We just borrowed him from the USPHS.

BERKOWITZ: But you recruited Borgen to work with you?

HESS: He may have gotten down there before I did. I don't recall, but I came in as branch chief of this small group. Of course, program planning was a moving target, because we had to keep up with the legislative picture. We had some people who were primarily doing research or getting data to serve as rebuttal or to serve to elucidate responses to requests that were coming from Congressmen. Members of Congress could turn to Social Security and say, "Draft me this," or "Answer this question," or "Here's a letter I have—give me comments" It was a service which we performed irrespective of whether we thought the substance was a good or a bad idea, or for a Republican or Democratic Congressman. It was a service. We ended up sometimes writing rationale for proposed provisions that were contrary to what we'd recommend, but on request we'd write pros and cons, and we could do it either way. You could write just as good a set of cons as you could pros. So it was a professional service outfit, but I found that, increasingly as we approached the 1950s, it looked like disability insurance was coming—and we had to study how it would be administered. I found that there was little or no appreciation and no detailed work being done on how Social Security would go about administering various conceivable provisions. The assumption always was, "We've got field offices, we've got a big structure."

Every time you got a new program—whether it was coverage extension or benefit increases—the existing organization could take it on. People assumed, "You've got plenty of people, you've got plenty of flexibility, you've got good lead time." Still, even provisions that were as difficult to administer and work out as provisions for coverage of the self-employed, coverage of the farmers, it was assumed that Social Security would just take them on—and could. So it was just assumed also that Social Security would just take Disability on. Then we began to look in great detail at what other agencies experience was and tried to translate that into how this fit into our organization, what do we have to do in order to make this work? We knew that the AMA and the insurance industry hoped and expected that we'd fall on our face. We didn't even know whether there'd be cooperation from the medical profession. I said we'd really have to start taking seriously the whole problem of designing administrative alternatives, and we did. One of the administrative alternatives which we did not design was state administration. That came, as you well know, fast and out of the blue in 1952.

BERKOWITZ: We talked earlier about this little shadow group that you formed. When was that formed?

HESS: About the middle of 1950, I think. We geared up gradually and then when the freeze became a serious option in 1952, we pulled a bigger group

together and took them out of the Division of Program Analysis and set them up as an SSA-level task force. Then, when it became clear in '53, that we weren't going to get anything soon—it wasn't going to go into effect and that the election was coming up and there were all kinds of questions as to when, if ever, we'd get legislation and what it would be, we disbanded that shadow group except for a couple of us who kept track of what was going on. Still, our assumption remained—that the compromise of using state agencies had enough political credibility to it that, if Disability came through, we might very well get stuck with and have to work with the state agencies. So I spent a lot of time both with the medical profession and with state directors in holding meetings and conferring and sketching out—and with Mary Switzer—how would we do this and how fast could we do it.

BERKOWITZ: You worked for this small group concerned with Disability starting in the later '40s. The shadow group was something quite different, and that started around 1952?

HESS: Before that. It started around 1950.

BERKOWITZ: And that was when you gained access to the hearings?

HESS: Yes, and then when we got the freeze provision in 1952 that was inoperative but that involved the state agencies, the whole year following that it was inoperative we were conferring. We set up committees of state directors and we were conferring with Mary Switzer, and we were saying, "What if, when June 30th comes along and this is supposed to expire, Congress lifts the bar? What if they lift the bar and give us very little time on the effective dates?" We had to postulate all kinds of possibilities. We said, "We'd better spend this year getting an administrative package on the shelf," and that's essentially what we did.

So in '54 when the freeze came alive and the legislation specified state administration, we had a good head start—the package on the shelf. We had committees of state people at work, we had a lot of SSA and VA people identified for a Division of Disability Operations and we pulled people in on detail and operated for about a year without having civil service positions and grades set up, without having organizational approval from the Department, and without having an appropriations budget. One of the big problems when you get any kind of new legislation, you never get advance approval of the money and the positions in time to put the law into effect. That's why Social Security was always able to take on these big, new programs. Because, while we weren't overstaffed in the sense of having too many people, we were in a period where there was constant expansion for programs previously enacted. Otherwise you never could keep up with recruitment in terms of the newest programs. For example, right in the

middle of trying to put the Disability cash benefit provisions into effect came the Coal Mine Health and Safety Act—overnight. We didn't even know it was coming along in '58 or whenever, the black lung business came. Yet we had to absorb it.

BERKOWITZ: I think that was a little bit later.

HESS: Yes, but I'm citing this as an example of why we were constantly behind in our staffing. It would not be as easy to do today. It certainly wouldn't be as far as Social Security is concerned because the organization has now been ratcheted down to the point where it hasn't got even enough people to do the job it has to do. There are no people that you can pull from any place in Social Security to take on a new function without hurting existing functions. When the coverage extension of 1950 had gone through—a big coverage extension—there were enough people in the field that you could pull hundreds of people into a new structure and give them the new disability job.

BERKOWITZ: So that in 1954 when you had the freeze in the picture, you were able to create a Disability Division as part of the Bureau of Old Age and Survivors' Insurance on the spot?

HESS: Yes, on the spot, right.

BERKOWITZ: So that when 1956 came along and you really had to do it, you already had that formal division created?

HESS: Not only that, but when cash benefit came along in 1956, we had adjudicated most of those freeze cases so all you had to do was pay them benefits. It's true you got a lot of new claims all the time, but all those old claims, that old backlog—there had been possibly half a million or more put on the freeze when the cash benefit program started—you didn't have to start that from scratch. But you had to design all the procedures that made it possible to send cash benefits to them and to follow up on them and everything else.

BERKOWITZ: This is important for Medicare. In 1956—and in 1954, really—there are medical questions involved in Disability adjudication. There are medical examinations that have to be done, medical evidence has to be entered in the record at the same time that the official medical position toward the government is still antagonistic because they were afraid of national health insurance coming in. How did you negotiate those kinds of relationships with the medical profession?

HESS: This is one of these cases, again, where you can say if it hadn't been for Disability, if it hadn't been for the incremental approach, you would have had a lot of trouble. But when Disability came along, we set up a medical advisory committee, and it was a very reputable group of men—all doctors, Doctor McGee at DuPont was the chairman—they all had respect and standing in the medical community. We said to them, "Let's forget about all this socialized medicine stuff. We've got a professional job to do. How do you do it? How can we work with the medical societies and the medical profession?" Of course, the fact that the states were the primary point of impact helped a lot, because we never set a fee for a medical examination. We let the state agencies negotiate fees. As a matter of fact, we told the states in many instances their fees were too small. They were getting medical reports for vocational rehabilitation purposes for five or ten dollars a report from the family doctor. We said, "That's no basis for a consultant examination. Go out and get a specialist exam and pay a decent specialist price for it." Especially when we got into black lung where you have to have tests with spirometers and all kinds of documentation of pulmonary function, you just have to pay decent prices for that. So we had the track record of demonstrating to at least part of the medical profession that we understood how to work with doctors. We demonstrated how doctors can work with a federal program like ours, especially a program in the Social Security Administration, without being afraid that they were going to get taken or give up their professional integrity.

Then after Disability, when Medicare was in the wings, there was a tremendous amount of interplay between individual physicians of some consequence in the states and those of us in Social Security who were responsible for setting this up. For example, I knew on a first name basis some of the biggest guys in the AMA and in the state medical societies on the basis of having been at their meetings. We would go and meet with, for example, the Los Angeles County legislative board of the California Medical Association and meet for two days and tell them what we had in mind and what the problems were. All the time the AMA was fighting us tooth and nail, we were sitting down with groups at the local levels and saying, in effect, "Look, it makes no sense not to talk. This is what's in the bill. We aren't saying this bill will pass or any other bill will pass, but if it does, how would you solve these problems? What would we do? We're talking about utilization review, we're talking about reasonable costs and reasonable charges." We did the same with the hospital people and with the American Nursing Association, and as you know, of course, the nurses and the hospitals "caved in" first.

The AMA came along slowly. At the very last moment, you recall, Wilbur Cohen took a bunch of AMA people over to the White House and they met

with Johnson and Johnson told them, "Let's talk. We're going to work with you. Let's see what we can do," and he gave them the impression that Social Security was going to be told to be reasonable about it. We didn't have to be told; we knew and had been doing this along, laying the groundwork for it. When we were looking for people for the medical advisory committee. We got some of the key doctors in the country who were not unsympathetic to Medicare, and who had terrific standing in their own profession. For example, Dr. Russ Nelson who had been president of the American Hospital Association and was president of Johns Hopkins in Baltimore, we put him on the medical advisory committee. Sam Sherman in California, who had been president of the California Medical Association and was chairman of the AMA Legislative Committee at the time when the AMA was fighting tooth and nail—later on our medical advisory committee—was on our constant line of unofficial communication. He was sympathetic to the idea that even though the AMA was objecting, it made no sense from their point of view to refuse to get their oar in early, and get it in on a working professional level. The day the law passed we picked up the phone and called the president of the AMA and said, "Well, it's passed now." And he said, "We're going to work with you. Can we meet for a drink?" And we met. He was Jim Apple, the president of the AMA, and was from Lancaster, Pennsylvania, and I was from Reading. We got together for a drink and said, "Where are you from?" and I said, "I'm from Reading. You're from Lancaster. We two Pennsylvania Dutchmen ought to be able to meet over a couple of martinis and talk sense."

What I did was say: "It isn't going to make any sense for either organization—the doctors aren't going to come out right on this and SSA is not going to come out right on this if we can't frankly discuss: How do you work out utilization review? How do you do this, how do you do that through intermediaries. How much do we set up in the way of criteria and guidelines, and then how closely do we monitor it and how much leeway do we allow for the application in individual situations?" That's one of the things I want to point out in the whole Medicare planning operation, the reason why it was good that I sat in on the Ways and Means Committee executive sessions and heard Wilbur Mills and others. You could see what commitments were being made, and believe me there were commitments. For example, Mills had strong commitments to the doctors; that's why we got Part B. And he had strong commitments to the radiologists and pathologists. That's why the Douglas bill was defeated.

BERKOWITZ: The Douglas bill, we should point out, was a proposal to include those specialties in Part A rather than Part B.

HESS: Yes. We knew how much the committees and the legislative sponsors had been willing to bargain and where they held the line and what their attitude was. After passage, the AMA attitude was no longer confrontational, and we were not inclined to be confrontational anyway; we knew we weren't going to get to first base if we approached implementation on a confrontational basis. So we established rapport with individuals in the medical profession through committees, through various activities. I was invited to speak to almost every state medical society at some point or other in the year 1964–65, and I could always say, "Look at our track record in administering the Disability program. I'm connected with the planning for the application of the Medicare legislation if it comes through. Here's what we're thinking about. Talking about carriers and intermediaries, here's what their function would be. Talking about hospitals certification, here's what would be done. Here's how we plan to go about this and that. What are your suggestions?" For example, some of those people ended up on the Medical Advisory Committee knowing so much about the program that was proposed and its operations and its difficulties, and we knew so much about how we could trust them, that we really, in effect, had a Medical Advisory Committee that was responsible in considerable part for the excellence of the standards and criteria which were set up.

BERKOWITZ: Let me stop you there and backtrack just a bit. One of the things that was going on in your career here is that in 1956 you spent a lot of time dealing with the rehab people and the medical people setting up the Disability program. At some point your attention turns to Medicare. Just when did you get off the Disability administration stuff and get on to Medicare as your primary issue? Was it 1960?

HESS: First of all, it happened, yes, around 1960, but I remained in charge of Disability, and it happened in part because I needed to pay attention—or Ball expected me to pay attention—to the legislative prospects in Medicare. But he didn't discharge me from any accountability for the Disability program because there was no position set up except Director of Disability which I occupied. So I worked on Medicare from that position, but I had excellent deputies and a good staff in Disability Operations, and, I'd say, by 1960 we had had five substantial years of Disability insurance operations. All the flack at first came from the Harrison [Congressman from Virginia] sub-committee hearings. Fred Arner was Staff Director. We had a whole series of accountability sessions with the House on Disability in '58. I was never exclusively on either Disability or Medicare from about 1958 or '60 on, because I was sitting in on Ways and Means open hearings and Ways and Means closed sessions. And often, when Medicare was the subject, Ball was there or Cohen was there. So I was not primarily involved in presentations to the Ways and Means Committee, but we would work with the staff.

After the Committee had had their executive session, they'd go back to drafting and three or four of us would sit over there day after day, night after night and pick up word after word and say, "We have a problem with this, we have a problem with that," and try to work up the next draft. As we moved from one bill to another, even though there were large swings in the substantive program benefit conditions, the assumptions about how you would handle claims and the assumptions about the administrative problems and their solutions began to firm up. Each time you had a new bill you didn't go back and start from scratch. You tried to incorporate into the new bill those things on which there had been some earlier consensus. So we were developing a consensus even when we weren't sure of some major assumptions—well, no, we became pretty sure. For example, the last two or three bills from about '63 on, we were pretty sure that there were going to be carriers and intermediaries.

BERKOWITZ: That idea seems to have come up fairly early in the Kennedy administration so far as I can tell.

HESS: It came up first of all because the American Hospital Association was very effective in their lobbying. Blue Cross was very effective. The insurance companies were dead set against Medicare, but they wanted a piece of the action, too, if it was coming through. As a matter of fact, Senator Anderson [New Mexico] had a close tie to the insurance people.

BERKOWITZ: Had sold insurance, I believe.

HESS: May be. When I got to the point where I was in charge of the selection of carriers for Part B, and the Blues were making a big play and there was a fear that the Blues might get all the business, we got word from Irv Wolkstein who was on our Social Security staff—he didn't report to me, but he was much closer to the Hill and the Hill staff—and he said, "Senator Anderson has let Mr. Cohen know that there better be a good distribution between commercial insurance companies and the Blues when you select your Part B carriers, because Congress doesn't want to end up seeing the insurance companies get short shrift just because some guys in your organization think that the insurance companies were fighting this and therefore don't deserve to get in on the payoff." Those weren't the exact words, but that was the idea. We chose carriers and intermediaries on the basis of a fair, responsible, judicious, non-political selection of those we thought could do the job, but at the same time we had to recognize that nobody had a cut-and-dried hold on this. Not even Blue Cross had so much experience in all areas that we had to go with them in each locality. This was all fairly experimental, especially under Part B. They were all starting with one degree or another of competence. They were all starting to offer their services based on different track records. You had to consider objectively

that you wanted to come out with a mix so that after a couple of years one could say a good insurance company could do the job just as well as a good Blue plan.

BERKOWITZ: There was Congressional interest too, I'm sure.

HESS: You had to get geographic distribution and you had to be sure—and on Part A we consulted a lot with Walter McNerney and the Blue Cross people, and we consulted a lot with the insurance people not just about whether they wanted to be carriers or intermediaries, but we consulted with them very consistently and bargained very hard on what we would agree to and what they would have to agree to.

I'd like to talk now about the selection of Blue Cross, especially the conditions under which the administrative arrangements were made to bring Blue Cross plans into Part A.

BERKOWITZ: I'd like to just button down one point. In the late 1950s, when you were talking about the way the agency worked you talked about Robert Ball being very influential, but nominally he was only the Deputy Director of the Bureau of Old Age and Survivors Insurance.

HESS: Yes, Victor Christgau was the Director. I guess Vic was appointed by Mrs. Hobby in the first Eisenhower administration. He had been a farm labor candidate. He ran as a Republican from Minnesota, I guess. He was a one or two-term Congressman, very quiet, very pleasant and competent to deal with. But obviously, when he came in and saw Ball as Deputy running the place and making a good job of it, he gave Ball plenty of room to operate. There was no question but that Ball, being as competent as he was and having the contacts that he had all the way up through the Congressional and administrative circles to OMB and to outsiders, was a person of consequence. Vic realized that he wasn't going to run Ball any competition.

BERKOWITZ: And I guess the Commissioner similarly—Schottland and Mitchell, too.

HESS: I think that Schottland had more program interest than Vic did, and program experience. Schottland was also a good academic. He was especially qualified in the field of welfare.

BERKOWITZ: And Mitchell was just a career guy.

HESS: Yes, but don't say "just." He was there from the very beginning, like Cohen, although he was on the management and organizational side. Mitchell was one of Altmeyer's principal associates for years.

BERKOWITZ: Let me ask you another question, and you don't have to answer this. Your career and Bob Ball's so intertwined, did it ever bother you that he was the Commissioner and you weren't?

HESS: No. He was running circles around me. The thing that I liked about our relationship was that I was agile enough and smart enough that I could pick up and follow through for him. He would take the lead, and he could drop the assignments and feel confident dropping them to me that I would carry out policy with a minimum of checking back with him. But when I ran into problems and checked back with him, he usually had broader imagination and more authoritative views because he had a range of contacts on the Washington scene that I could never have duplicated. I don't know how he did it, but he was on a close, first-name basis with an awful lot of people whom I just barely knew. I would have known them better if I had had reason to deal with them, but that was not my job.

BERKOWITZ: Your expertise was managerial, thinking about how the programs worked.

HESS: Yes, much more so than designing program provisions, but managerial in a sense of very broad conceptual things from a program point of view. I want to give you at least two quick examples of that. First is the tremendous amount of negotiation that I personally had with Mary Switzer to satisfy her that it was not in her interests to push for an administrative arrangement whereby rehabilitation counselors were going to be the principal intake point, for two reasons. One, voc rehab programs didn't have the infrastructure nor did they have the orientation to deal with our kind of population. Two, even though there was a good deal of rhetoric in the legislative history about rehabilitation and the reasons why people should be exposed to the opportunity for rehabilitation, the legislation didn't pan out to target this population.

It panned out to cover mainly a group of superannuated people who became increasingly disabled over many years and who, under no circumstance, would have a place in the labor market again, even if they wanted to be rehabilitated. And the political situation was such (picking up the whole backlog of potential eligibles) that we had to expect a vast flood of claims that had to be accounted for and handled. You couldn't have them back up on counselors' desks subject to interpersonal dealings with claimants as to whether or not they might be able conceptually to do some kind of work, or wanted certain kinds of services. These were ancillary questions for only certain kinds of claimants for whom they were logical. Policy could not be generalized since SSA could not pay for rehab services. We had to ultimately end up dealing with every state director and saying, "How many of these people can you handle? How many do you want?" And they'd say, "Look, we

have no experience in dealing with anything except orthopedic cases and the blind and people who need a little educational training and placement. We have no experience dealing with serious psychiatric cases or serious heart cases or the coal miners who are coughing up coal dust all day long and have been out of work for years." I said to Mary, "You want to expand the program to a concept of rehabilitation which reflects the best and the most promising in the way of results, and you don't want to get tied into this disability operation. You can't really afford to be between us and the state directors. You don't have that kind of a superstructure here in Washington where you deal with the state directors on rehabilitation issues. Your priority for the coming years is not disability claims. SSA has to be able to go to the states and negotiate a process that has prospects for success." A funny thing happened. Within a month or two after I had this personal knock down drag out fight with Mary, and I thought, "She'll never talk to me again," she offered me the position of her deputy at a grade promotion.

I went to Bob Ball and said, "What's going to happen in disability legislation?" and he said, "You'd better stick with Social Security." So when you say I was taking care of the administrative side, I was, but I had to have the program perspectives and the program insight to understand what state agencies could be expected to accomplish and, then, to figure out who to work with and how to gear this whole thing up. Maybe it's a shame that we set up what looked like a Rube Goldberg state operation and that we've never been able to get out of. But I'm not at all convinced, at that point in time, had we insisted on full and exclusive Federal responsibility, that we could have handled it politically. Because our SSA organization, as I told you, from 1939 on did a wonderful job of recruiting people to build up the competence in the field to administer benefit claims; but it was a competence to administer claims on the basis of old age retirement and survivorship.

Second example: When it came time to set up this shadow organization and later on Bob designated me as Acting Director of this new Disability Division, we had no disability field operation whatsoever. We had to have people at the regional level who could answer questions and who could negotiate for us and who could hold meetings and so on. So we temporarily used the Old Age and Survivors Insurance regional staff which reported to Hugh McKenna. This field organization reported to him, and he and his people acquiesced in taking on the job but didn't realize that they would not permanently have that responsibility. So, when we asked the state directors to do something like prepare a budget and send it in, and we couldn't find the budget and we tracked down where it was, it was some place down in the bowels of the Division of Field Operations, and they were handling it as if it were a budget from a district office. They were applying their own criteria. And I said, "For

God's sake, send those budgets up here. You don't know what the circumstances are and you don't have the responsibility for contracting with Disability directors in the states and we have to clear that up." We did clear it up and some were very unhappy about the fact that I quickly looked around and set up a separate regional staff. Soon there was a Disability regional representative in every regional office and always has been since then, reporting to the regional commissioner. Ball wanted to hold one organizational unit finally responsible for all disability activities.

The second example I wanted to mention to you (examples of administrative arrangements) also involved the principle of central responsibility. One of the most important administrative arrangements that had to be negotiated and settled after the enactment of Medicare: the role of the carrier in Part A. You know that part of the unspoken understanding (with the Ways and Means Committee) was that the AHA could tell the hospitals, "You're going to have a chance to choose the carrier you want and not have to deal with the government." Ninety per cent of the hospitals chose Blue Cross, and they became our principal contractor. But in those days, BCA [Blue Cross national association] was just a trade organization. The Blue Cross operating units were state and regional plans chartered under state law—New York had six of them—operated pretty much with a mind of their own—for better or worse, depending on how powerful they were.

Walt McNerney (BCA president) and his national group were strengthening and building up BCA because, first of all they were the prime contractor of the federal employees program. They wanted to be able to rein in and get control over all of these loose cannons—the officers who were in charge of local Blue Cross programs all over the country—because, aside from their local competence or incompetence, McNerney wanted to have a national package, national standards, and national operations. The legislation was silent on what we would contract for and what being a contractor meant. It became clear to me that BCA was going to work very, very hard to get the same kind of contract with us that they had with the armed forces, and that was to have an underwriting role even though they wouldn't collect the premiums. They would, in effect, offer their insurance-type services to deal with the beneficiary and to hold all the utilization records and to run the operation without any central record keeping by SSA.

You know, that's what the armed forces have, that's what the federal employees program has. The federal employees program contracts out to a carrier or intermediary for a benefit package, and whether it's a standard package or whatever, the Civil Service Commission doesn't have a direct, day to day accountability for the quality and the caliber of the service that the plan you or I have elected gives. The BCA people were moving in that

direction. Certainly I was supported in resisting this by Ball and probably would have been earlier if I had raised the question at the legislative level, although we didn't want to get into the argument at the legislative level of defining too closely the contractor's role. So, when we began negotiating with Walt McNerney, the issue on which we were negotiating was, "Who's going to have the basic records?" Walt said, "Our local Blue plans will have the records because when people file claims, the resident's plan will pay them," and we said, "Oh, no. SSA will keep the overall records, because people have a right to certain utilization, and we have to be able to tell you and tell them whether they're insured, how much they've used and have to be able to certify and guarantee to the hospitals that when we say a person is covered, we stand behind that." And the main thing was, we were afraid that we would lose all the capacity for cost control and data utilization. So the big issue was, on what basis does the claim come to the contractor.

They assumed the claim would come from the individual on the basis of where the individual lived, and we said, "No, it's coming from the provider, the doctor or the hospital, because it's extremely important for us—especially in Part B—to say that the relationships that you're responsible for and that we're responsible for between you and the doctors and between our program and the doctors—reasonable costs, reasonable charges, quality of service and all the rest of it, patterns of utilization—that there's one local place where you can pull that all together for each provider.

If you have beneficiary residence as the basis for which you're dealing with people, you'll get beneficiaries who have services all over the country. They go to Florida in the wintertime; they're traveling in Maine and they have an automobile accident; they live in Maryland but they get their doctors' services in DC or vice versa; they cross the river and they're in a different jurisdiction. We don't want to set up the kind of a system where we can't say that there's one intermediary or one carrier who's got all the records for payment purposes on a given provider, and we have all the final records in terms of eligibility and utilization. We don't want accountability spread all over the place."

Of course that was a matter of great contention and, I think, great disappointment. They finally knuckled under, for whatever the reasons might have been. I spearheaded—for better or for worse, and, I think, in retrospect it was the right thing to do—the negotiations and we dug in our heels, because I didn't want us to lose control over the whole program in terms of application of common standards and all the data and controls one needed to have to assure cost and charge profiles and to assure accountability to the Congress. We didn't want to have to say, "Well, we have made a deal with BCA in Chicago, and BCA has these 48 different plans

and it takes care of putting our instructions out to their plans, and if there's any problem, BCA has to take care of it."

We, in effect, said to BCA, "We'll negotiate with you, you can negotiate the master contract, but we deal directly with the plans and hold the plans accountable for their performance," because BCA was nothing except a super "holding" company with no operation in Chicago. Now, as time went on, I think they got stronger and better because their motivation was to elevate the performance of all of the Blue Cross plans—Blue Shield too, but less so with Blue Shield—to a common level of competence so that when they negotiated a national contract they could assure delivery on that contract. But negotiating a contract for the armed forces or the Civil Service employees is not like negotiating a contract for twenty or thirty million people, especially—and I think this is where it might have been tremendously significant and also tremendously controversial—especially had the Medicare program later moved in the direction of providing coverage to everybody.

BERKOWITZ: Medicare Part C, if it ever had come.

HESS: If expansion had come quickly like Disability did, if it had spilled down below 65 and got to take over where private insurance was otherwise going to operate, a wrong call could have made the whole federal operation just a contracting outfit. But by the time Medicare was enacted there was much more private insurance, and we were already moving in the direction of HMOs and so on. So there wasn't necessarily the likelihood that the Medicare model would become the model that people in Congress and industry would use in case of future expansion. That seemed to be logical in the 30s and 40s and 50s maybe, but by the time we got to the 60s and 70s, a national health insurance program for younger people might not have been the type that Medicare was. But we had to safeguard the options.

BERKOWITZ: Which shows that if it had been passed in the 30s, it would have been grants to the states. If it had been passed in the 40s, it would have looked different. If it had been passed in the 60s, it would have looked a certain way. If it's ever passed in the 90s, it's going to look a certain way.

HESS: Right. Medical care is so different now, obviously, as you well know. What we're coming up with now are the HMOs and the competition and the problem of the proliferation of procedures and pharmaceuticals and so on. Health care is becoming so expensive. The structuring of the private physician element at this point is probably good because that's the only way you'll keep the costs down, and you have a tremendous incentive for employers. They've got more incentive than the government has to keep the costs down. You didn't have that before.

BERKOWITZ: Let me just go back for a minute. You use the word carrier and intermediary interchangeably, but isn't the formal use that intermediary is Part A and carrier is Part B? Fiscal intermediaries dealt with hospitals and Blue Cross, and carriers dealt with doctors and Blue Shield.

HESS: Yes. I was using them interchangeably to the extent that they had certain common characteristics. They also had distinguishing characteristics and that differed, but they have certain common characteristics in the sense that they're really only contracting agencies to pay for services received. In their relationship to SSA there's a similar function: there's no abdication of SSA final responsibilities to write the policies, to write the procedures, to monitor, to go in to inspect, to terminate and to do all the things that have to be done. The carriers for Part B were insurance companies. In the beginning they thought that when we made the contracts with them, although they accepted our policies, they thought they could apply them in any way that they handled their own claims. And we found out that they didn't know from beans about how to pay certain kinds of claims, or they didn't have an automated set up at all that could handle them. We sent people in to inspect and see what was going on, to see what to do about the backlogs, and they didn't think we had the right to send people in. They thought that was not involved in the contract, but we either sent people in or we terminated the contract.

Actually, Social Security had to place some supervisory personnel in some of the insurance carriers to know what was going on there because we didn't get any feedback. All we knew was that there were high costs and lots of bottlenecks, and we didn't know what the problems were. So we sent people in on a resident supervisory basis at the carriers to simply monitor what was going on so we could help them clear it up. Now, that was not true so much with the Blue Cross plans, but still we had to establish with BCA in Chicago that they could not stand between us and communication with the plans. They wanted to be the channel through which all the complaints and all the reports came, and we said, "You know, if our people have to go out and go into the district Blue Cross plan and find out what the hell's going on there, we're not going to ask you in Chicago. We're going to go in and find out because we've contracted with the local plan. You can negotiate it, we'll negotiate a supervisory contract, but our basic contract is with the local plan. If something's wrong with the plan that we think you could help us with or that you're accountable for, we'll tell you. But if something's wrong with the plan that we think has to do primarily with operations or application of policy, we're not going to go through an intermediary on that; we're going to deal directly." That's the kind of thing that is not written in the law. As a matter of fact, you might, from the wording of the law, believe that Congress did not intend us to have such a heavy hand, and some people

complained, "The law isn't written that way; the law says that to the extent possible you shall contract with the carriers, and then it doesn't say anything else except that you contract with them to pay claims." But it was inherent in the whole relationship that the money comes from SSA, and in the last analysis SSA was accountable to the Ways and Means Committee and to the Congress.

BERKOWITZ: Let me ask your take on this Part B. Did you see it coming? You were there. Was that Wilbur Mills's idea or was that Wilbur Cohen's idea?

HESS: I don't know. I could suspect it was Cohen's idea. On the other hand, Mills was very, very sharp and quite acute to the political implications of the fact that he had a bill that was coming through that took care of nothing but hospitalization. Whether the Republicans were sincere about it or not, they could say, "Our bill—the Byrnes bill—is really better because we pay for doctors' services and all kinds of other things." So I don't know whether Wilbur Cohen had the idea or Wilbur Mills or who did, but there was no question that the federal employees program and the Aetna policy approach was already out there.

BERKOWITZ: In the Byrnes bill?

HESS: In the Byrnes bill. It was out there in the market place, too. That wasn't something that Byrnes dreamed up. I don't know whether the insurance companies supported the Byrnes bill. Some felt that they had to support some kind of federal program.

BERKOWITZ: So this was a surprise to you.

HESS: It was. It was a surprise to almost everybody. If Wilbur [Cohen] knew about it, he would probably have tipped off Ball, but I think he was just as surprised as Ball. It came so fast.

BERKOWITZ: That's one of the few examples in my recollection where something really just happened out of the blue. Maybe another example is the conference committee that put the states into disability determination. This was a compromise in a stalemate.

HESS: I don't know who was the father or the grandfather of that either. It's said to have been the Senator from Colorado—named Johnson I believe—but somebody must have planted that with him. I don't see how he could have—except it was a logical thing that could have developed from somebody rationalizing, "Well, the principal fear—and the only legitimate complaint that the doctors have—is they don't want to deal with Social Security. Is there

any way we could work this out so that they can deal with some organization that they feel more comfortable about?" And of course the rehabilitation idea was floating all around, as you know. And workman's compensation and welfare were also possible examples of potential state agents.

BERKOWITZ: Let me ask you this: if you could put yourself back to 1965 when you're beginning these negotiations to get these fiscal intermediaries and carriers together, what was your sense of it? Was it kind of accepted that there really would be this Medicare Part C or some kind of national health insurance? Did you operate on that assumption, that this was just the beginning? Or was it more that you were just taking your assignment quite literally?

HESS: I think the history of the incremental expansion of Social Security was almost unblemished in terms of everything that they took on got bigger and bigger and bigger. Wilbur Cohen's "baloney slicer" kept working. So I think one could have thought Medicare is the first step, and we could have operated on that assumption, but on the other hand we were far enough along then to recognize that the situation had changed completely. After all, private insurance had expanded so much and the political implications of the objections to the government moving in and taking over a field that had been carved out for private insurance, and that is people were working for whom premiums could be paid. My feeling is that while labor continued to support national health across the board, there was a part of labor that loved to have the bargaining leverage, to make it part of the employment contract, to be able to bargain for more and more health coverage. I think, if you got right down to it, that labor might have been ambivalent at that point too. There were advantages to some of the unions, and there were disadvantages to other unions. There were some unions that had better health contracts and tax implications for the individual than you could have gotten out of a tight Medicare program across the board, don't you think so?

BERKOWITZ: Yes, by the time this would have come about, costs would have been a real issue, the way it really was in 1965. Yes, I agree. That's why John L. Lewis didn't support Harry Truman's policy on health insurance.

HESS: I would say this, we had our hands full. I didn't worry about what might come down the pike later on.

BERKOWITZ: One other issue that comes up with the 1965 Medicare amendments is this notion that to get your money from Social Security, if you're a hospital, you can't segregate. You can't put all the black people in one room and all the white people in another. That's something that, as I understand it, is not in the law. It's just in dialogue on the floor.

HESS: The Civil Rights law had been passed in 1964.

BERKOWITZ: So when Medicare comes along the question is, does Title VI apply to Medicare? This question is one also that you eventually had to deal with, right?

HESS: Oh, yes. My recent Atlanta oral interview covers that. There was probably no doubt about it, and certainly no doubt in Lyndon Johnson's mind—that the Civil Rights Act of 1964 covered hospitals as well as schools and any others, but the Democrats didn't want this to become a big issue on the floor because Medicare was a close vote for some. Also, the 1964 law was not at that point being aggressively enforced as yet. Johnson went after the schools, but going after the hospitals was a touchy thing because saying that you mix races in the same bedroom, in the same facility, was a tough one for a lot of southern individuals and hospitals to face. It wasn't such a big problem for a sick person who, if he was sick enough, didn't care whether the man in bed next to him was black or not. But their families and the community didn't like the implications of this.

When it was said on the Senate floor that of course Civil Rights applies, we—Social Security—could not have gotten away by saying, "We don't have time to make a big issue of this right away. We'll take it as it comes." Instead, Social Security and the Surgeon General took the position—and this was largely Ball (and the Secretary's office too)—that this is a pre-condition of participation of a hospital. Right on the first day of Medicare—you don't get your certificate of participation until we have assurance that the segregation has been done away with or that there are bona fide steps under way that we can count on. Yes, we gave some conditional certifications, not because we said some people didn't have to do it as fast as others since it was going to be very traumatic for them—philosophically or otherwise. But sometimes the hospital had to reconstruct their physical facilities and had to do a lot of time-consuming things to make sure they were going to pass a tight inspection, a tight certification. They needed to spend time and money to do it, and we were giving them a tough deadline. So they could prove that they had already started desegregation or that there was no problem, physical or financial, that couldn't reasonably be overcome in due time. Or if there was a real problem and they had a plan and they knew we would be back within six months or a year again, they got only a conditional certification.

The same was true of other hospital health and safety requirements. We had lots and lots of such requirements that made good sense for big hospitals because they were taken right from the Joint Commission's medical standards for health and safety—about x-rays, about labs, etc. But when you got down to all these little 20 and 30 bed hospitals that had been built in many rural areas by Hill-Burton money, these never were intended to meet

the same conditions as the big hospitals. They were shocked at the implications that they might overnight have to meet these conditions or else not participate at all. Because they were often the only hospital in the area. Not only would the hospital have been shocked, but if we said to their community, "That's not a real hospital," they'd say, "The hell you say! This is the only hospital we have." We felt there was a real obligation on Medicare day, July 1, 1966 if there was not a dramatic transgression of the fire or safety laws or something else very serious, if it was something that a small hospital could reasonably work toward, that we could give them an "access" certification, or a conditional certification. Some of them, we simply said, could be access hospitals, since there was nothing else within reasonable distance, so we would certify them temporarily while the state health department worked with them to try and bring things into line. But the state health departments—we had contracts with them too, they were our agents in a sense—contracts to do both the inspections and later report to us on a continuing basis, year after year, any hospitals that didn't comply with health and safety regulations or with the Civil Rights Act. Of course states didn't have nearly enough inspectors to do the Civil Rights job.

That was a job that had to be done en masse, within a matter of months, and if you read that retrospective Atlanta review, you will find there was a last minute question as to whether or not enough hospitals were going to be certified. Some claimed that by the beginning of June most of the hospitals in the south either hadn't been inspected or didn't know whether they would be qualified. I attribute that to the fact that to get the certification the reports had to come through the state health department to us, get computerized, get checked out, etc., before SSA could send them a certificate they could put up saying that they were a participating hospital. That was just an operational jam up in June that meant the last week or two we had a whole flood of those certificates going out in the mail. But there was still resistance in some places.

BERKOWITZ: Mendel Rivers is one that comes to mind, a Congressman from South Carolina.

HESS: There was resistance on the part of individual hospitals. I had the experience, and other people had similar experiences too, that when we were negotiating with a hospital—one of the big Baptist hospitals in the south, a big hospital—they were resisting compliance with Civil Rights. And we said, "Well, that's too bad, then you won't participate." They said, "You can't do that," and we said, "That's the way it is. You're a big hospital, you shouldn't have any problems except psychological problems and local political problems. You've got to solve that." When we broke and went to the men's room, one of the men on the Board of Directors who was negotiating

with the group that was opposing this sidled up to me and said, "Keep the pressure on, keep the pressure on." They wanted to be able to say, "The Feds are forcing us to do this." They wanted to participate. There's nothing like going to somebody with 30% of their business potentially tied up and saying, "Take it or leave it." They knew that they were going to get their reasonable costs paid for, and this was guaranteed money. They wanted to be told they had to do it. Desegregation of health care was a great accomplishment. I think in the absence of Medicare or something similar, it might have taken quite some years.

BERKOWITZ: It would have had to have been litigated place by place; maybe even a national law would have had to have been passed. One last question, a speculative question: HCFA was created in 1977 after you had left the government and it took away Medicare from SSA. How did you feel about that at the time?

HESS: I thought that was a good thing.

BERKOWITZ: Taking away your baby, your handiwork.

HESS: I always felt Medicare was the most rewarding part of my career. It was a matter of special concern for me, but you have to remember that I left Medicare after two years, became Deputy Director and, while I always kept an eye on Medicare, it was thereafter run by Tom Tierney and the subsequent directors. SSA pretty soon, within a few years, got into the SSI track. It wasn't SSI to begin with; it was going to be the Nixon Family Assistance Plan (in 1969). We had about 100 or more SSA people on detail on that FAP planning activity in the Department. When that evaporated—and that's a long story—it was decided that there'd be this SSI program for the aged and disabled, and that SSA was going to administer it. Then the question got to be whether Ball would say we could do it or couldn't do it since it was means tested—a style of eligibility with which we had no experience. Also, whether we'd say we could do it but we'd have to have more lead time. That's a whole story in itself, but at a point where he might have been able to say we had to have more lead time, I had a number of conversations with him. I think we agreed that SSI was on a strong track, it had a strong political direction, it had a rationale, and if we said SSA has to have more lead time, there's no way of knowing that within another year or two it might turn out to be something different, or it might be that a year of delay of the effective date would be squandered anyway, and we'd still have the crunch at the end because it depended on the states deciding how to come in. We ended up keeping the shorter lead time.

When SSI became effective, Ball was gone. I was Acting Commissioner and Weinberger was Secretary. We met every Monday morning in a six month

period—I had to go over to Washington—to the Secretary's meeting with the agency heads. And after the meeting I'd often sit down with Weinberger. He'd say, "How's SSI coming along?" I'd say, "It's coming along all right, but California has not yet told us officially that they're going to want to have federal administration of the state supplement. We finally got to the point where we had to cut those checks. We were within two months or less, and Treasury said that if we didn't get the correct amounts to them within the next 10 days, those checks were not going to reflect the California supplement." And "Cap" would say, "Don't worry, it will come through." Of course, the California supplement was important because it was the biggest one, next to New York maybe. They supplemented the federal amount higher than anybody, and it was a big chunk of a person's monthly check. Finally I said to Cap, "We're at the point where we are cutting the Federal checks; California tells us that they are not going to send out any state supplement checks on January first. Our checks are going to arrive and they're going to be much less than people previously got from the state." And he said, "Well, let me see what I can do." Within a day we got the final word that the California legislature guaranteed that by the end of the week they would pass the authorization for us to incorporate their supplement in our checks. We had all the stuff on the computers. It wasn't always the right information because some of their records were no longer current. So we told the Treasury to go ahead and write those checks to include the California supplement even though we did not have the official final word. If the legal authorization they promised hadn't gone through, I guess my career would have been finished! So, you asked me how I felt about Medicare at that point; I didn't have time to think about anything except where we were heading in this monstrous SSI program.

But really, turning Medicare over to HCFA made sense in terms of SSA's long-run mission. Later, when considering the SSA independent agency question, I strongly took this position.

BERKOWITZ: Thank you very much.

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Telephone Interview with William Hsiao

Cambridge, Massachusetts on August 23, 1995
Interviewed by Richard Shuster

SHUSTER: I'd like to focus on your work for the resource-based relative value scale, but first I'd like to ask a couple of questions on your background. I see you studied math and physics at Ohio Wesleyan University and got your BA in 1959. Then you went on to work for Connecticut General Life Insurance. What made you decide to work at Connecticut General?

HSIAO: Mainly because they offered me an attractive job as an actuarial trainee. After I completed my degree in physics and math, I realized that my interest was more in the applied field, using some of the math or physics I learned, and actuarial science was an attractive applied field.

SHUSTER: What type of work did you do as an actuary?

HSIAO: At Connecticut General, we were rotated through three major line departments to do different kinds of actuarial work. An actuary specializes in predicting the future financial risks that may arise because of demographic changes or health changes. In other words, actuaries are the ones who design insurance products and put a price on these products.

SHUSTER: So you predicted and you set premium levels?

HSIAO: That's right.

SHUSTER: That was from 1959 to 1968, and then you went on to work for SSA. How did you get involved in SSA?

HSIAO: The chief actuary at that time, Bob Meyers, recruited me in 1968. He was always short of actuaries. Very few qualified actuaries were willing to work for the U. S. government at that time.

SHUSTER: Robert Meyers was the chief actuary up until 1969?

HSIAO: That's right.

SHUSTER: What kind of relationship did you have with him?

HSIAO: When he recruited me we didn't know each other at all, but once I joined his staff we became very close.

SHUSTER: As an actuary for SSA did this involve the same type of work as when you were in Connecticut?

HSIAO: In Connecticut General I didn't do much work on health insurance; it was new for me to work on the actuarial problems of the Medicare program. Also, on the pension side, Social Security is very different from private pensions. I had basic training in methodology but the topics were very new to me. Also when we estimated the premiums, in other words the costs and tax rates to finance Social Security, the level of public scrutiny was unprecedented in anything I had experienced in the private business world.

SHUSTER: Where did most of this scrutiny or criticism come from at that time?

HSIAO: It came from other departments of the government, from Treasury, from OMB, from the Department of Commerce. Also we are called to testify before Congressional committees, so there is a organized public review and the Congressional committees would call us to testify but would also call outside actuaries and economists to testify.

SHUSTER: What were some of the key issues on which you had to testify?

HSIAO: The key issues we had to testify on were 1) how much would the program cost? Whether the current taxes can adequately finance the program? Like right now, is Medicare going to go bankrupt by the year 2002? The current debate about Medicare going bankrupt by the year 2002 comes from the office I worked for, the Office of the Actuary, which supplies the information that goes into the Trustees' report. Social Security, both pension and Medicare programs, is managed by the Board of Trustees. So for the Medicare Part A program and the Medicare Part B program there is a Board of Trustees that meet once a year. They receive the actuarial reports. Usually they review them, read them carefully, but usually they do not second guess the actuaries. So actuaries, you might say, are the fiscal guardians of the Medicare program to say how much it will cost to provide the benefits promised and whether current tax rates are adequate or inadequate, and if it's inadequate what year you're going to go bankrupt.

SHUSTER: I see you worked there until 1971. What kind of conclusions did you draw from some of this testimony? Were you able to determine program costs?

HSIAO: We were, and the Office of the Actuary still can, but in this kind of estimation work there is always some uncertainty. You are doing the best you can to use as much of the data that's available to make these estimates, but they are always subject to the second guesses of other experts.

Particularly you are subject to the second guess or criticism by people who have an ideological ax to grind. Those who are against the program usually say, "You underestimated the cost. The program is going to be much worse off than you estimated. In other words, it's going to cost much more than you estimated it." The people who are worried currently about the budget deficit are more likely to say, "You over estimated the cost. That creates a larger deficit. We think you are wrong here, there, and so on." People criticize and sometimes violently attack these actuarial cost estimates and conclusions because they have a certain political agenda on their mind.

SHUSTER: Like certain special interest groups?

HSIAO: Yes, but even Congressional committees. When I was in the government, one of the key House Congressional committees was headed by Wilbur Mills and the Senate Finance Committee was headed by Russell Long. They were in their jobs for the long haul, and they were interested to get the best information and the best advice they could. But in my recent involvement with the Congress, I found Congress has changed. At that time these Congressional chairs really supported us and said, "We want you to give your best professional judgment and best professional work. Don't get pushed around by the politics." Even when people openly pointed at our noses and said, "You are a goddamn liar," we should not budge regardless of how powerful the senator was who pointed at our nose and charged us with that.

SHUSTER: Do you think you were able to do that then?

HSIAO: We were. Yes. At that time we were playing the role that [Robert] Reichshauer played in the last national health insurance debate. The Office of the Actuary always played the role to say how much would the new program cost and how much the existing program cost and stood behind it with justification and explanation and trying to stand firm. But if we were wrong we should change our answers, but that didn't happen very frequently.

SHUSTER: I then see that you went on to get your MPA and your masters in economics at Harvard. What made you decide to go back and get a degree? You actually left SSA at that time?

HSIAO: No, at first I was on leave for a couple of years. In the second year in the government, Bob Meyers was forced to resign by President Nixon, and I was put in as the Acting Chief Actuary for Medical Programs. In that capacity I had to testify personally. Before that I accompanied Bob Meyers. He'd testify and we'd feed him information on notes. But when he resigned, it was my job, and my colleagues working with me, to produce the analysis

and then for me to testify on national health insurance and on Medicare programs.

SHUSTER: So at that time had you become rather an expert on national health insurance?

HSIAO: I won't say an expert, but I had to get educated very fast. That was a very heated period because Senator Kennedy and the Committee of 100 submitted, for example, the major piece of legislation on national health insurance, and it had the backing of organized labor. So in my capacity as Acting Chief Actuary, I had to testify before the Senate and the House committees. Some questions asked of me I was prepared to answer, such as how much would this national health insurance proposal cost in the first year, what would be the incremental increase to the national health expenditure, what tax rate would be required. But then the senators may ask me how this proposed legislation would impact on inflation, employment and foreign trade. When they asked me about the impact of a change in Medicare or a national health insurance plan that would impact on the national economy I didn't have the training nor adequate knowledge to answer them. After being challenged and stimulated a number of times, I decided, "I'm going to go back to graduate school and learn." [chuckling] And I extracted a promise from the Commissioner of Social Security as well as the Secretary of Health, Education and Welfare, that if I stay on the job until they appointed a new Chief Actuary, they would support me and let me go back to graduate school for a year with full salary. And that's what happened.

SHUSTER: While you were at Harvard studying for your master's degree in economics with whom did you work?

HSIAO: My study at Harvard in economics mainly was done under Marty Feldstein and Otto Eckstein. Otto Eckstein was a macro-economist, and at that time Marty was concentrating his research in public finance and also in health economics.

SHUSTER: Then after you received your degree you went on yourself to become involved in academia. And that's where you made a conscious decision not to go back to SSA, that you preferred the lifestyle of academia?

HSIAO: That was not pre-planned. I never thought I would stay in academia, but when I finished, the university took pity on me and did ask if I wanted to stay, and they would consider me for academic appointment. But also at that time, I could see the independent position and the integrity of the Office of the Actuary was eroding. It was changing very rapidly. Subsequently, I see the decline of the professional independence and

influence of that office. Since you are doing history, let me explain. Up to the late '70s, the Office of the Actuary served the executive branch and the legislative branch as an impartial office that would give the technical analysis about Social Security retirement, disability and Medicare programs. Our advice, analysis and conclusions, were given to the White House directly. But also we served the legislative branch. I had an occasion where President Nixon had sent his proposal to Congress and the next day I received a call by the chairman of the Ways and Means Committee saying, "I want you to come here and bring one or two of your key staff members to help us prepare our analysis and develop a counter proposal for President Nixon."

SHUSTER: So at that point you really were directly involved with health policy?

HSIAO: That office was very much in the middle of health policy development. However, we were not involved in a comprehensive way. For example, we were not asked to advise the President as to what objectives can be achieved with a new Social Security program, but rather it was our job to estimate the cost and the tax rate of what the President has tentatively decided to propose. Usually whatever you estimate the cost is, that result was always too high for the proponents [chuckling] and they always ask, "Can you reduce it?" If you refuse to reduce it, then they ask you, "What can I do to make this cost come down, make it more politically viable?" And that's when we offer advice on the redesign of a program.

SHUSTER: What were the options at that time to reduce some of these runaway expenses of health care?

HSIAO: After I left the government, the House Ways and Means Committee and the Senate Finance Committee hired me as an independent consultant to work directly for these committees as an actuarial consultant. Later I worked for President Carter and helped design his national health insurance program. After that I became very inactive in Washington. So my knowledge about the Washington scene is just up to that period through the Carter administration. Usually the cost of any health insurance is depending on the benefit package. You can modify the benefit package, such as you can introduce co-insurance, or you can limit the benefit itself, or change the payment to hospitals. Such as, if you look at why Medicare benefits are so complicated, the benefit structure—such as limiting lifetime reserve to 100 days and so forth—the reason for it is trying to limit the cost liability of this program. Some of this is trying to limit the potential large liabilities for unlimited hospital stays. When Medicare was designed in 1965, there was no data to show really how long elderly would stay in the hospital when they have serious impairments. If you leave the length-of-stay open-ended, this could mean a huge financial liability. In the absence of data, the

Congressional leaders asked for some way to make sure the government's liability is manageable. That's where the actuaries come in, actually put in provisions to limit the liabilities. The other way to reduce cost, of course, is through regulations and controls, like through price controls or utilization controls, and through pre-certification programs. To give advice to the key decision makers, including the President sometimes and the Congressional leaders right on the spot, you really have to master the whole array of different benefit designs, different regulatory controls, and you also have to understand which one really works and which one does not work. And also how well do they work. Our professional assessment may differ from the views of political people. And that's when we get into these confrontations with powerful Congressmen and Senators in the executive sessions. That's when they would jump up and point their finger right at your nose and say, "You goddamn liar." They accuse of lying because they have a political agenda to push. For example, Democrats were against co-insurance. They didn't want the actuaries to say that co-insurance can reduce cost. Republicans were against fee regulation. They disagree with actuaries that fee regulations can control cost inflation somewhat.

SHUSTER: So this is when you wanted more ammunition and went back for graduate work, and you went on to get your PhD in economics at Harvard. Were you able to stay with health issues while you worked on your PhD? You said your role in health public policy in Washington ended at the end of the 70s.

HSIAO: As a graduate student, I was quite closely involved, partly to serve as a consultant to the key Congressional committees and to support myself in graduate school. I was involved, for example, with the last serious effort to establish national health insurance in 1974. President Nixon, Congressman Wilbur Mills and Senator Kennedy actually reached a general agreement on national health insurance and then set a staff and told us to work on the details. I was part of that staff. Then the agreement became unglued, partly because Wilbur Mills had ambition to run for vice president and organized labor was pushing him very hard to add in other benefits which were not acceptable to Nixon. Yes, I was closely involved with Medicare and national health insurance legislation through the '70s.

SHUSTER: Now let's talk about the resource-based relative value scale. When did you first start working on that?

HSIAO: That began in 1976, when HCFA awarded me a research contract to study the competition in the physicians' market. In that study I took a detour in my research when many physicians I interviewed told me that the prices of physicians' services were unfair. This view was expressed by all specialists—surgeons, internists, pathologists.

SHUSTER: Were there any particular types of doctors that were saying this was more unfair than others?

HSIAO: I don't think so. That's why it was such a surprise. I interviewed about 20 physicians, I recall, and most of them told me the fee was not fair. They thought some prices were too high, some were too low. So I asked the obvious question. If you say something is not fair, then tell me what is fair?

SHUSTER: They thought that some other physicians possibly were getting more than they should?

HSIAO: That's right. Remember this was in the 1970s. The government was paying physicians based on what the physicians were charging. So physicians had the right to set charges and to receive payments based on that, and the government's only control is to say, "You cannot charge more than what 90% of the physicians are charging."

SHUSTER: This was the prevailing-charge system?

HSIAO: Exactly.

SHUSTER: Was that rather arbitrary?

HSIAO: No, it's not arbitrary. It was based on the practice then. That system came from the payment system used by Blue Cross/Blue Shield. The prevailing charge system was established for administrative reasons. Other methods would be too complicated and unfeasible to administer. The number of transactions in physician services is roughly 1.4 billion. In the '60s and '70s remember there was no sophisticated computer. You have so many transactions for different services you can never monitor and control what a physician is charging. So Blue Shield developed this prevailing and reasonable charge system. But that was largely a facade. When I joined the government in 1968, one of my jobs was to analyze this system, and I found most Blue Shield plans didn't have the data that allowed them to create a physicians' charge profile to implement the prevailing charge system.

SHUSTER: What were they basing the rates on?

HSIAO: They were basing them on their medical director's guess of what is the reasonable limit for the charge of each procedure. So he sets an arbitrary number and talks to his physician friends to see whether they agree. They might agree that for an uncomplicated appendectomy any charge that exceeds $700 was unreasonable. Then that number was put into the claim payment system which says, "When you see an appendectomy that charges more than $700, kick it out for review." In other words, it's a review by exception system. That made it feasible to administer.

SHUSTER: So when you first started this study you said a lot of physicians were complaining about the inequalities, that it was an unfair payment system. Where did you go from there?

HSIAO: I asked myself, what have I learned that will allow me to answer that question, what is a fair and reasonable price? What does economic theory have to say? Then I developed this theoretical concept based on economic theory. Under a competitive market, the price of any service or commodity is very close to their cost. Because if the price exceeds the cost, then there's large profit being made. The competitors will come in and bid away that profit. If the price is below the cost, the firm cannot stay in business very long. They would lose money. So economic theory suggests that in the long run, the price is always very close to the cost under a competitive market. Then I tried to think is there some way I can quantify the cost of physician services? That turned out to be impossible. I can only quantify the relative cost of physician services, that is the cost of one procedure, let's say an office visit. So I published the paper with a cardiologist who did some of the field work to test this theory in 1978. The paper was published in Health Care Financing Review. Some of the professional medical groups, surprisingly to me, read that article and then picked up the idea. Some medical organizations, particularly the internists', felt that my method was a rational approach to judge whether the price is fairly or unfair.

SHUSTER: So you received support right from the outset?

HSIAO: No, this paper was published in 1979, and the medical profession itself began to pick up this idea and pushed it. There was a four or five year lapse in time. By 1983, a Director of the Massachusetts Rate Setting commission for the Medicaid program decided that she would use our method. But she did not engage us to translate our theory into an operational fee schedule. Instead she assigned a staff member who tried to expand our limited work to make it operational. Well, she got herself into hot water. When she reformed the Commission's fee for the Medicaid program using our exploratory work published four years earlier, the doctors who were adversely affected, of course, objected strenuously. To fight her, the physicians had to criticize her method—to take apart the theory and the methodology that she used.

SHUSTER: What was her name?

HSIAO: She was Susan D.

SHUSTER: So she liked what she saw in your initial report and attempted to implement your study and that's when it really received criticism from—a number of physicians from different fields?

HSIAO: Right. Then the objections and controversy began to be reported in trade journals. She then came to us and said, "I took your work and I'm trying to operationalize it. We got ourselves into this trouble. Do you think you can operationalize this?" And I told her, "No, we can't. There's a big gap between some analytical theory and translating it into operation. You have to fill in these gaps." So she provided us $140,000 to conduct further research to see how this could be operationalized. That was in 1984.

SHUSTER: So now you're no longer contracted through HCFA for this project, is that right?

HSIAO: Initially HCFA contracted me, but that was really for a study of competition in the physician market, and this small component, RBRVS [Resource Based Relative Value Scale] was really minuscule and was a detour I took in the main research. It took me two months of my time and two months of my colleagues' time. That was roughly the amount of effort. The significant effort was really supported by the Massachusetts Medicaid program in 1984. The action taken by Massachusetts stimulated several medical specialty societies to take a much stronger interest in the theoretical concept I developed. These medical organizations lobbied Congress and attached an amendment to some legislation requiring HCFA to fund a study.

SHUSTER: What were your goals at this point for the Resource-Based Relative Value Scale? Was it a way to drive costs down?

HSIAO: No, that was not my goal. My goal was always answering the question, "Can we establish an objective basis from which the physicians' fees can be based?"

SHUSTER: So it was a way of rationalizing?

HSIAO: Right. Can we establish a rational and objective base for setting physicians' fees? That was always the fundamental question. When HCFA funded me in 1986 we had actually failed in our research for Massachusetts. We found that in theory we can provide a national base, but translating the theory into operation was not possible. So while I accepted the funding from HCFA to do the research, we were not sure we could produce anything useful.

SHUSTER: Why was this project unable to be implemented in Massachusetts? What held it back?

HSIAO: Oh, it's not implementation. Technically we were not able to develop a method that can quantify physicians' input into each service. In other words quantify the relative costs of physicians' services. The method we used in Massachusetts—we tried two or three methods—they all failed. Failed in the sense that they were producing some inconsistent and unreasonable results as judged by the physicians themselves.

SHUSTER: So at this point it had failed; yet you still went on to expand this project. What was the impetus involved in that? Why did you keep going with this?

HSIAO: We did not go full steam to do that. The first part of the research was to answer the question, "Can we develop a method that can quantify the relative cost of physician services?" The first year of the project was devoted to that. It was really more methodological research. We were testing different methods.

SHUSTER: What conclusions did you reach?

HSIAO: We were very fortunate. We tried again two or three different methods and they failed, but we found that the magnitude estimation method does seem to produce reasonable results as judged by practicing physicians, and the results were consistent.

SHUSTER: Basically you carried out a number of surveys of physicians and asked them to rate their work, their time, etc. using magnitude estimation?

HSIAO: That's right. To test whether this method works and generates reasonable results or not, but, as I said, we tried two or three other methods before we employed the magnitude estimation method.

SHUSTER: You found, though, that the magnitude estimation method was effective and that's what you decided to go with?

HSIAO: Yes. This was done under the auspices of HCFA funding. For the study funded by Massachusetts, we tried some other methods and we found that we were not successful. We had to report to Massachusetts Medicaid that we were not able to make a break-through.

SHUSTER: So at what point did HCFA step in and fund this project?

HSIAO: HCFA sent out our RFP [request for proposals] in 1985. I remember that 8 organizations showed interest and four submitted proposals. And we were selected and the work began in early 1986.

SHUSTER: How did you develop this Resource-Based Relative Value Scale at this point?

HSIAO: We basically treated this as a research project because most of us involved realized we had some past failures and we should not over-promise. We should be prepared to face up to the world and say, "We cannot make the theory operational." So what we did was we continued to accept the theoretical premise, that is the rational and objective price should be based on the cost of the service. Then we asked, "What constitutes the cost of physicians' services and what are the components of physicians' work?" Under the HCFA funding we had the money to bring in a hundred physicians representing 18 major specialties to serve as our advisors. Our research psychologists on the project designed an organized process to enlist answers from these 100 physicians as to what they think constitutes the cost of physicians' services and what are the components of physicians' work. So we first mapped out, "What constitutes the cost of physicians' services and what is physicians' work?" We wanted to see whether our physician panels could reach a consensus on the answers. Second, we tested to see whether the research team members thought this definition was logical and sensible. Once we did have a reasonable definition of what constitutes the cost and the work of physicians then we would investigate how to measure them. We found there are three components of cost as defined by the physicians. The key component is the physician's own work. Then we are faced with the question again, "Can you define and measure physicians work?" So our research approach is to try and decompose this work into some manageable number of dimensions that can be described in words.

SHUSTER: What were these dimensions that were involved with this total work of physicians?

HSIAO: One is the time they spent. Second is the amount of technical skill required. Third is the cognitive, or the mental effort that is required to do it. Another is the iatrogenic harm this work involves, that's iatrogenic harm to the patient or to the physician. In other words the risk of this work.

SHUSTER: You were talking about the three elements involved in mapping out the cost of physicians' services, then mapping out the time and other dimensions in the work of the physicians.

HSIAO: Right. Let me just summarize what are the three cost components. One component is the physicians' work, second component is the practice cost incurred by the physicians. That's including their office expenses, their liability insurance premium. And third is the training cost incurred by the doctors. Or to say more precisely, the opportunity cost incurred by

physicians to gain their expertise to perform the service. The practice cost and the opportunity cost are relatively easy to quantify.

SHUSTER: And how did you quantify those?

HSIAO: For practice costs you use the cost accounting method. You can actually measure the direct practice cost for service, and there are standard methods on how you allocate the indirect cost. For opportunity costs of education and training, there are standard methods in economics to measure and quantify.

SHUSTER: So the opportunity costs and practice costs were relatively easy to quantify.

HSIAO: Straightforward.

SHUSTER: That brought you to trying to find a scientific way to quantify the work of the physicians.

HSIAO: Right. Both to define more precisely and to quantify the physicians' work.

SHUSTER: You divided the work into the time, technical skill and mental effort. How were you able to measure those? The time seems relatively straightforward, but what about the technical skill and mental effort?

HSIAO: One approach is to try to measure it physically such as you attach electrodes to the physician, but that does not do it because it does not give you the mental effort. That's where we failed before, in trying to be able to measure this. Another method was trade-offs. Economists usually try to look at trade-offs which means if I ask you to perform an appendectomy, how many hysterectomies are you willing to do in place of an appendectomy in terms of work involved? Then you may say, "I'm only willing to do one, or only one half hysterectomy." Then that's the relative amount of work surgeons judge between appendectomy and hysterectomy. We also tried the trade-off method.

SHUSTER: And that did not work?

HSIAO: That did not work. Logically it sounded very appealing, but what we found was that physicians actually had the price of the relative procedures in their minds when they make their trade-off. The answers they gave us were very highly correlated with the prices that were being charged.

SHUSTER: So it's really getting you nowhere then?

HSIAO: Right, because when we probed the physicians and asked, "Why did you give this answer?" they started scratching their heads and said, "Well, that's because I'm charging $400 for an appendectomy now and I'm charging $800 for a hysterectomy, so that's why I gave you a ratio of 2 to 1." And that's not the answer we want. We want to establish a new rational and objective way to assess work. That gives a flavor of our methodology.

SHUSTER: So at this point you still had not developed a way of rationalizing costs or the time?

HSIAO: After we failed with several methods, we turned to measurement specialists for help. That's the strength of Harvard University. Harvard has so many experts in many fields. I wrote out our problems and what we have tried and gave the document to five top experts in measurements. That included the chairman of the Department of Statistics who worked on measurement, a professor of psychology who specializes in the theory of measurement, etc. I brought them together at a lunch and said "This is my problem and this is why certain methods didn't work, such as the trade-off method. What other methods would you to suggest? What methods can we modify and try?" And it was through that iterative process that we discovered the magnitude estimation method.

SHUSTER: Who else was working with you on this project?

HSIAO: A large interdisciplinary team. We had clinicians, economists, statisticians, health service researchers, and the political scientists. We had, at its peak, about a dozen professors from Harvard and other universities working on this project. Most professors gave 25–40% of their time. Then we had advisory groups on methodology from different departments. We had close to a dozen methodology experts advising us.

SHUSTER: Looks as if there was quite a large team and quite a large number of experts on this whole project. At this point you had finally developed a way of using magnitude estimation. How did the study continue and what results or conclusions did you reach? Were you able to rationalize in your mind the cost of physicians' services?

HSIAO: When we started testing the magnitude estimation method and doing it in different ways using this method on different physicians, the method was producing consistent results, and that's when I had some confidence that we had a method that could produce some valid results. The research took us a year.

SHUSTER: At this point you saw this as an effective way. Who supported you at this point?

HSIAO: HCFA. HCFA's grant was for 2 and a half years. It started at the early part of 1986 and carried us through September 1, 1988.

SHUSTER: What groups supported your findings?

HSIAO: You mean funding outside of HCFA?

SHUSTER: Did other physicians at this point think that your work was worth supporting? Did AMA support you? Not supporting you financially, but supporting your ideas?

HSIAO: I see. Basically I would say all the major organized medicine [groups] were in support of us except two. One is the American College of Surgeons (ACS). The College is, of course, a very powerful group, and the leading organized group for surgeons. But their rank and file were divided. Many surgeons actually were in support of us, of our work, because they believed the fees at that time were not reasonable, but the leaders of ACS were against our study and were trying to convince Congress to pull the rug out from under us. The other group, which took a much milder stand, was the American College of Radiology. They represent the radiologists. They worked with us, they cooperated with us, they supplied advisors to our work, but at the same time they spent money and commissioned their own study with hired consultants trying to produce results that superseded ours. They wanted their hired guns to come out with favorable results ahead of any results we could produce.

SHUSTER: In terms of your findings of the study, how did this affect the physician fee schedule? Certain physicians, did their rates have to come down while others went up, etc.?

HSIAO: From very early on, we argued the position that the U. S. government should not use RBRVS to reduce its total expenditures for physicians. In other words, we said the results of our study should not be politicized more than what they already have been. If Congress was going to use the results of our study as tools to reduce the total expenditure for physicians' services, then, of course, just about every physician would lose income. The medical community would be likely to reject whatever results produced from the study. This whole project would not yield any useful outcome for the government. We argued that the best strategy is for the government to take this and say, "We are going to take the RBRVS and change the fees in a budget-neutral way. The total expenditure would remain the same, but the distributions between services and specialties would change."

SHUSTER: I see. So it's really a redistribution or reshuffling of funds.

HSIAO: Yes. And this position received the support of the PPRC [Physician Payment Review Commission]. PPRC, lead by Dr. Philip Lee, came out with several very firm positions, and one of them was that physician payment under Medicare should be based on RBRVS. I would say that was one of the key events that made our work useful in policy.

SHUSTER: The PPRC supported you. In terms of implementation of your results, what happened next?

HSIAO: We realized that if our work was going to get accepted in the policy arena it first had to have credibility in the scientific community. We also recognize that the stakeholders must find our work has scientific merit, so we scheduled a national conference for early 1988 to present our preliminary results. We wrote a half dozen papers and presented them at this national conference. Those who attended included academics, government officials, key Congressional aides, labor and business leaders, insurance industry leaders, leaders of organized medicine—everybody closely involved in the health field. They discussed and criticized our work. This gave us a chance to know where our results were reasonably strong, where they were weak, where we had to concentrate our effort to make it better.

SHUSTER: What were these conclusions of strengths and weaknesses?

HSIAO: Our methodology actually was very well received, but one of the criticisms was that we did not do enough statistical testing to know how replicable these results can be. In retrospect, not because we planned it, we did something right. We invited world-class academic leaders as discussants for each one of the papers. We didn't know how they would criticize our papers and work, but my feeling was it's better to know sooner rather than later whether our results can stand up to scientific scrutiny. We were fortunate to receive some very objective and informed criticism. It's not that we got off scott-free. But because we were criticized frankly and in a public forum, other people felt we had a fair and open process since we brought everyone into it and we got the best people to be discussants and to criticize of our work at that preliminary stage. We were not hiding things in a black box.

SHUSTER: Right. You put everything out in the open. You said, "Now or never is the time to develop whether this is going to work or not."

HSIAO: That's right.

SHUSTER: What was the overall opinion? Was it well received or was it decided that, yes, the RBRVS would work?

HSIAO: Yes, but it needs further work, it needs further improvement. But that gave us six months trying to improve on it. The conference was held in early 1988. We were scheduled to complete our results by September 1988. We also made another decision. We would try to publish our results in the best refereed journals. Anybody who criticizes our work scientifically would also have to answer the questions, "Why did these referees find it acceptable and why did these journals publish it?" To do that, since we wanted to publish all the papers as a totality, we really had to work night and day to get the paper published in the Fall of 1988. The referees, of course, had a number of comments and revisions they wanted us to make, so our work went through peer review and got published when it was submitted to the government. I'd like to fill you in with one piece of information. When we were doing this research, we were watched very closely by most medical specialty groups. What they were waiting for was to review our final methodology, our data collection methods, our data and results. These medical organizations contracted think tanks and consulting firms to replicate our work and to see whether we might have played any kind of maybe hanky-panky. For example, orthopedic surgeons had independently contracted a think tank, trying to develop different methodology and so did the American Academy of Radiology. So the joke at that time was that we had created a new industry. Anyone, any group, who had any expertise in this field was contracted. After we released our results, medical organizations gave the think tanks 45 days to examine our results and critique them. We knew we were going to be faced with that so that's partly why we said, "We have to do [chuckling] whatever we can to make sure our results are credible."

SHUSTER: At this point did you significantly change what you had originally found in terms of the total work of the physicians multiplied by the opportunity cost, by the practice cost?

HSIAO: No.

SHUSTER: So nothing of the end product changed at this point?

HSIAO: I am proud to say our work has stood up to time.

SHUSTER: You brought in all the experts you possibly could, you consistently took this honest approach with your work, put it all out on the table. They looked and really tried to find ways of maybe where you went wrong, collecting data, but the bottom line is that your work withstood all criticism?

HSIAO: Many firms have come up with other methods or modifications of our methods. They claimed their methods were better. Often these methods

were developed to favor the medical specialty who contracted the firm. In the first year after the publication of our results, we had to deal with these criticisms. Fortunately we were able to show that these other methods were biased or produce inconsistent answers. There were at least half a dozen other methods or major modifications of our methods put on the table and sent to the government. Those specialties that were financially adversely affected by our work were willing to spend millions of dollars trying to overturn what we had produced.

SHUSTER: And that lead you to September of '88 when you said your results were due at this point. What happened then?

HSIAO: The results were released to the public and simultaneously published in the Journal of the American Medical Association. The Journal of American Medical Association devoted a whole issue publishing eight articles from us and so did the New England Journal of Medicine. We realized the audience we were addressing was a combination of medical audience and the academic or technical research audience, so we had to try to find journals that really speak to all of these audiences. That's why JAMA and the New England Journal of Medicine were chosen. Their editors were really kind. They understood the importance of our study—in retrospect I don't know why—and they were willing to commit their journals to publish these articles, if their referees found these papers had scientific merit. We were willing to stand or fall on their referee system, but we wanted the editors to commit to publishing our papers on a designated date if our papers were accepted. We wanted to publish the papers simultaneously when we were releasing it to the government.

SHUSTER: So once you released your final study how did this affect the physician fee schedule?

HSIAO: Under a budget-neutral scheme, our original proposal could have decreased a cardiovascular surgeon's income by about 45 to 55% of what they would earn. And for internists and pediatricians, the RBRVS could boost their income by about 25–30%.

SHUSTER: These are really significant drops in these fees. How did these physicians see that? Did they support this? Was there much criticism from those groups that were to receive the cuts?

HSIAO: The first wave of criticism by these physician groups was that our results must be wrong, technically flawed. But that takes people several months trying to identify where is the flaw. Then the charges were made, "This is wrong. Professor William Hsiao is biased." I don't know if you have seen this booklet produced by the Massachusetts Medical Association, a fifty-

page, single-spaced booklet sent to all the Congressional leaders and medical leaders in this country. The title is The Bias of Professor William Hsiao.

SHUSTER: Where did they say your bias is?

HSIAO: There was no single point. Their theme was that I was against the medical profession. The Massachusetts Medical Association gathered the papers and speeches I have given, even some private correspondence, and took a sentence or two sentences out of context to show that I was against the medical profession.

SHUSTER: It must have helped you at this point that you had brought in all the experts you possibly could and that you had had this previous criticism and you dealt with that. So at this point you still must have been very confident that your research and your final product was legitimate.

HSIAO: We were confident that our product was the best we could do. I said repeatedly to my colleagues, "We have done the best we can. If that's still not good enough, that's too bad." However, we also had some confidence that our work would stand up because we held the national conference, our papers presenting our methods, data and results were reviewed by anonymous referees, we had internal review, and we had our work sent to Harvard professors who were not on our team for review. So we believed we at least knew most of the criticisms or shortcomings or objections that could be raised. But we didn't know politically whether it would be acceptable or not. That, to us, was not something we can have much influence over. But we thought that the first thing was produce the results that can pass the scientific validity test. Then the political world would decide whether politically it was feasible to adopt the results for reform.

SHUSTER: And how did the political world deal with it? Maybe for a final question, what was the end result of all the work that you put into this?

HSIAO: It was adopted into law eighteen months after we published the results.

SHUSTER: So you did get the political support. Was that after a lot of criticism, after a lot of back and forth work with politicians?

HSIAO: No. Initially the politicians waited for the scientific evaluation which took about six months. Once we passed, we were half way there because the medical profession supported reforming the fee payments. AMA did a survey of their members. Two-thirds of the doctors in the United States—

this spanned all specialties—supported the RBRVS as the basis for the payment of physician services.

SHUSTER: Am I right to say that after you had the support of two-thirds of the doctors, of PPRC, of AMA and of HCFA and the insurance industry at this point the politicians readily accepted your work?

HSIAO: Yes.

SHUSTER: Thank you.

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Interview with Dr. Philip Lee, MD

Humphrey Building, Washington, D.C. on November 27, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: We were just reminiscing about the start-up of Medicare and Medicaid. You were saying that Medicare was a much finer-tuned operation than Medicaid.

LEE: Bob [Ball] was one of the great managers in the public sector. He put together the organization, the Bureau of Health Insurance, including the staffing of the Bureau, the consultants that they hired, the process they went through both to get ready internally and to pay the bills. These included the policies that had to be established, as well as how they worked with the Joint Commission on Accreditation, how they worked with the hospitals, how they worked with the AMA, how they worked with the teaching hospitals on the reimbursement of physicians in teaching hospitals. Bob allocated many of the tasks with Art, and then kept the Secretary and Congress informed. Informing Congress was also Wilbur's [Cohen] job, but there were some very delicate situations—including civil rights, the desegregation of the hospitals in the south, a very major undertaking, and not one that was popular in the south but one that was accomplished by Social Security and Public Health Personnel because the hospitals wanted the Medicare dollars. The Welfare Administration could not have accomplished that.

They recruited a physician, a family doctor, from the Midwest to administer the program. It was managed at a very different level of sophistication and organization, so when you created HCFA ten years later you had this history of these two very different approaches to management and to policy development within those systems. It was an interesting marriage, I think. Having not been present at the creation, but having recommended Bob Derzon to Joe Califano for that job—Lew Butler and I both suggested Bob—we hadn't really thought through the potential personality clashes that were later to occur. That was not an easy thing to do to bring those together. Even though it made sense, the history was such that it would be extremely difficult to make it work.

BERKOWITZ: And you knew Bob Derzon because he was the administrator of your hospital?

LEE: I recruited Bob from New York when I was Chancellor at UCSF to be the administrator of the UCSF hospitals and clinics, and he was absolutely outstanding. Again, he recruited a superb staff and did a great job of

bringing the hospital into the 20th century and into a post-Medicare period. We thought, both Lew and I did, that he was ideally suited to take on the political as well as the management task in the department at that time.

BERKOWITZ: How did you know Califano?

LEE: Joe was in the White House when I was Assistant Secretary for Health in the Department of Health, Education and Welfare. On all the health legislation I was the guy that John [Gardner] and Wilbur asked to put that all together, including a lot of the non-Medicare health legislation. This included coordinating proposals with VA, DOD, Department of Labor. They [Gardner and Cohen] were the major actors in most of that—things like health manpower, the family planning, comprehensive health planning, regional medical programs and various other areas that we worked on—there were a whole series of things. I reported primarily to Doug Cater in the White House and he reported to Joe Califano. These were our primary points of contact within the White House. If Califano wanted something done, instead of bothering the Secretary or Wilbur, often he'd call me directly if it had something to do with the Public Health Service. So we had contact with Joe during those years.

BERKOWITZ: I want to take you back to an earlier stage because I'm intrigued by something I hadn't known about you. I see that you were at Rusk in 1955. At that time did you want to go into the field of rehab medicine?

LEE: I went to work for Howard Rusk in 1951 when I came back from the Navy in Korea. I had met Howard—he was a very good friend of my dad's—but wasn't convinced I wanted to go into rehabilitation medicine, even though I decided to train in his program. I wanted to be an internist, but this was a way to broaden my experience. Howard was such a charismatic guy that he sold me on coming to New York. Interestingly, during that period he was a real model for my later career, because he was commuting to Washington. Mary Switzer, who was later to become the head of SRS, was head of the Office of Vocational Rehabilitation, and I got to know Mary during those days. So I made some connections that were later to have significance. Then I came back on the faculty at NYU in 1955, after I finished my training at Mayo's, to do a project for Howard and Paul Dudley White on cardiac rehabilitation, but my career goal was still to go to the Palo Alto Clinic as an internist. It was a group practice founded by my dad. So my goal was to end up in Palo Alto, but, again, Howard being the persuasive guy he was, I went back there for that second tour to take that project on. We completed the project and I then went to Palo Alto. But his relationships with the White House, his work with Mary Switzer, his work on policy, got me very interested way beyond what an ordinary clinician would be interested

in. He introduced me to things without rubbing my nose in it. That's where my interest in policy really began.

BERKOWITZ: What was your own medical specialty?

LEE: I am an internist. When I practiced at the Palo Alto Clinic, because I was an internist—with additional training in cardio-vascular rehab and rheumatology—I had a lot of elderly patients. One of the reasons I became an early advocate, as a practitioner, for Medicare—which was then called the King-Anderson bill—was that I had to send a lot of my patients to the county hospital when they needed to be hospitalized, and I thought that was not a very good way to practice medicine. It was difficult to assure adequate follow-up after they were discharged from the county hospital and you couldn't follow them in the hospital. Palo Alto was a fairly affluent area—but still there were a significant number of elderly without health insurance in our practice. I joined with a group of other people to found the Bay Area Society for Medical Aid to the Aged and became very actively involved in the campaign for the King-Anderson bill, debating the president of the AMA and ending up on the David Susskind show on television and things of that sort. I was in demand in part because I was a practicing doctor who was running against the grain of the medical profession.

BERKOWITZ: So you became one of the liberal doctors that were used in the Medicare campaign?

LEE: I was indeed.

BERKOWITZ: Like Dr. [Frank] Furstenberg, do you remember him?

LEE: Yes. Sure I remember him. There was a group of physicians who were significantly older, were more identified with organized labor or with government programs, and I sort of came out of the blue. I wrote a letter to all the professors of medicine in the United States asking the chairmen of departments of medicine if they would support Medicare. Two of them responded positively, David Rogers who was Chairman of Medicine at Vanderbilt and later went on to Johns Hopkins as Dean and the Robert Wood Johnson Foundation as President, and Tom Brem who was the Chairman of Medicine at the University of Southern California. Two out of 60 or 70 chairmen of medicine willing to support Medicare publicly. This was not an idea that was popular in the academic world, at least where people would be willing to commit themselves. They might have silently supported it, but they weren't out on a limb. I got a lot of help in those days, from Wilbur who would get information to us, but particularly from Lisbeth Schorr (who was then Lisbeth Bamburger) who worked for Nelson Cruikshank at the AFL/CIO. She was a real teacher for me in educating me, in giving me background

information—including talking points—that I could use. As a result, when I'd go around the country giving talks to Rotary Clubs, churches or other organizations, I had solid information on the national picture. In addition, I could talk about it from my standpoint as a practitioner.

BERKOWITZ: Was your dad also an internist?

LEE: My dad was. He founded the Palo Alto Clinic in 1930. That was a multi-specialty group practice in Palo Alto 35 miles from San Francisco. The purpose was to bring specialty care to a community so that people wouldn't have to go to San Francisco to see a specialist, but it wasn't a referral clinic. It was to serve the community, not to be like the Mayo Clinic which was principally a referral center.

BERKOWITZ: So your dad was sort of a pioneer too?

LEE: He was very much so. In 1932, when the Committee on the Cost of Medical Care issued its report, Morris Fishbein referred to medical group practices as "communist cells." For many years the AMA and various state and county medical societies were not supportive of group practice but particularly if they went into pre-payment.

BERKOWITZ: Did your dad go into pre-payment?

LEE: They went into pre-payment in 1947 when the president of Stanford asked my dad if the Palo Alto Clinic would look after the Stanford students, because they had these student health doctors who were not at the level that Dr. Sterling felt was appropriate. So my dad agreed to do that, recruited people, staffed it up and did it on a capitation basis. He told them to self-insure for the hospital because he said, "You'd save so much money on the premiums, and we're not going to put very many of these healthy kids in the hospital." And they saved a huge amount of money. Now if my dad had been smart he would have taken that premium and bought the hospital care for them and made a bundle, but he was more interested in doing it right. So they were threatened with expulsion from the Medical Society when they did that. He was very, very active in the group practice organization in the country and was a big advocate of community-based, multi-specialty group practice. Later he was an advocate of Medicare.

BERKOWITZ: That's interesting. So you obviously were in touch with Kaiser and that sort of thing.

LEE: Oh, yes. My dad had worked very closely with the doctors in the Permanente medical group when they actually formed their partnership, not to be employed by Kaiser but to contract separately as a separate

partnership. So we knew a lot of the Kaiser doctors—really they were Permanente doctors, not Kaiser doctors.

BERKOWITZ: Let me take you forward now to the time, which was your big initiation into the health policy field in a formal sense, your job as Assistant Secretary for Health in 1965. At this point you already knew Wilbur Cohen. Did you know John Gardner as well?

LEE: Wilbur recruited me. I was in the Agency for International Development. I was asked by a member of the Council of Economic Advisors who was going to India as the AID Director in India, John Lewis who had written a book called The Quiet Crisis in India, to come to India as the Public Health Advisor. I had five kids. I thought about that and said, "For me it would be great, for my five kids I'm not sure it would be so great." They were very little kids, so I told John, "No, I'm not going to do that." I resigned from AID and was on my way back to Palo Alto. I was going to leave in July and I had submitted my resignation in the spring. Wilbur Cohen, in May, said, "Phil, Medicare is going to pass and we want a doctor who has been in practice, who is familiar with what we're trying to do, to come over and help us with the implementation of the Medicare legislation and work with the doctors."

It was a very general kind of thing. He said, "Come over as the Deputy Assistant Secretary." There was a special assistant to the Secretary, and at that point there wasn't an Assistant Secretary position. That was created in legislation that passed later that year. I'd met John Gardner in the summer of '65 when we were both at the Bohemian Grove, and we didn't go to Independence for the signing of the Medicare bill. I'd been invited to come to that. John had been invited to come to that. He had already accepted the job as Secretary but hadn't gone yet. We had several long conversations at the Bohemian Grove, and he had known my dad and had great respect for my dad, so it was not serendipity really, it was just an "old boy" network operating. He knew my dad when he was a student at Stanford and thought very highly of my dad and knew subsequently of his activities when he (John) was president of Carnegie. He knew the work my dad had done on the President's Commission on the Health Needs of the Nation. That was the Magnussen report. Actually my dad and Lester Breslow basically wrote that report, but that's another story. Howard Rusk got my dad appointed to that by President Truman. Dr. Gunderson had been asked to serve—he was a member of the AMA and the AMA said, "No, don't serve." So they asked my dad, and my dad said, "Sure." So I got to know John in the summer of 1965, in the context of his high regard for my dad. We then got to Washington at about the same time after that summer.

I started as Deputy Assistant Secretary. Medicare had passed, had been signed, and there were certain things Wilbur and Bob Ball asked me to help them do. One was work on the development of the policies for reimbursement of the physicians in the teaching centers. There was an outside advisory committee that had been established, so they had me do some selected tasks around Medicare, but John also had me doing other things and so did Wilbur. The first thing they asked me to do was to develop a family planning policy. I'd worked on that in the Agency for International Development. We had no family planning policy in HEW—which we would now call a reproductive health policy because it looked at research, it looked at training, it looked at services.

So we developed a policy that became the policy of the department. There were issues that were "hot potato" issues. One of them was oral contraceptives. Morton Mintz came in to see me and said, "A lot of people are having strokes and other complications. This drug was only tested on a small number of women in Puerto Rico before it was marketed." So we then formed an advisory committee to look at that, and I was put in charge of finding the people and setting it up. Then in the fall, when the position of Assistant Secretary was established, Dr. Edward Dempsey was the Special Assistant to the Secretary and would have been the person in line for the job. John surprised everybody and picked me for the job. I got interviewed at the White House. John Macy had been instrumental in helping make that happen. He was a good friend of Wilbur and John and I had met him, having been interviewed informally by him several times before. He helped make the whole thing happen. That's how it began. I had no qualifications for the job in terms of policy experience, but I was reasonably intelligent and hard-working. The other thing that I think was a factor was that the Secretary asked me to put together the White House Conference on Health. That was in August. The conference was to take place in November. John had organized the White House Conference on Education and had a year to do it. We got Dr. Peter Bing from the White House to work with us. I got some people from my staff. I pulled in some people from the Public Health Service. We managed to bring it off in November—just when the President had his gall bladder surgery. I think it was his gall bladder surgery that kept him from being there, but the thing came off OK.

My ability to organize the event and to have it a success was, I think, a factor in my appointment. I was appointed Assistant Secretary prior to the conference, but putting the organization together and making it happen I think was something that impressed John and Wilbur. So there I was plunged into health policy. Medicare was being done by the Bureau of Health Insurance of the Social Security and Medicaid by the Welfare Administration. Bob Ball and Art Hess had me continue to work on some special issues for

them, but my job was really more having to do with the health legislation affecting the Public Health Service, including health professions, education and a number of other areas. I was more preoccupied with those other areas than I was with working on the Medicare issues, although I did some of that, basically at Art's [Hess] direction if there was a meeting with a specialty society he wanted me to sit in on or participate in, meet with the AMA, those sorts of things.

BERKOWITZ: How was your relationship with James Shannon at NIH? He was a real power wasn't he?

LEE: He was and he was a great guy. I had a very good relationship with him. I wanted a deputy for science, and the first person that he assigned wasn't really a strong scientist. So we appointed him, Milo Levitt, as my deputy in population and he did a very good job there. I had told Jim who I wanted to be my deputy. Jim understood that I understood what quality was in science and why I wanted Leon Jacobs (who is just recently deceased), who was a very able scientist, particularly for this job, and we had a very good relationship.

BERKOWITZ: Was there no conflict with him over a relentlessly clinical style of organization as opposed to perhaps a more social organization that there could have been at NIH?

LEE: Jim didn't really have to pay any attention to anybody in the Department or the White House. He obviously worked with Senator Hill and he worked with Fogarty and Laird, Mel Laird being a big supporter, on the Republican side, of NIH. There were some issues where you needed their help politically. When Mary Lasker would be trying to do some things that were inappropriate, we got John to appoint a committee and sort of blunted Mary's efforts. Mary asker was not too happy either with John Gardner or me in the things we did, because we were more protective of Jim Shannon. John Gardner had enormous respect for Jim and it was mutual. John saw Social Security and NIH as two of the gems of the federal government. He wasn't about to mess around with them and saw Shannon as a very, very able manager and someone who on the political side did generate the support. Jim Kelly, a career guy, was the Assistant Secretary for Budget. Again, there was Shannon, Kelly and Fogarty. The one area where we did influence Jim was in reproductive policy. He said we didn't have the capability in the country to do research on reproductive biology. We got a million dollars added to the budget, and of course they spent it very well and began to develop what became a very strong program in reproductive biology. The initial director of the Institute for Child Health and Human Development with Bob Aldrich. We worked a lot with Bob. So there were some institutes where we were more involved than with others.

BERKOWITZ: The National Institute for Child Health and Human Development, hadn't that been created in 1961? Dr. Cook was the big advocate?

LEE: Bob Cook was a big advocate. He was on the committee that Wilbur chaired for the president, and the recommendation for the NICHHD came to the president during the transition. Josh Lederberg was also on that committee. Medicare was recommended, but it was really King-Anderson. The NICHHD was put into legislation and the legislation was enacted and I think the implementation began probably in '64. I think the legislation was passed in '63. I began to get acquainted with Bob Aldrich when I was still in AID and he was at NICHD. Then when I came over there were some special areas where you would be working with people. I would say Jim and I were very rarely in conflict on issues.

BERKOWITZ: How about in general on health care policy in that period? Were you concerned mostly with making sure that there were enough doctors and that sort of management issue?

LEE: Yes. In addition, one of the issues was the development of family planning policy.

BERKOWITZ: Wasn't there legislation on that in 1967?

LEE: That was in the maternal and child health legislation. We had enough authorization. What we decided to do was to move family planning without having a separate categorical program. Then in 1968 we had that evaluated by Fred Jaffe of the Alan Gutmacher Institute of the Ford Foundation. By that time we'd concluded that we did need a categorical program for family planning. They reviewed what we'd done very carefully. They also reviewed what OEO had done, which was to support categorical programs like Planned Parenthood. The Children's Bureau and the Bureau of State Service in the PHS funded programs through the states and these were moving very slowly. So they recommended a broader approach that included research, training and services. We had tried a non-categorical approach which didn't work. The basic policy was the same, the goals were the same, but how you achieved the goals became a rather different approach. And that was the Tidings bill, supported by George Bush. It was introduced in '69 and probably passed in '70, maybe even in '69. But I think it was '70 when Title X on the PHS Act was passed. I'll never forget when I was at a regional meeting that we put together to explain our policies in Roanoke, Virginia, and I got a call from Wilbur who said, "Phil, you've got to come back to Washington right away. Somebody at your meeting has talked about abortion." So I had to come back and meet with the Catholic hierarchy because, of course, we'd told them this policy was not a pro-abortion policy.

But some local health officer from Virginia gave a speech at this meeting—of course I didn't know about the details on the agenda of the meeting—on abortion. They knew about it quicker than I did. But that showed you how sensitive that issue was, and that was one where Wilbur was always involved in those discussions when we met with their bishops who were monitoring what we were doing. Just like when he had to go to Chicago to meet with Mayor Daley on school integration. On the really sensitive issues Wilbur was sitting with us, very sensitive to the political side of the issues. Health manpower was a very large area for us. We were involved in a number of other areas, environmental issues, even though they all later left the department. I wasn't so much involved in water, but I was very much involved in the air pollution area, and the comprehensive health planning legislation with Bill Stewart, the Surgeon General.

BERKOWITZ: I was going to ask you about that because that's another thing that, in retrospect, appears as a big initiative at that time.

LEE: That was, and that mainly was Bill's initiative, but I was very supportive of that because it was a non-categorical approach. It was in a sense the forerunner of the block grants by Nixon, because it basically said to the states, "We'll give you this money for public health." Interestingly, public health grants to the states was one of the early grants that was included in the Social Security Act. MCH was one, public health was another.

BERKOWITZ: That's right. It was in the 1935 Social Security bill.

LEE: Then we got into all these categorical programs. This was an attempt to give states more flexibility. Within five years, the flexibility was all gone. It had all been chopped up into categories by Congress. Congress did not—and even to this day—does not go for block grants in public health. In other areas Congress supported block grants and revenue sharing. But in health they continued the categorical programs through the '70s and '80s.

BERKOWITZ: When you left HEW by 1969, did you think that there would some day be a Medicare Part C, which would be sort of national health insurance?

LEE: We definitely did, and, of course, kiddie care was what we thought would be the vehicle to move that forward. We thought by 1975 there would be national health insurance. We thought it would be a combination of private health insurance, Medicare, and Medicaid. Some of us thought that you would have the three pieces. Others felt that it would be all Medicare eventually, that you wouldn't have to have a Medicaid program eventually. I would say many of us felt that personal medical care was a public good. Early in the '70s the notion about medical care as a market good became

stronger and stronger, and by the 1980s that ideology really took over from what was a different ideology (medical care as a public good). I think had Humphrey been elected President, that would not have happened. We would have been able to get national health insurance which would have been based on the Medicare model, as opposed to a Medicaid model or a market model.

BERKOWITZ: When you went back to become Chancellor of the University of California at San Francisco, did you have any expectation of returning to Washington?

LEE: I had no thought of going back to Washington. I thought that was a very good experience, I learned a lot, I enjoyed it. We thought we got a lot accomplished, but I felt that I had a different career at that point and I had no ambitions to be back in Washington in any capacity. Unlike a lot of people who felt, "Phil, you should be Secretary," I felt that the Secretary is a political job not a professional job. You have to have those political instincts and desires, like Wilbur. It's a different kind of a job than this job (Assistant Secretary of Health) where there's some politics but it's mostly professional. And that's where I've been all my life, on the professional, not so much on the political side. You can have somebody like Donna who comes into the job with little specific knowledge of health care, but, boy, does she have good political instincts and good media instincts, which are even more important now than when John and Wilbur were here.

BERKOWITZ: One of the things that happened in this period after 1969, between 1969 and 1973, is that the HMO [Health Maintenance Organization] idea gets popular. Your dad in some ways is a pioneer of that. All of a sudden it's got this name "HMO." We even had a law in 1973 trying to push the establishment of HMOs. Were you an advocate of that?

LEE: Absolutely. But I was very concerned that Phil Caper and others on Kennedy's staff were so binding it up with requirements that it was going to make it impossible to move forward in the field. In other words it was impractical because there were too many strings attached. They had to have dental benefits, and the had to have this and that and the other thing that was not required of fee for service plans. So becoming a federally qualified HMO just became almost so difficult that you couldn't do it. But I was still in favor of it. Lew Butler, who was the co-founder of the Institute for Health Policy Studies, was the Assistant Secretary for Planning and Evaluation. Then Paul Elwood came to town and proposed the HMO idea. Actually it was a new name for capitative prepaid group practice. Lew took the idea and was the advocate for it internally with Elliott Richardson and with other people. Lew later left when Nixon bombed Cambodia and he went off to help Pete McCloskey run his campaign against Nixon in New Hampshire. He came to

UC Berkeley where he was on the faculty at Bolt Hall (the law school) as a lecturer. We began to get together and put the idea together about having a health policy institute at UCSF. I don't remember ever testifying on the HMO legislation. The other thing I was involved in in those days was thinking about national health insurance. I remember giving a talk to the Teamsters and Tom Moore, who had worked for Bill Stewart, was out there advising Einar Mohn, who was President of the Teamsters on the west coast—that was one of the more progressive leaders of the organized labor, even though he was part of the Teamsters. As I recall, they were advocating a regional approach. We ought to try some regional approaches, work out the bugs, and then go to a fully national system. Well, that idea didn't fly. I was staying involved but not as actively involved. I stayed more actively involved on the health manpower issues with Paul Rogers and the House Committee on Energy and Commerce. Steve Lawton was the principal health staff guy working with Paul through the '70s. I was also involved with Clark Kerr on health manpower issues when he had his Carnegie-supported study on medical manpower and made recommendations about expanding enrollment.

BERKOWITZ: Did you know him from the Bay area?

LEE: I knew Clark Kerr because, again, he was a great admirer of my dad's. My dad was John Francis Nyland's doctor when Mr. Nyland was president of the Board of Regents of the University of California, during the period when Mr. Nyland was out to get all the "Communists" out of the university. My dad was very opposed to Mr. Nyland's views on that and the manner in which he was proceeding. Basically it was a witch hunt of faculty who, on principal, refused to sign the loyalty oath. Clark Kerr and people in the UC system were very appreciative of my dad's defense of the faculty and defense of the university and defense of Clark, who was then Chancellor of UC Berkeley. So they had a mutual admiration society.

BERKOWITZ: But of course he was also a manpower economist.

LEE: Clark was, oh, yes. He was also a great guy. Then when I became chancellor, he was one of the people I talked to. He had great ideas. If he had stayed on as president and Reagan hadn't been governor, we would have moved a cluster of academic/professional of programs from UC Berkeley to San Francisco. He would have created an urban campus to meet urban needs, like social work, urban and regional planning, public health—all those things would have been moved to San Francisco. With the San Francisco campus, you would have then had a campus that would have been basically a service industry campus.

Clark chaired the Carnegie Commission on Higher Education that included consideration of medical education. The Commission issued a very influential report in medical education. I continued to be involved with Paul Rogers committee which was dealing with those issues. As a matter of fact we wrote two books in that period. One was called Primary Care in a Specialized World and another one, really a book that I edited with Lauren LeRoy and basically a compilation of the hearings by subject matter—foreign medical graduates, graduate medical education, undergraduate educational affirmative action.

At UCSF I was particularly involved with the efforts, particularly in the med school, but all the schools on affirmative action. The medical led the way and soon became a national leader. The policies started with Clark Kerr in 1966. The chancellor who preceded me, Willard Flemming, had initiated an effort to identify qualified minority students by having people go out to black colleges all over the country. There were some very strong people on the med school admissions committee, and there was very strong leadership by the Associate Dean for Student Affairs. This was a very contentious area on the campus and among the alumni, but it was an area where UCSF was to be very, very strong in terms of minority recruiting. And that has continued to this day. It's still one of the leading institutions.

BERKOWITZ: I want to ask you, out of my own interest, one last question about your HEW days. You mention Mary Switzer and I'm fascinated with her as an operator.

LEE: She started as a GS 1.

BERKOWITZ: I was curious about how you related to her, because she also was running health programs in VR and had good relations with Fogarty and Hill. She knew all about the NIH because she had worked to create the system. Wilbur [Cohen] always said that she would come in and start crying and he had trouble dealing with that. I was curious about your relationship with her.

LEE: Mary had some of Howard Rusk's old staff people working for her, and she was a very, very strong manager, very turf-oriented, very tough. You didn't move in on her turf, even though I knew a lot about rehab and was connected with a lot of the same people. That was Mary's territory. I think when she had to take on Welfare, which didn't have the same kind of positive side to it, it was a more difficult job. But she was a great human being, I thought. We got along personally very well. Like Bob Ball who was another giant, you had that sort of people in the department with that sort of history, it was just an honor to be associated with them. Here's Mary who rose from a first level clerk; Bob Ball who came in as a field operator in Social Security; Wilbur who came in as a graduate student—it was the best

of the Civil Service. Jim Shannon was another one. Bob and Wilbur and Mary, this department had been their life, so it was just a tremendous experience to be associated with them.

BERKOWITZ: Did Mary ever help you with Fogarty or Hill?

LEE: Jim Kelly really handled that for us, so we didn't need Mary's assistance around those issues. We were very well connected with them. I would have to go over and meet with them, but the real dealing was done by Jim Kelly.

BERKOWITZ: You were talking about the '70s and after your HEW days. I want to bring you up to the '80s and talk a little about the Physician Payment Review Commission which you chaired from 1986 to 1993. The obvious question is, how did you get that appointment?

LEE: Let me just very quickly finish the '70s first. On Bob Derzon's appointment: I had recruited Bob from New York. He was the Deputy Director of the New York Municipal Hospital System.

BERKOWITZ: As long as we're doing this, we could talk about the Carter years a little bit. You had connections, obviously, with the Carter administration?

LEE: But very little involvement in the policy. I was involved in doing the research in San Francisco, the Bob Derzon appointment. I knew Julie Richmond, I knew Karen Davis.

BERKOWITZ: But you had no desire to take a job in the Carter administration? Were you ever sounded-out about that?

LEE: In the transition I spent time working with Tom Joe on some organizational ideas and some policy ideas and fed those in, but had no desire to be back in Washington. During that period of time, the policies were fairly well formulated either with Karen or in terms of what Julie Richmond was doing with the Public Health Service. I had more involvement when Jim Mason was Assistant Secretary on some of the policies and some of the recruitment. There was more than enough to do in California.

BERKOWITZ: HCFA comes along very quickly early in 1977. Everyone always talks about how that was done in great secrecy, this major reorganization. Did you pick up on any of the buzz on this, or were you consulted in any way?

LEE: No. Not by Joe [Califano] on that question. But when they did it, Bob Derzon seemed to us to be the obvious guy to do the job.

BERKOWITZ: So the sequence is that you found out about HCFA, started to think about it a little bit, and then did Joe call you and ask you for recommendations?

LEE: Somebody called me, obviously, or I wouldn't have made a recommendation, and it may have been that Hale called Lew Butler.

BERKOWITZ: Hale has California connections, too.

LEE: Yes, with Pat Brown when he was governor. When he was working for Pat Brown, I was doing the Medicare stuff and got to know him a little bit then. I forget whether Joe called me or who called me. It may have been one of Joe's special assistants. Lew and I thought about. Lew had been the Assistant Secretary for Planning and Evaluation in the Nixon administration, and we agreed that Bob was the right guy. He had the right management experience. He knew the issues. He knew the substance of both programs, because in New York he'd run the public hospital system where they had a lot to do with Medicaid. They had a lot of Medicare experience and some Medicaid experience. But we didn't think about the oil-and-water kind of thing that occurred later—not too much later, as it turned out.

BERKOWITZ: Did you hear much about the circumstances surrounding Derzon's resignation?

LEE: I don't really recall that we did very much. Lew may have more recollection. When we knew that Bob was going to be leaving, we offered him a job at the Institute, and he was offered a job at IOM so he could have a place in Washington. I'm not sure when I learned of the rift—one or two times during that period I stayed with Bob and Margo. I know I had dinner with Bob and we had some long conversations, but these were at the end of that period, not while he was going through it.

BERKOWITZ: What did you think of the idea? Did you think it was a good idea to create HCFA?

LEE: Well, I think I probably thought it was a good idea, although I'm not so sure in retrospect that it was as easy to do. But clearly you had to have some unifying way to manage these very large, but very different federal programs, and because there was so much Medicaid that the elderly used for long-term care, that piece of it made more sense than the acute care piece. For acute care, Medicaid and Medicare were very different programs.

BERKOWITZ: You were talking about how Robert Ball was such an admired civil servant and how John Gardner thought SSA was such a good organization. This HCFA reorganization in some ways really undercut SSA.

LEE: Oh, yes. Bob still thinks that Medicare ought to be back in Social Security.

BERKOWITZ: He probably will concede at this point that it's not likely to happen.

LEE: Right. Now, why did Joe do that? I don't know. Joe would have to say why. Here you took Social Security which was very strong. Maybe he thought that he could use HCFA to upgrade the Medicaid side of the operation and to exert more influence on policy.

BERKOWITZ: I think if you talk to them, they might also tell you that by this time Social Security was not so well-liked in the department, that the Bob Ball days were over.

LEE: There's no question about that. There was a lot of undermining of Social Security, I think, in the Nixon years.

BERKOWITZ: And in the Carter years, too, with Stan Ross.

LEE: Right.

BERKOWITZ: I want to talk a little about the Physician Payment Review Commission. Why were you on that Commission?

LEE: At first I turned down being on the Commission. It was Brian Biles and Peter Budetti who convinced me to do it. Brian worked for Pete Stark and Budetti worked for Henry Waxman.

BERKOWITZ: He now works for GW.

LEE: Now he's at GW and he is now going to Northwestern. They called me up and said, "We know you turned us down before, but here are the people who are going to be on the Commission and we want you to be chairman." The Commission would include Karen Davis, Walt McNerny, Uwe Rinehart, John Eisenberg and others—a very, very good group of people. I said, basically, in light of that, "OK, I'll do it." It was who they managed to recruit to serve on the Commission that convinced me that we could do some good. The first group that OTA [Office of Technology Assessment] recommended was not outstanding, that's when I'd turned it down, to be a member. It was OTA who called me the first time, not Budetti and Brian. They had worked with OTA to completely restructure the committee, to get this group of people on there that I mentioned. Of course, then you're the chairman of a committee that had a clear mandate, but it had no budget or staff. I had to put together a budget and I had to recruit a staff director. I was perceived as being liberal, and I had to get somebody that would get the confidence of

the Republicans. I'd known Paul Ginsberg, knew his work, people who I'd worked with knew his work, and I knew Paul was potentially available. Because he had a very good reputation with Democrats and Republicans, because of his CBO [Congressional Budget Office] experience, for being an objective person—I wasn't necessarily thought of as being that objective by Republicans—but it worked very well. I had suggested that he might want to have Lauren LeRoy, who worked with me at UCSF, as his deputy. I had worked with her. She'd worked with me at the Institute; she'd run our Washington office; she'd been a fellow and then a doctoral student and then a post-doc working with me—a very good manager, very good at organization and getting a job done. That's what she'd done for me at UCSF. That proved to be a very good combination of people. We did put a budget together. Paul and I worked on that. We'd talked to Stuart Altman. We basically took the first year budget from PROPAC and, with some adjustments, and got our first appropriation. There was somebody on the Appropriations Committee who thought we should only exist for a year, so we had to deal with that.

Once we got through that budget year, we were fine. Everything after that, we basically got the budgets we asked for and did the kind of work that had to be done. Paul and Lauren LeRoy were really key to that. Lauren is a PhD from Berkeley in city and regional planning and would—if you want to get a picture of that period—be a very good person to do that, as would Paul. She made things happen. Paul was more the research/idea person, the conceptual leader on the staff. His expertise was not management. Lauren brought the management skills and got the reports out and was the production manager, if you will. They both worked very well with the Commissioner.

BERKOWITZ: In this job, how did you see your mandate? Was it to create some sort of DRGs for physicians?

LEE: Well, it was to make recommendations for a I fee schedule. Because the Hsiao study had been an issue, it was necessary to actually review the Hsiao study and to see if we could develop a fee schedule around a relative-value based fee schedule, as opposed to a fee schedule that was based on usual and customary charges. The other element of that, because a fee schedule alone wouldn’t deal with the problems that I faced, was a limit on balances billing which the doctors opposed, and you had to have some way to limit expenditures. Uwe Rinehart first came up with the idea of an expenditure target. There was some waffling back and forth away from that, but we finally got a consensus around that. But when it was matched with the limits on balances billing and the changes in the fee schedule—you had to have something for everybody, something for the doctors, something for

the elderly and something for the taxpayers—that's how that combination evolved over the first couple of years of the Commission's work.

BERKOWITZ: Could you explain for the uninitiated the notion of balanced billing?

LEE: Doctors could bill a patient, if there wasn't a limit above the fee schedule, whatever they chose. The patients called it "extra billing." Unless there could be some limit on that, if you reduced the surgeon's fee relative to the internist's fee, they would simply balance bill and make it up. So you had to have some way to correct that very skewed incentives in the fee-for-service system to reduce the incentives to perform procedures and increase the incentive for evaluation and management. Even with the Hsiao study and the relative values—it only dealt with the direct care part; it didn't deal with the practice cost part—you only corrected about half of the problem. It had to be implemented slowly, so it wasn't until this year that it was fully implemented. Even though we made the recommendations in '89, they were first implemented in '92 and fully implemented in FY '96. So you had ten years from the time the Commission was started before you had a fully-implemented fee schedule.

BERKOWITZ: Did this kind of reintroduce you to this Washington world of health care policy, or was this the sort of thing where you flew in and spent a day or so?

LEE: There was much more involvement. Before I'd flown in and Kennedy wanted me to come in and testify, Henry Waxman wanted me to testify on something, and I'd come in and do that and spend very little time, even though we had a Washington office. Budetti ran our Washington office then, Lauren ran our Washington office and I did not need to spend a great deal of time in Washington. There was a period where I'd be back here for longer periods, like when the manpower legislation was going on in the '70s, but in the '80s it was less frequent. But then when the PPRC came along, it was every month. We had about eight meetings a year. Then I would have to be back to testify. Then I would have to come a day early or stay a day or two afterwards, so I spent much more time in Washington during that period. I would meet with individual members, but only during limited periods. Ways and Means was more interested than Senate Finance. We would go on retreats with the Ways and Means Committee (three times in five years), so they were much more substantively involved in the development of those policies. Some people just thought we were doing Pete Stark's bidding, but as it turned out it didn't work out that way.

BERKOWITZ: Who were the active commissioners?

LEE: Walt McNerny was very important. Karen Davis was obviously very important. Tom Reardon, the family physician from Portland was a tower of strength. Jim Bob Brame was a general practitioner from Texas and John Eisenberg because he brought a research expertise there that was very important. Wally Mayer, again, because he brought an employer-purchasing perspective, very concerned about costs. Jim Wright from Caterpillar, again, somebody very concerned about costs. Bob Butler, who should have been more influential, wasn't there as much. Bob would be sort of in-and-out. The people who were in and out and didn't stay for the full meeting, the other commissioners just didn't listen to them as much. I would say that, with few exceptions, all the commissioners participated very actively. I think that was one of the strengths of the Commission. One of my goals was to have everybody participate. The consumer representative, a retired school counselor from New York who knew the consumer stuff, brought some things to us that were very helpful on the balanced billing side, making the arguments. The expenditure target area, was one where it became more difficult to reach a consensus. But that's the other thing I wanted to do: I didn't want any minority committee reports. We did have one, but it didn't undermine the ultimate result.

BERKOWITZ: Very few commissions, it seems to me, actually produce legislation and real results, so you must have done something right.

LEE: Part of it was that Congress was ready. We worked very closely with Congress and there were no surprises. We had enough hearings, we had enough reports beforehand. They knew where everybody stood when we went up and gave them the report in '89. Where did the AMA stand on the balanced billing issue? Where did the AARP stand? Where did the nurses stand?

BERKOWITZ: Let me ask you one last question. Are you satisfied with the results?

LEE: No, I think the area where we failed was around managed care. We did not address that issue sufficiently. We focused on the fee-for-service, we focused on the system the way it was. There were some other areas where I thought we made very important contributions—around data, for example. That's an area where your eyes glaze over, but we had some staff people who did really brilliant work in that area. So there were some contributions that were made outside of the big issue, but obviously the big failure was that we didn't deal with the managed care side of it. We didn't do the kind of analysis that I think would have moved that forward more constructively. I think that we had a very good staff. They worked very closely with the Congressional staff. We did come up with a good set of recommendations and, although maybe I would have implemented somewhat differently than I

has implemented them, I think they took what Congress enacted—and it wasn't simple—and moved that forward in a reasonable way. Could we have done better? I think that we probably couldn't have done much more. I think we did what Congress asked us to do, did it well, and served a very useful purpose for Congress. It took more time, maybe, but it produced a consensus around a very contentious set of issues.

BERKOWITZ: Good. Thank you very much.

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Interview with Thomas McFee

Humphrey Building, Washington, D.C. on September 14, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: Let me begin by asking you a little bit about yourself. You came to HEW after a career in the Pentagon. How did that come about.

McFEE: I came here by way of the Lyndon Johnson administration. In 1965 I was picked to be the executive secretary of a White House commission. This commission involved the intelligence community and I was assigned—a joint assignment—to the National Security Council and the President's scientific advisor, Don Hornig. I worked right in Don's office. This commission was appointed by the President to look into some coordination of intelligence operations studying something which I think by now most people have forgotten. We made an intervention into the Dominican Republic in 1965 because of the overthrow of the elected government. We were there for only a short time until it was stabilized and everything worked out all right. Walt Rostow was the President's National Security Advisor and he had been terribly concerned about the poor coordination of intelligence information to the President surrounding that decision. This commission was highly classified. The results of that study have still never been released. The armed forces committees on the Hill were briefed on it and the President was briefed and some major changes were made in the management of the intelligence community as a result of the report. I was the staff director and the only full-time staff member on the project. I was there during that period of time on loan from the Defense Department and on a detail. In fact the whole commission was staffed by people on loan from various parts of the government.

I was getting ready to go back to the Defense Department to my old job which was in the Systems Evaluation group at the Secretary of Defense's office. When I was over there, by the way, I was one of McNamara's "whiz kids" and I worked with systems analysis, definitely not any social programs or anything like that. I was ready to go back when I met somebody over at the White House that I became very close to, John Macy, the Director of Personnel, who was also Chairman of the Civil Service Commission at the same time. In fact he was the last person to hold both of those jobs because after the Johnson administration, Nixon got in trouble with mixing the political and the career tracks. There was some rule made that the person in the White House could not also be the Chair of the Civil Service Commission. Macy had an office at the White House and I got to know him. We got to doing a lot of talking about my career. Having worked on this commission, I

had made so many enemies in the Defense Department that there was no way I could go back. I would have gone back to a shelf job. John Macy said to me, "John Gardner really has a need for somebody like you over at HEW. Why don't you go over there and talk to him about it? I'll bet you he'll be very much interested in hiring you."

Now this was in 1967 when Lyndon Johnson had just decided that the Defense Department's PPBS system would be expanded throughout the whole government. So I came over here knowing the group that was headed by Bill Gorham, whom I knew from the Pentagon, would set up the Planning and Evaluation Office here in HEW in 1967. Gorham was the first Assistant Secretary for ASPE. The second was Alice Rivlin and third was Lou Butler. Bill Morrow had the job also. So I was here at the starting of ASPE to bring these new skills of management and planning to the department.

There is one other thing that I would like to get on the record in relation to Wilbur Cohen and that is my interview with him. I came and interviewed with the Administrative Assistant Secretary that had to do with personnel and systems as well as Gorham and all of his people. When I finished all of these interviews, they said, "The last thing you have to do is talk to Wilbur [the Under Secretary]." He interviewed all supergrade people. I had never met Wilbur before. I'd read about him; heard about him. I walked into his office and he was sitting in his high-backed chair. But because he was so short, his head wasn't above the chair. I literally didn't see him sitting at the desk, so I was kind of startled when the chair spoke to me. So we sat down and I had my application form and he said, "So, you've been working over at the White House." And I said, "Yes, I have." And he said, "You want to come over here." And I said, "Yes, I think I can help you." And he said, "Well, we do have a lot of problems here." He started leafing through my form and said, "I see you were born in Milwaukee, Wisconsin." I said, "Yes, I was." He took my form, threw it in the trash can and said, "That's good enough for me." [laughing] And that was my introduction to Wilbur, but it goes on and on from that.

So that's how I got to this department and I have been here ever since in various jobs. I stayed in the Planning and Evaluation Office into the early days of the Nixon administration. I finally became a Deputy Assistant Secretary of P & E, and then when Lou Butler left as Assistant Secretary for Planning and Evaluation soon after Bob Finch left, the new team that came in and we didn't get along very well together. So I moved over to the management side and went to work for in Administration and Management operations at the beginning of the time when Elliott Richardson was the Secretary.

It was within the context of my management and organization responsibilities that I got involved, near the end of the Ford administration, with a massive study of the management of this department, which, interestingly enough, was started before the election. And what came out of it was HCFA, as well as other reforms.

The environment that you need to think about here at the close of the Ford administration was a very passive organizational and program situation. There's a joke that runs around, and I surely tell it only as a joke. I'm not sure that anything like this ever happened. In trying to find a new Secretary of HEW after Weinberger left, the President [Ford] asked one of his friends on the Hill who he should pick. And he said, "That guy at the University of Alabama is really great. You really ought to pick him." This was David Matthews, and he picked David Matthews. The story is that after he announced it, his friend on the Hill called the President and said, "No, I meant Bear Bryant." [laughing]

BERKOWITZ: We had always heard that the story was that Gerald Ford went to a football game at the University of Alabama and was flipping the coin and that's where he met David Matthews and that's how he ended up Secretary.

McFEE: The thing that I really want to stress is the environment that was around here at the close of the Ford administration. The last thing in the world Ford needed was any major social issues or problems, so Matthews was kind of a caretaker secretary. In fact, I think most people felt, had Ford been reelected, that Matthews wouldn't have stayed anyway. That was the gossip that went through at least the career staff. In fact, there was some thought that regardless of how the election came out, we were going to have a new secretary in this department. John [Jack] B. Young was the Assistant Secretary, Comptroller here, had a long history of public management; grew up in NASA; helped get NASA going. In September Jack—who was really the impetus behind this study—put a team together, about 12 or 15, that did a study on the manageability of HEW. There was a lot of talk going on that the place was unmanageable. It was too diversified and there was no way you coalesce some kind of organizational structure that made any sense.

I think the report was one of the best management studies that's ever been done. [There are copies of it around in the department's history file I will see if I can get you a copy.] It laid out some major issues that a new secretary, regardless of who it was going to be, was going to have to face and what were some of the major kinds of organizational structures that you might want to think about in order to react to those issues. Jack Young, who passed away in the last three or four years, had a philosophy that organization was focused on the issues of the moment and that you never

could create the ideal organization. He believed that you needed to look at organizational structures and say, "What are the things that you are going to try to do and what do you want to achieve?" Then create an organization around the issues of the moment. Now that doesn't mean you reorganize every six months, but at least at the beginning of a new administration you needed to take a look at what the major issues were and have some kind of structure built around that.

As an organization and management person I couldn't have agreed more fully with that particular approach. What were the major issues we were facing? National health insurance was clearly one of them. There was a major problem in the student loan programs with fraud and abuse, with people not paying back. There was clearly a discontinuity in the programs of the Social Security Administration which ran welfare programs as well as Medicare, and the Medicaid program was run some other place in the department.

The Califano reorganization that created HCFA and made other major changes to the department, was focused on the states. We have a big interface with the states. We had used a counterpart approach to management in this department that had been followed for a long time. Although the single state agency concept is slowly being done away with, it was very strong in the late '70s. If the current trends towards welfare devolution to the states occurs, that will go away. But we required states to build a mirror of our organization in a state and required them to have a single state agency to do this. In fact, our laws were written so that there were even some restrictions on co-mingling the funds in an accounting system. You couldn't have the same accounting system used for two of these programs.

So as this study looked at some various ways of reorganizing this place, we asked, "What are the trade-offs?" If you move Medicare out of Social Security, there is a dysfunction occurring because the field structure, the district office structure, is what handles the intake on Medicare and it's related to Social Security. On the other side, let's look at welfare and the Medicaid piece which was being run by a Social Rehabilitation Administration. It dealt with a different agency in the state, not the state disability people or anything else. This study tried to weigh the trade-offs between a dysfunction in dealing with the states, so that the states would have to deal with two different offices, versus the advantage of getting like policies and programs put together. That meant when you made decisions on policy in health care financing, it would be a consistent policy even though it would make it more difficult maybe for the states in having to deal with different groups. And this was true in education and a lot of other

arrangements. This study was the first time anyone said what was the issue of the moment, and it was clear that a precursor to some kind of national health insurance was going to be one of those particular issues during the Carter administration. It was out of that concept that something like HCFA was born. It's clear that, although the study doesn't make recommendations as to how you ought to organize the department, it says, "If this is what you want to do, here's a way to do, and if this is a problem, here's what you want to do about this."

Because this study was done prior to the election, it became one of the first influences on the Carter transition team during the Christmas holidays in 1976. I was in Austin, Texas—this is an aside more about me than HCFA, but I think it's important that this background get recorded some place—where my son got married. Califano had been announced. He was the last of the Cabinet announcements or next to the last. I spent three days at the LBJ Library—I knew the director of the library and most everybody else down there—going through everything that Califano did when he was over at the White House. I read every letter that went back and forth from this department and the White House, and I knew more about Califano than I think his own wife did at the time, or at least anybody he worked with.

BERKOWITZ: Undoubtedly more than she wanted to know, too.

McFEE: If I ever write a book about my experience in government, the whole concept of learning about your boss and "managing up" is a very important concept to me. As soon as I got back, I got with Califano and told him, along with Young, that we had this study available, and he immediately jumped in even weeks before the Inauguration and we spent hours and hours going over this study. He concluded, and I think he says this clearly in his book, that it was the existence of the study and the help of four career officials (Don Wortman, Bruce Cardwell, Jack Young and Tom McFee) that made it possible to move so fast. We worked very closely with Hale Champion, Fred Bohen, Tom Morris and Califano's new lawyer, Dick Beattie. When he announced the reorganization of this department it was only 45 days into the administration. That was a great accomplishment for such a major, major reorganization. During this period of time, when we were talking about this with him, it became very important to him that the reorganization be kept secret. No one had ever been able to reorganize this place and make these major structural changes because of the lobbying groups, the states, and if you were going to do it, you had to do it fast. And that's absolutely the way it was done. Califano relates in his book how the final proposal, that we put together the night before the press conference, was printed in the basement of the Pentagon under the tightest security

arrangements. I went over at his request and met with a special assistant to Harold Brown. We had Marines guarding this document. That is a true story.

There are all sorts of other things concerning the early days of HCFA that are fascinating, including a telephone call to John Brademus who was on his honeymoon in Paris. Califano wanted to tell him about it and so he called him, but what he forgot was that it was four o'clock in the morning in Paris. He got the White House switchboard to call Brademus and told him that he's going to reorganize the department.

The idea of HCFA, then, was born out of the concept of National Health Insurance, that this was going to be a major issue in the Carter administration. And so it was if you look at the early days of the Carter administration along with the Kennedy hearings on National Health Insurance followed by Califano's proposals to Carter on the subject. I spent a lot of time in the early days just on the nitty-gritty aspects of starting a new agency, the personnel aspects, the management aspects. How do you move the people? We had a number of interesting management dilemmas because the culture of the Medicare people who had worked at SSA for so long was so different than the culture of the people that had been in the social welfare business. From the personnel standpoint, Social Security had a lot higher grades and had more supergrades. Of course the Medicaid people were all social workers and were lower graded and located fairly down in the organization. The irony of the thing is that for a time the guy who headed the Medicaid program was an M.D., while the Bureau out in Social Security was headed by Tom Tierney who obviously didn't have a medical background.

I spent most of the first year trying to iron out these problems: how do you make an organizational structure? how do you put a personnel system together? The idea of trying to pull all of this together so that there wouldn't be a Medicare staff and a Medicaid staff was very, very important and very, very difficult to do. You'll notice that over the period of 18 years since this has happened, they've gone back to singling out Medicaid as a major area of emphasis. But at the beginning it was trying to look at this as health care financing as the principal goal and not to have separate structures. It was a great challenge. Paul Wilging was the first personnel officer over there, and he would be very important to talk with. He became the Deputy Administrator of HCFA under Davis and he stayed for about two years. He was a career person and he stayed as a career person as Deputy Administrator. He was the guy that probably did more of the day-to-day work on pulling the structure together.

BERKOWITZ: Let me back up just a little bit and pick up some of these points. This management study that Jack [John] Young did, was Rufus Miles in it, a kind of graybeard authority?

McFEE: Actually Rufus was not involved in this. Rufus was involved on the separate Department of Education. All of us had worked with Rufus, but he was not involved in this.

BERKOWITZ: This was started as a grouping for the second Ford administration?

McFEE: No, it was started for whatever was going to happen, either the second Ford administration or—as I said, the idea was that we were going to have a new secretary and it didn't matter who won the election.

BERKOWITZ: You said that "we spent hours and hours going over this study." When you say "we" are you talking about the group that created HCFA?

McFEE: No. It was Hale, it was Wortman, Dick Beattie, Fred Bohen, Tom Morris. I think Califano's book has got all of this in it.

BERKOWITZ: He doesn't really credit this management study very much. He credits himself.

McFEE: I assure you the management study was the foundation of it. Let me tell you what the management study did. It did not provide any specific recommendations. It was his idea to do it, but what the management study did was give the alternatives that were available. It was almost like a menu, a shopping list. He couldn't have done it in 45 days had not the study been done, because the study had researched things like what do you do with the presidential appointee who was the head of the Social and Rehabilitation Service, and how do you get a presidential appointee to head HCFA. The answer was you don't. The answer was you just don't fill the other job, it just sits there. The first head of HCFA was not a presidential appointee. It was a political Schedule C job. And all of these things were worked out in that study, plus about 30 pages worth of legislative restrictions, things you couldn't do. The Commissioner of Aging had to report directly to the Secretary, these types of things. It was Califano's reorganization. I don't want to take away any of his credit for it, but what the study did and the people that worked on the study, they became the resource to help implement it.

BERKOWITZ: Was this crucial idea of merging Medicare and Medicaid in the study?

McFEE: Yes. The study talks about the dichotomy of splitting the policy making function and also goes into the role the Public Health Service plays in that. Again, as I said, Califano is right. The idea to create HCFA wasn't a recommendation from the study, but all of the mechanics and the criteria that one would use to organize it came from that study.

BERKOWITZ: Califano was receptive to the idea of merging Medicare and Medicaid?

McFEE: Definitely.

BERKOWITZ: Do you remember proposing that to him, or did he propose it to you?

McFEE: I can't remember that, but it was clearly one of the major things he wanted to do. That and the student loans, he was very hot on the student loans, and he wanted to break up the Social and Rehabilitation Service. That's when the welfare program went to Social Security. He wanted to put all kinds of income security together instead of a focus on the recipient.

BERKOWITZ: How do you think John Gardner would have felt about that? That was his baby at SRS.

McFEE: It sure was. How would he have felt about it? What I'm trying to tell you is that if you take the philosophy that Young had, and that N.H.I. [National Health Insurance] was the issue of the time, I'm not so sure that Gardner would not have done the same thing if he had been there at the beginning of the Carter administration. At the time they created the Social and Rehabilitation Service that was the issue of the moment—welfare services, disabled people, handicapped. That was the cluster. In fact the Welfare Administration was set up under Kennedy in 1963 because they wanted to have a focus on poverty and welfare. By the late '70s, welfare was a dirty word.

BERKOWITZ: If you are going to focus on welfare, does it make some sense to have Medicaid and AFDC together?

McFEE: That's right. And that's how it grew, that's how SRS came about. But the focus was on the poverty program and OEO. What happened was when Califano got here it had shifted. Remember SSI had been enacted and given to SSA.

BERKOWITZ: Why do you think that took place? That's an interesting transition from poverty and welfare to hospital finance, health finance.

McFEE: It happened when Califano got there. It was a major change in philosophy and structure. What it did was it fragmented these other particular programs, made it more difficult for the states in having to deal with two different organizations. There's one thing that Richardson did when he was here. He had a proposal before he left that also was taken into consideration. He had a major proposal on the whole restructuring of intergovernmental relations. And that had happened between the time Gardner was here and that addressed some of these issues, although his idea was more from an intergovernmental relations approach, having been a lieutenant governor. He was very much interested in services integration and the services surrounding the person—"one-stop shopping." That was the thrust of Richardson's time.

BERKOWITZ: Of course Jimmy Carter was also very interested in that—cutting down on paperwork, one-stop shopping.

McFEE: Another thing that happened at the beginning of the Carter administration is the regional structures. There is no question in my mind that Jimmy Carter had had a very bad experience as governor with our regional director, and he was death on regional directors. In fact Califano changed the name of the regional directors to the "principal regional official" because Carter didn't think there should be any interface between the governors and Washington. The whole structure of the field changed at the beginning of the Carter administration. The regional director was no longer the dominant power or the dominant person. And that's vacillated in the last 20 years half a dozen times.

BERKOWITZ: Let me just set the record straight. In 1977, the beginning of the Carter administration, what was your title?

McFEE: I was Deputy Assistant Secretary for Management, Planning and Technology.

BERKOWITZ: And whom did you report to?

McFEE: At the beginning of the Carter administration I reported to John Ottina, the Assistant Secretary for Administration. He had been the U.S. Commissioner of Education.

BERKOWITZ: Was he somebody that Califano used very much?

McFEE: Califano got rid of him within the first week and I became the Acting, and eventually, Assistant Secretary. John Ottina had buried himself into the career system—if you're ever reading this, John, please take no

offense—but he went out on an Intergovernmental Personnel Act assignment.

BERKOWITZ: Did your job at the time get personnel appointments?

McFEE: No. I had nothing to do with personnel until I became the Acting Assistant Secretary at the beginning of the Califano administration.

BERKOWITZ: I was going to ask you particularly about Mr. Derzon. Did you have a hand in picking him?

McFEE: Yes.

BERKOWITZ: Can you tell us a little bit about that?

McFEE: Gosh, it's so long ago.

BERKOWITZ: He was from San Francisco, as I recall, and had run a medical center. Do you remember how his name surfaced?

McFEE: I do not remember. He was one of many.

BERKOWITZ: Would Hale have found him for Califano?

McFEE: It's possible, but I don't remember the details of that. The guy that had a lot to do with that was Jim Gaither, a special assistant that Califano had who came in and worked on personnel appointment process. Also Larry Levinson came and stayed here for about four months and helped with the original personnel appointments. Califano talks about them in his book on HEW.

BERKOWITZ: Let me ask you a different question. Here you have this management problem. You've got this HCFA thing gung ho, in place. Then you've got these guys in the Switzer Building working on Medicaid. Then you've got the guys over in Woodlawn working on Medicare, and your problem from the personnel point of view is to make this work. How did you go about trying to do that. The people from here ended up at Woodlawn. How did that all come about?

McFEE: That actually didn't happen until long, long down the road. The actual physical co-location of the people didn't occur for many years. In fact that was a major, major problem, getting people physically located together. That took a long time. Wilging is the guy who can really give you the details. He was right there on the day-to-day operations of this.

BERKOWITZ: Let me ask you a more general question then. Did this work? Was this a good idea to merge Medicare and Medicaid agencies with all these attendant problems of state relationships you've talked about?

McFEE: I think it was, yes. I still think it was a good decision for the time. There was some talk at the beginning of the Reagan administration to do away with HCFA because they were worried that it would put pressure on for national health insurance. They had some very tough times at the beginning of the Reagan administration, but the concept of looking at health care financing as a major focus, I still think, was a very important concept and an important issue. In fact, we have talked here quite seriously about even adding some additional things to the health care financing areas, that didn't get brought in at the beginning of the reorganization. There has recently been some talk about the SAMHA organization [Substance Abuse and Mental Health Administration] and the other one is the Health Resources Administration, being brought under the same umbrella. These are both independent agencies in the Public Health Service. I haven't seen any pressure over the last 18 years to bust it up again. In fact they even added the health maintenance organization policy stuff that was in the Public Health Service to HCFA, so it's been going in the other direction. No one, I think, has thought about going back.

BERKOWITZ: Let me also ask you, just to take you back to that intense period between January and March of 1977 when there was a working group headed by Wortman that was trying to put this together and figure out what you could do about personnel, did you work actively with that group?

McFEE: I was part of that group.

BERKOWITZ: Do you remember anything about having met? Did you have a special role in that group?

McFEE: Did I have a special role in that group? Well, I was the Acting Assistant Secretary at the time, and all the areas of personnel, management, buildings, etc., were under me. So, yes, I had a very active role. The other people in that group were Brian Mitchell, Don Wortman, Dick Beattie. Tom Morris managed the group and Wortman was the day to day manager. Dave Weinman was not on that original group. He did get involved with implementation. The group was really very small.

BERKOWITZ: And they worked in this office?

McFEE: We worked everywhere.

BERKOWITZ: It was supposed to be hush-hush, right?

McFEE: It was very hush-hush. We met a lot in Hale Champion's office, also Tom Morris's area. We also worked here. I don't think we had a room with all this stuff locked up, but most of it was in Morris's office.

BERKOWITZ: Were there any issues? Any major debates among this group?

McFEE: Yes, there were. I don't know quite how to put this one in perspective. Bruce Cardwell was the Commissioner of Social Security, and he was brought in very late in the discussion. Also Ed Boyer, the Commissioner of Education, I believe was also brought in. But I think that these people were brought in very late in the discussion. We met sometime before January 20th in Califano's law office and started working there. That was a very small group. Tom Morris, who was going to become the Inspector General, was here and he was very much involved in it. My recollection is that Tom Morris did more of the management of it than Don Wortman.

BERKOWITZ: You said that there were issues in this group. Points of disagreement?

McFEE: Yes. The question of what do you do with the states and whether you ought to fragment this and Rehabilitation Services Administration, where do you put it? We moved it over to the Human Development Services area. Yes, there were discussions about whether you ought to break up SRS, lively discussions.

BERKOWITZ: What was your position on that?

McFEE: I pretty much supported the way Califano was coming out with it, and still do. You'll notice that what we did was we brought Welfare back during the Reagan years and created the Family Support Administrations. Again that was a move to undo some of the damage and fragmentation.

SSA still runs the SSI program. That's another dichotomy until this day that, if you really wanted to look at the break up of HHS and the spin-off of SSA, it would probably have made sense to leave the SSI program in HHS along with the Family Support operation. We think about it now in the context of welfare reform. Welfare reform can't include SSI because it is a part of the SSA the operation. So we're right back now in another one of these situations where the organizational structure and the issues of time don't always follow.

BERKOWITZ: Right, and there's another complication with SSI, of course, which is that it becomes a disability program at this period.

McFEE: ...we would have left it with the Rehabilitation Services.

BERKOWITZ: Right. And now, it seems to me that SSI and SSDI are the things that should go together. It just goes to illustrate the point you made before, issues shift, don't they? Sometimes we're concerned about disability, sometimes we're concerned about welfare.

McFEE: And that's what happened. After Califano's grand design, by the time the Reagan people got well into it and the Family Support Administration. Now, who created the Family Support Administration? [Secretary Otis] Bowen did. He'd been in state government and he took the guy that had been his Social Services Director, Wayne Stanton, to come in to head his Family Support Administration. Took it out of the SSA environment. So as issues change, times change, organizational structures change. I still think at the time Califano made his decisions they were the right ones to make.

BERKOWITZ: The SSA, looking back on it now, I know was not going through a very good period at that time, particularly that period of 1977, but historically it was the strongest of the agencies. To take Medicare out of that was somewhat politically risky but also maybe you could argue that that was the strongest agency and you ought to leave that program with the strongest agency rather than a new, untested agency. Did that go through your mind at all, that notion, or were you afraid of Robert Ball or somebody complaining?

McFEE: As I said, this is where Bruce Cardwell comes in. Obviously, if you're really going to do an oral history on this you need to get hold of Bruce and see what he says. He may help you on that particular issue.

BERKOWITZ: But it's not one that was particularly in your mind?

McFEE: Not at all. You've got to look at Medicare and Medicaid and realize they're totally different kinds of programs, and the Medicare program was running very well. The biggest problems with the Medicare program at the time this happened were the automation and the contracting through Blue Cross and Ross Perot and EDS. The issues were not policy issues at that time. SSA was an excellent organizational base for all the systems kinds of things because that's what they did well. But I think that Califano maybe is the one that needs to answer this. They didn't feel that those were problems. It was the policy issues that they felt SSA didn't have the kind of capability or didn't do. In fact, I really remember Bynun as the head of the operations side of SSA, and he was very upset about this because the district offices served the Medicare beneficiaries. He felt that that was the link that ought to hold it together. But you'll notice that in the 18 years they still do that, and they do it on a reimbursable basis with HCFA, and they're still doing it now even as an independent agency. So the kind of thing that

argued for keeping it in SSA became subordinated to the bigger issue of the control of the policy of health care financing. Califano realized, and I think rightly so, that the issues on reimbursement policy were the real important things and SSA didn't have any expertise in that. They did the systems stuff well. But, never-the-less, there were people I know that argued very heavily that fragmenting that meant people weren't going to get paid for their Medicare reimbursables. Again, there were people that argued that by having AFDC go back to SSA that the states would have to deal with HCFA and the Rehabilitation Services people. So there were issues that came up and they were argued as I said. It was one of those kinds of environments as to what prevailed, and what prevailed was we set up a separate student loan operation which made a lot of people upset over in Education. They felt that it shouldn't be separate. And this new moving RSA over here in the Human Development area was, again, goring somebody's ox, that their particular program wouldn't get the kind of attention that they thought it would get otherwise.

Of course, as far as I'm concerned, one of the biggest things that Califano did was he pulled out Human Resources and elevated it to an assistant secretary's level, which is kind of ironic at this point in time. I am not only the first Assistant Secretary for Human Resources Management, but I'll probably be the last and only. And after 18 years, we've changed the whole way you do personnel. It's a much different approach to things now. It was very important, I think, while we were in the midst of Civil Service reform to have that focus at that level that allowed us to accomplish an awful lot of things. We were putting attention on the people side of the thing—performance, recruitment, retention, motivation—which were very important. Hale Champion was very concerned that we were the largest domestic agency with 175,000 people at the time and all our focus was on financial management, how the billions of dollars were spent. Yet the way the work of the department got done was through the people and he felt that it needed that kind of focus. That was the grand design that occurred back then.

BERKOWITZ: Let me ask you one last philosophical question. Looking back on the reorganization of the period there was this initial Califano reorganization that we talked about today, HCFA and so on, and then at the end of the Carter administration there was the break-up of the agency to create the Department of Education. I wonder if you could compare and contrast those two reorganizations in terms of success, motivation.

McFEE: I don't think it's a secret that a great number of us here in this department were violently against splitting off Education.

BERKOWITZ: That's on the record in his book.

McFEE: This is where Rufus Miles comes in. Rufus wrote a paper that supported breaking it off, and Rufus and I really had some very, very interesting discussions back then because I respected him very much. Why is there a separate Department of Education? Not because of any management logic, but because of a political clout, and I think the record will show that it passed by one or two votes in the House. It was not anything like the Social Security split off which was practically unanimous. Even the president recognized that it would be unreasonable to fight that type of thing. But the Department of Education made no sense. Therefore, as I went through the year of agony of splitting it off, it was a very difficult time. Unlike the split off of SSA which worked very well, we got through it without an awful lot of heartache. Nobody had ever done something like this, set up a new department like this. Under the Civil Service rules nobody knew who had what rights, who got to go, who didn't get to go. We had to experiment with all of that. In all due respect to the people that ran that process, and I was part of that, that was a much more acrimonious and difficult thing to implement, and I think the reason was that there wasn't a real good sense that it was the right thing to do. Of course, the new Secretary, Pat Harris, went along with it obviously. She made the famous speech where she had said about losing it, "Look, it's got about 12% of my resources and 80% of my problems. You think I'm worried about losing it?" She wasn't.

The Califano thing was an internal reorganization; the Education thing was really a splitting-off. During the Education Department effort, the big argument was about where Rehabilitation Services went. As you know, it ended up going to the Education Department and the people here still, to this day, think it ought to come back. Headstart's another one. A lot of people thought Headstart was an Education program, but it isn't. It stayed here.

BERKOWITZ: One of the ways HCFA was sold is that it was going to save billions of dollars. How did you feel about that?

McFEE: I never felt that any of the reorganization was going to make a major change dollars-wise. I went along with it. I helped support it. I helped work on it, but I never felt that basically it was going to save money. I think the purpose of it was to coordinate the policy aspects of it, even though it was supposed to save a lot of money. That kind of died down. I don't remember many audits to see whether we saved money. If you took a look at it from a personnel standpoint, the number of people they had working at high level jobs went up not down. As we talked, we thought they probably would have gone down. We talked about downgrading jobs, and we never did. We ended up having to do what we called grandfathering and

grandmothering people into jobs that couldn't be supported through the classification system because of duplication of functions. I don't think we ever made a major focus of saving millions of dollars.

McFEE: I vaguely remember something like that, but what I really remember was the $5 billion. What happened involved the five billion dollars in fraud, waste and abuse. Califano writes this up in his book. In fact the Harvard Business School has done a case study on this that's fantastic. Our new Inspector General made some comments about the fact that there was fraud, waste and abuse in this department costing five billion dollars. It was used in the Carter-Reagan campaign. I can remember Ronald Reagan saying, "Your own Inspector General says that there's five billion dollars of fraud, waste and abuse." That was probably the worst thing an Inspector General ever did. I'm sure there is. If you look at the fraud, waste and abuse convictions in everything we had at that period of time, it probably does add up to that—or even more.

BERKOWITZ: Terrific. Thank you very much.

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Interview with Joseph N. Onek

Washington, D.C. on August 10, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: Mr. Onek, you were involved in the Carter White House in health policy and before that I see you had quite an impressive legal résumé having clerked for Judge Bazelon and Justice Brennan. The first question then is how you got to be in the Carter White House.

ONEK: Well, I'd clerked a little. I'd worked at a public interest law firm, the Center for Law and Social Policy, and many of the people who surrounded the Carter campaign were out of the public interest movement.

BERKOWITZ: Like Alan Morrison for example?

ONEK: People like Morrison, people in this case particularly I think were Peter Schuck and Harrison Wellford who worked for Nader, and I remember about a week or two before the election they called me up and said, "If Carter wins, would you like to serve on the transition doing health care?" I'd been working on health care issues, and I said sure, so I went to work on the transition. The head of the whole domestic transition team was Stu Eizenstat. I did the health care stuff. Indeed I did the initial proposals for hospital cost containment, late and perhaps unlamented, and because of working on the transition with Stu I then went with Stu to work on the domestic policy staff. I was the health person, the chief health person on the domestic policy staff for the first, roughly, two years of the Carter White House.

BERKOWITZ: I see also that you worked on the Hill at one point?

ONEK: I'd worked on the Hill for Kennedy but not on health issues particularly.

BERKOWITZ: And Mondale was not a rabbi?

ONEK: No, I knew Mondale because I'd worked on the Hill, but I had no ties.

BERKOWITZ: Peter Schuck, is he the same person who's now at Yale?

ONEK: He's a professor at Yale. Harrison Wellford is now a lawyer.

BERKOWITZ: And at the time was deputy director of OMB, I believe. Is that correct?

ONEK: He later became that. At this time he was probably working for Nader and Peter Schuck worked for Consumers' Union. This was the, I guess you could call it the public interest Mafia. A lot of those people worked with Carter, a lot of them got appointed to positions. If you look at all the public interest people who worked in the Carter administration, there are endless numbers, like Joan Claybrook. For better or worse, because maybe we were young and inexperienced. A big chunk of the Carter administration was people from the so-called public interest movement.

BERKOWITZ: So when you were working on that transition did you get a chance to meet with President-elect Carter himself?

ONEK: Yes. I don't think too often, but I think maybe once or twice.

BERKOWITZ: Do you recall any of his priorities in the health field?

ONEK: I don't recall. I did not take any notes or think historically as I might now do. As I do say I did develop something of his tremendous concern on health costs, and given the way things have worked, it's rather humorous. I would give speeches at the time saying, "Gee, health care has gone from 5.4 to 9% of the GNP. The world is coming to an end." We're now going to 15% and people are still saying the world is coming to an end and it is or it isn't. Somehow the world has managed to survive. So I developed a hospital cost containment proposal during the transition using the existing HEW staff. One thing that was perhaps different, is that you had in HEW and the bureaucracy a lot of tremendously capable people. This was before all the bureaucracy bashing. Many of these people were hold overs way back from the Kennedy and Johnson years, and they were just very good people, and with them, some of the people from the Nixon years because Nixon had also tried to control hospital costs and indeed included health care costs in his wage-price controls, so with those people we developed the first hospital cost containment proposal.

BERKOWITZ: How aware were you of the looming bureaucracy, for example the proprietors of I. We're talking now about your White House experience, not just the transition thing. Do you remember consulting, say, with Robert Ball on these matters?

ONEK: Oh sure, sure. I always spoke with Bob Ball.

BERKOWITZ: And what's your sense of Robert Ball?

ONEK: Right. Well, I always thought that he was very thoughtful. Obviously he had a particular view, strong supporter of course of national health insurance with a nationalized model, social security, etc. I remember once

he said, “Look, here’s what I’d tell these guys, the people in the Public Health Service, ‘We spill more than you guys drink.’” It’s a great line, one of my favorite lines. Certainly true.

BERKOWITZ: And how about Nelson Cruikshank? Did you get to know him?

ONEK: I certainly met him. I don’t really remember much about him.

BERKOWITZ: As you look back you don’t see Cruikshank as a player on things having to do with health care?

ONEK: No, not that way. Of course he had his ties to groups representing the elderly.

BERKOWITZ: Now, in terms of health care cost containment, one of the ideas about the creation of I was something as follows: if you were ever going to have national health insurance, you needed to get the ground prepared and there were two elements. One was to build up the bureaucratic capability to deliver national health insurance and I maybe was part of that. And the other was you needed to control costs if you were going to introduce this whole new group that was going to get health insurance. Is that a fair statement?

ONEK: I’m not sure, though as I say I don’t think I focused terribly much on the I reorganization in any capacity. Certainly we did focus on controlling costs, but we focused on controlling costs across the board and not just on I and Medicaid. Indeed I do remember this very clearly. When we came in, Ford proposed a budget with a cap on I, just a straight cap. I’m not even sure it was just hospital costs. I think it may have been all I maybe. That was what was on the table. We went to a meeting with Bert Lance and OMB and of course OMB always wants those savings. They wanted the same savings and we argued for across the board hospital cost containment, not just I and Medicaid. I remember Bert

Carp, whom you should talk to, who was Stu’s deputy, now runs Ted Turner’s operations in Washington. I remember little Bert saying to big Bert, Bert Lance, arguing for my program, saying that’s the difference between Democrats and Republicans. The difference between Democrats and Republicans is when we impose a program that has cost savings we impose it across the board, not just on programs for the elderly and the poor. And that’s what he said, this is the difference between Democrats and Republicans. Obviously when I gave my speeches in favor of hospital cost containment I certainly pointed out how much savings would accrue to the federal government under I and Medicaid, and I certainly pointed out that those costs, those governmental costs, were impinging upon the ability of

governments, including state governments to do these things. I made the speech then, would make it even more in spades now that states can't do anything because all their money is going into medical care, but I usually also focused more generically on how rising health costs affected the economy generally, etc., etc., and I certainly made the argument that you had to get costs under control for national health insurance. But we didn't focus as much on I and Medicaid and the savings to those programs in particular because we were imposing across the board hospital cost containment which would apply to all payers.

BERKOWITZ: Let me follow up on two things we mentioned. One is that you said in developing health care cost containment in the Carter administration you talked to people at HHS, and we should try to figure out who they might be. Henry Aaron?

ONEK: Well, he wasn't there. I'm talking about the transition.

BERKOWITZ: The transition period. I'm sorry.

ONEK: It was Cliff Gaus. He just got appointed the head of APSCHR, the thing that the Republicans are trying to kill. It's important. Guys like Richard Berman who had worked on cost containment and wage-price controls under the Nixon administration, and if Cliff would talk to you it would be good because he worked on the I section that did all the experiments, the research arm of I. He was probably in I pre-merger and post-merger, so he'd be very good to talk to. He's very busy, but you ought to get to talk to him.

BERKOWITZ: And when you got to the White House to whom did you speak about health care issues in HEW?

ONEK: Well, I spoke to Ben Heineman, a close friend of mine.

BERKOWITZ: The chief counsel for Califano?

ONEK: Chief of staff. Karen Davis, the Deputy Secretary for ASPE [Assistant Secretary for Planning and Evaluation], was a key player. I don't think Henry Aaron, who was Karen's boss, did much health care stuff. He was doing welfare reform. The first head of I, Robert Derzon, I dealt a little with him, but not so much. OMB there was Sue Woolsey who was the political person, but there was also William Fullerton at HEW, long since retired. Jim Mongan, then, I presume was working for Senator Russell Long and then went to work for HHS. Jim Mongan's a big deal, head of the Truman Medical Center. He's on every commission, every board there is. I think those would be the

key people. I don't think I worked much with Henry. Karen Davis, Brian Biles.

BERKOWITZ: How about in the White House? If President Carter were interested in a health care cost containment proposal, how would people give him information? Did you work through Stu and then the President?

ONEK: I worked through Stu, but you know I was at some meetings without Stu. But primarily it would be through Stu, and Sue Woolsey would do a memo through Bert Lance, and that's probably how it would work. But everyone of my memos would go through probably Bert Carp and then to Stu or just through Stu. It was a very organized, was very much a paper White House. It's very different than the current White House where, at least the White House up until maybe Panetta got some sense of control, where everybody could run in and out. Joel Klein, a former partner of mine, who took my job as deputy counsel, called me one day and said, "How often did you see the President?" I said, "Well, once every week, two weeks." He said, "In this White House, if you don't see the president three times a day you're a nothing." Because hundreds of people could go running in. Carter wasn't like that and it was hard to get meetings and there weren't that many meetings and it was done on paper.

BERKOWITZ: Do you feel there was any sense of rivalry between HEW and the White House and trying to keep everything straight?

ONEK: Dealing with Joe Califano you always have a sense of it because Joe is essentially paranoid. Probably why he was such a great aide to Johnson, because Lyndon Johnson couldn't have had an assistant who wasn't as paranoid as Joe, so Joe was fighting battles before then. One of the early things he did, he appointed some guy who was a Republican without telling anybody (I forget who the hell it was) because he thought if he didn't do that Carter wouldn't approve. Carter would have approved it anyway, as it turned out. So Joe was upset that I had done so much on cost containment. He sort of took it all away from me, and then, to make matters worse between us—oh, Joe and I got along personally reasonably well—John Iglehart wrote a big piece in the National Journal on this. I must have it somewhere but you can look it up in the National Journal of 1977 and he wrote, "Joe Califano did this, did this, did this, and it still turned out to be Joe Onek's health plan." Well that helped my status no end [chuckle] with Joe. Califano was always at odds with the White House. Now some of it may have been the White House's fault, some of it his. I don't know what Ben will tell you about that matter.

BERKOWITZ: Let's talk about just for a minute about I itself, which was a very early initiative.

ONEK: And which I knew nothing about.

BERKOWITZ: Do you think that anybody in the White House knew anything about it?

ONEK: I assume somebody did. I was not, either by temperament or position, very much involved in the reorganization of government. That's never sort of been my thing. It'd be more likely people like Harrison Wellford and the people at OMB who had more of an interest. Carter was plainly interested in those things and zero-based budgeting and all that kind of stuff. I had never had any background or interest in any of that, so it's not surprising that I didn't stick my two cents in. Would there be people at OMB? I would talk to Harrison who's in this building on the 12th floor.

BERKOWITZ: He's a former law partner of Dick Wegman?

ONEK: Yes, he is indeed. He's on the same elevator one or two flights up. But he might have been involved. He was on the transition then very early on, so he might have known about this, but the only story I remember was somebody telling me, and I don't know who it was, quoting Wilbur I saying, "Well, you can always reorganize, but you have to understand when you reorganize you have a choice. You lose two years of substantive work." Now whether that was true when we reorganized I don't know, but that was quoted. I don't know if it's apocryphal or not, but it was somebody giving me Wilbur's views on reorganization.

BERKOWITZ: Did you meet Wilbur I in all this? Had you known him?

ONEK: No, I think I may have met him, and he certainly knew my mother-in-law who's a very well known health economist.

BERKOWITZ: Who is that?

ONEK: Nora Piore is her name, but in any event, and I'm sure I met him, but only in a crowd, unlike Ball and most of the other gurus whom I met.

BERKOWITZ: Nora Piore is your mother-in-law. Is she related to other economists?

ONEK: Well, Michael is her son, who's my brother-in-law.

BERKOWITZ: And he's a prominent economist.

ONEK: He's an economist at MIT.

BERKOWITZ: So you didn't know much about this whole thing?

ONEK: I remember that it seemed sensible to me that I and Medicaid should be put together. It seemed perfectly sensible.

BERKOWITZ: Did it loom in your mind as something that you'd have to deal with in terms of your proposals?

ONEK: No.

BERKOWITZ: So you're saying that in this health care cost containment and the other Carter health initiatives the creation of I made really no difference to them. They were available in the transition. You'd already done them and this bureaucratic reorganization was simply irrelevant?

ONEK: Was a separate initiative, which as far as I could tell, made perfectly good sense. And that certainly had nothing to do with hospital cost containment, which as I say, was very visibly and vocally meant to extend beyond I and Medicaid to all payers. It was the opposite of an approach which would have said simply we're going to control all I costs. So hospital cost containment and the way it was structured was not structured through I. It was a hospital cap on all payers. It had nothing to do with either I or Medicaid, although it would achieve savings for those programs as well and we therefore didn't think about I one way or the other. I'm not sure when Derzon came on, and Gaus may have been at I, but basically the big players in the administration's cost containment were not from I. The big players, as I say, were people like Karen Davis out of ASPE. Now that position, the Deputy Assistant slot, had become a big slot maybe earlier, but particularly under Nixon when Stu Altman had it and it's really continued because Judy Feder has it in this administration. So it's been a pretty important slot despite its low title.

BERKOWITZ: Judy Feder, and Stuart Altman, later the head of the Heller School at Brandeis?

ONEK: That's the same man. That's him.

BERKOWITZ: You say that I wasn't important news, but that the health care cost containments didn't have much to do with I. Was I an anti model? Was I an example of doing it wrong?

ONEK: No, no I don't mean to say that, nor do I mean to suggest that hospital cost containment wasn't important for I savings. Obviously a major component of every speech we gave and of every chart that Joe used—Joe with his charts, he had these wonderful charts—was how much savings would go to the government. And we did say that we could use these savings or these savings would help us do national health insurance. All I'm

saying is I wasn't the sole focus because it was a system-wide reform. But clearly, because I remember giving the speech, I'd say health care costs are X% of the GNP and I costs are also X% of the federal budget. Oddly enough I recollect they're still roughly the same percentage as each other today. So we gave those speeches and I remember giving speeches about all the savings, and I remember when I would talk to public health groups I would use Bob Ball's line and say, "See that's what I'd one." That I in particular, but also Medicaid, are squeezing costs out of other health care initiatives that you would like—public health initiatives, community health centers, mental health clinics. Those kind of things under the so-called H section of HHS, which doesn't have much money. So sure, we'd make all those speeches, but somehow the reorganization of I, to the best of my knowledge, was never mentioned.

BERKOWITZ: Let me ask you another speculative question. My sense of the Carter White House is that the thing that fascinated President Carter the most and that he spent the most time on was welfare reform.

ONEK: Well, there was energy, but he did spend a lot of time on welfare. I don't think he spent as much time on cost containment.

BERKOWITZ: I was going to ask you. He seemed to have an absolutely endless fascination for the technical details of work incentives under welfare and that's what Henry Aaron worked on. That's what Joseph Califano worked on even though he didn't want to because he sensed that's what the President wanted. Did Carter have the same ability to kind of understand the details of hospital cost containment?

ONEK: Oh, I'm sure he had the ability. I don't remember him being as fascinated by the details or being as knowledgeable about the details of hospital cost containment. You can ask other people about that, but I don't think he was.

BERKOWITZ: He had been a governor. Was he concerned about Medicaid?

ONEK: I'm sure he was concerned about Medicaid. I think he had also biases that any governor has towards block grants and towards the whole issue of fragmentation of health care programs. You know there are a thousand little health care programs that come into a state which I think he probably had biases about. Wouldn't it be nice if he could package those together in some way? He clearly knew the details and when we brought people in he could give a speech, but I don't think he ever got as enamored of the details of this health care cost containment initiative. Hospital cost containment was always a second or third order issue. It was pretty high but it wasn't the top, and I remember a meeting we had somewhere down the

line. Of course, one of the problems is that everything he was doing went through the same committee. Either Ways and Means or Finance. And I remember our chief lobbyist coming back and saying, “Look, I go to a meeting and I’m trying to break somebody’s arm and they said ‘Look, what do you want, my vote on energy or cost containment?’” The fact is you couldn’t run two big things at once when you were breaking somebody’s arm. They would say, “Well, I’m not going to give you both.” The truth is hospital cost containment didn’t have a chance because the hospitals are the strongest lobby in America, as I learned at the time. When a company has a plant in a city you say it’s powerful in that city or that district. Hospitals are like an enormous company with a plant in every district. It’s often the largest employer in the district. The people on the board of the hospital are the most powerful people in the community. You don’t have a prayer. And the Republicans will find that out now if they try to take too much of this I money out of hospitals instead of somewhere else.

BERKOWITZ: So that’s why we didn’t get health care cost reform in the Carter administration?

ONEK: It didn’t have a prayer. The hospitals are just too powerful. There’s nothing more and better organized than hospitals.

BERKOWITZ: How about on the Hill? Was Russell Long sympathetic? I get the feeling that he had always been interested in catastrophic health care.

ONEK: Right. Long was not sympathetic, and our biggest problem on the Hill on that side was certainly Long and Jay Constantine giving us a hard time.

BERKOWITZ: And Jay Constantine worked for Senator Long or did he work for Talmadge?

ONEK: He had probably worked for Talmadge, but it’s the same thing. Talmadge was the head of the subcommittee and Long was the head of the full committee.

BERKOWITZ: And Jay Constantine was also interested in being in the administration as I recall.

ONEK: Very. Yes and he didn’t get it. I think that certainly did not endear us to him, and he hated Joe likely because of that. I think he wanted to be Inspector General or something like that. He didn’t get it, so that didn’t make him a happy camper.

BERKOWITZ: And therefore he took every opportunity to give you a hard time on health care cost containment?

ONEK: He might have any way, but he probably coined the—what was the thing? There was a slogan that they used. Something fat, I mean basically making the point that since you had a cap, that the fatter you were the better you did. I now forget the slogan. I managed to repress it. But he coined it. In the House Paul Rogers....

BERKOWITZ: Paul Rogers, is this somebody that was very knowledgeable about health care? Did you have personal dealings with him?

ONEK: Yes, yes. He was very nice. He was a great politician. He was very smooth. He had a very good staff.

BERKOWITZ: Not to editorialize, but it would be difficult for me to see him as grasping the details of something complicated.

ONEK: He may not, but he got it through his committee, and he got lots of bills through. I don't think to be a great legislator—somebody as a great legislator has to grasp the details—but not necessarily everybody. I don't know if he did or didn't, and you may be underestimating him, but I have no way of knowing that, but he got a lot of the important legislation passed. On our legislation Rostenkowski was under tremendous pressure. He wanted to be helpful. He was subcommittee chair, not full committee chair, but there he is in Chicago where you have the American Hospital Association, the AMA, and he was supporter of various compromises and so on. And in the end supported the trigger approach—that controls would only go into effect if a voluntary effort failed—and that was the beginning of the end. In the Senate we had to go through Finance. I think somehow Kennedy also had jurisdiction. Actually he did have some jurisdiction because it wasn't all I and Medicaid. I think we got bills through Rogers and Kennedy and that's all.

BERKOWITZ: You got it through the whole Senate, I thought at one point. No?

ONEK: We might have gotten it through but only in a very watered down way, with a trigger. I don't think a real cost containment thing ever passed the Senate.

BERKOWITZ: I'm not sure but Rostenkowski went back on a deal. He played some crucial role.

ONEK: Yes, he went back. He supported the trigger. I was somewhat involved, and Joe was furious with me because Rostenkowski called me in and he just mentioned this plan to me and I didn't say anything because I wasn't authorized, and then he announced that he had had discussions with me, and Joe was furious. Said I got sandbagged and such and such. But

basically I think Rostenkowski backed the trigger more and more as he got more and more pressure from the industry in Chicago. But the killer, the real killer person was Dick Gephardt. Gephardt, whom I barely know, but whenever I see him, he says, “Onek, Onek, hospital cost containment. You were right. I was wrong [chuckle].” Gephardt was the big killer. Then he was the big moderate. He was the big killer on Ways and Means. He was very young but he was probably the leader of the moderates who said, “You know, we can do without controls, or else make controls a fall back,” and then the bill just died. But the hospital industry was too powerful. Guys like, particularly Mike Bromberg who was very effective, but the AHA wasn’t so bad either. Bromberg just retired. He might have more time to schmooze. He’d be good to talk to.

BERKOWITZ: And when did you leave the Carter White House?

ONEK: I left the health field sometime like in July of, I believe ‘78, ‘79.

BERKOWITZ: Before Joe Califano was fired.

ONEK: I don’t remember when he was fired.

BERKOWITZ: Before the malaise speech or after the malaise speech?

ONEK: Basically at two and half years in I switched to the counsel’s office and Jim Mongan took my place on the domestic policy staff. By that time hospital cost containment was almost dead but not totally dead.

BERKOWITZ: Do you specialize in health care issues now?

ONEK: I do both health care issues and recently a very strange subspecialty of science and science misconduct. I represent famous scientists or not so famous scientists who are in trouble, like Robert Gallo and the AIDS issue. If scientists are in trouble they call me up.

BERKOWITZ: Thank you.

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Interview with Paul Rettig

George Washington University, Washington, D.C. on August 14, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: Mr. Rettig, you have been involved in the health field for a long time and worked at SSA, I understand.

RETTIG: I came to work there, as you say, in the Eisenhower administration.

BERKOWITZ: What year was that?

RETTIG: I came in 1959 as a management intern, probably today's equivalent of a presidential management intern, and soon found myself working in the policy area. At about that time, SSA which had been an independent agency, became part of the Department of Health and Welfare. But it still had an independent kind of status including its own policy people, some legislative kind of people, and I found myself early on in a legislative planning area where I worked first on Social Security disability and then on the program that eventually became Medicare. That was the days of the Forand bill, and other predecessors of the 1965 Medicare legislation.

BERKOWITZ: This was right out of college that you did this?

RETTIG: I had a year of theological seminary after college, kind of an exploratory year which didn't take, and then I did my compulsory military service, in peacetime, thank goodness. And then I waited for this examination to open up, so this was my first career-type job after that.

BERKOWITZ: So in 1959 when you took the job, the disability benefits that you worked on was the extension of disability benefits to dependents.

RETTIG: I think a disability freeze was in effect which was a way of freezing your work record so as you were not harmed by absence from work. My memory tells me it was in early 1960 or thereabouts that we had Social Security benefits extended to the disabled.

BERKOWITZ: 1956.

RETTIG: Really? OK. My memory improves regarding the time when I began working in the health programs.

BERKOWITZ: Who was your boss at SSA?

RETTIG: The one that you would probably know is Erv Wolkstein who just died last year. You probably didn't get a chance to interview him, a terrific loss. Erv was the most important, definitive kind of boss I had. Wonderful policy analyst. He was a wonderful policy person. He was the kind of person who thought in policy terms all the time, thought of alternatives, understood your position, who was very good at figuring out a way of saying, "Well, you're here and you're here, but there's maybe some place in the middle," or some entirely different kind of thing that satisfied both of you. Erv had that kind of ability. He was also very—how can I say it?—very straightforward and truthful, so he sometimes told you truths you didn't want to hear, which I've always seen as an explanation of why he did not attain the very highest level in the department. All the Secretaries of the Department have known him and respected his policy savvy, but he surely was not an organization man of the kind who knew how to say please and thanks. I mean he didn't choose to say them.

BERKOWITZ: Within SSA was there a rivalry between him and Art Hess? They were on the same career track.

RETTIG: There may have been, but I wasn't really tuned in to it if there was. During my time they were doing very different things. Erv's strength always was the policy side. He understood how to talk to people on Capitol Hill. I never accused him of being a great administrator. He was really a policy person, not an administrator.

BERKOWITZ: Between 1960 and 1965 what were your jobs with regard to the planned Medicare bill?

RETTIG: During all that time I was a junior legislative analyst. My title was something like social insurance research associate or something like that. We did—how can I say?—we did policy work. I remember the—and I guess what I didn't say earlier, to finish the thought I started with, which was that in that day, unlike today, people in Social Security did talk to people on Capitol Hill. They worked with the Congressional staffs at Ways and Means and Senate Finance committee. Later on that was sort of cut out. I am sure that later there was concern about departmental political loyalty. But then, Social Security policy people worked both with people on Capital Hill and at the top reaches of the Department. Dealt with the Secretary and the Assistant Secretary level. Talking about the kind of work we did, an example was that in the debates that lead up to and preceded the Medicare program we sometimes wrote floor speeches for members of Congress. And I remember one time—I was not personally involved—in a bullpen kind of a room two people I knew sat pretty much at adjoining desks. One wrote one side of an issue; one wrote the other side. They were both used in the United States Senate and subsequently appeared in some kind of casebook

about the great Medicare debates without anybody probably realizing that [chuckling] two civil servants had written the speeches. We took some pride in being able to do things as fast as they were needed in the legislative process; we would get assignments based on phone calls from Washington, where we were sitting in Baltimore. We would write something up in the late afternoon. The people who were then at the Secretary's office or Capitol Hill would come back and look at what we'd done, change it, and it would be ready for the next morning's discussion. And a lot of the stuff was of the kind that said you do it now or don't do it at all. We took some pride in being able to be professional. A professional staff attitude that says, "I can write it this way. If you change your position tomorrow, I can write it that way." How to write pros and cons in a fair sort of way, but also how to make an argument to do a specific thing. And then we also helped really develop policy. I don't know how much people understand that at the time of Medicare legislation there was very little going on in the field of home health care. People had just sort of started it. I remember names like Bluestone in New York and so forth. It was just an emerging kind of thing, the notion of coordinated home care.

BERKOWITZ: Bluestone was a physician?

RETTIG: Yes, it figures he was a physician. This is a long buried kind of memory. He was involved with the emergence of home care, maybe at Montefiore in New York. I just have the vaguest sort of recollections. Staff developed the notion that Medicare should cover home health care as an alternative to hospital care. In the early days services other than hospital coverage were thought of as alternatives to hospital care itself, and post-hospital home health care was one of them, but the coordinated home care concept was kind of vague—we were ahead of the curve, I guess I would say. And so people in my office that I knew personally would say if you were going to provide such a benefit how would you describe it? If you were going to provide it, what kinds of requirements would you impose on those who provide it? That's the kind of stuff that was done in that office. And that office really was the only place in the department where serious policy work on health care and Medicare was going on.

BERKOWITZ: Did you recruit the AFL/CIO? What about Nelson Cruikshank?

RETTIG: Yes. Let me just say that this was the Eisenhower administration. I can't remember where Arthur Fleming came along.

BERKOWITZ: He was the Secretary of Health, Education and Welfare for President Eisenhower. What you're talking about now is after that time.

RETTIG: Well actually I was talking about before that. You say, did you work with the AFL/CIO and so forth? We did involve to some degree with the propaganda which was probably not very open, but it did happen. There were contacts with the AFL/CIO and others in the development of legislation like the Forand bill. So there was communication of that kind.

BERKOWITZ: Did you get to know Wilbur Cohen at all?

RETTIG: Yes, I knew him. I knew Wilbur fairly well when Wilbur got to be Assistant Secretary.

BERKOWITZ: 1961 that was.

RETTIG: He was kind of a creature of what has become SSA. I guess earlier it was the Federal Security Agency. He'd been involved in the research side of it. But when he got to the department level, he wanted a kind of back door arrangement with the Social Security Administration, sort of unofficial. So there developed a little system that went on for awhile, I don't know how long, in which pretty junior people would go on detail to his office. He did this on six-month tours. I did one of those six-month tours working with Wilbur in some kind of empty office in HEW North building, and working directly for him with few specific assignments, but helped in unofficial ways for him to gain information. He'd say, "I need to know such-and-such. What would so-and-so say about something?" and I would help him with that.

BERKOWITZ: When was that? Do you remember what year?

RETTIG: This all precedes the actual enactment of Medicare.

BERKOWITZ: Would it have been between 1961 and 1965?

RETTIG: Some time in there, but I can't tell you exactly when. I got to know him then, did little jobs for him. He was the kind of person who—he sort of felt like he was Secretary of HEW even after he no longer was. And I remember on at least one occasion I got a note from him based on something that had appeared about me in the Social Security house publication when I got a promotion or got an award or something. He wrote me a note congratulating me and he said, "I like to keep an eye on what's going on" [chuckle].

BERKOWITZ: Do you recall the stages in that battle between 1961 and 1965? For example, do you recall the Senate passage of Medicare in 1964? Did that make a difference in your life?

RETTIG: I guess I remember better when it almost passed the Senate.

BERKOWITZ: That was 1962.

RETTIG: It didn't and Nixon subsequently said that Bobby Baker fiddled with things in such a way as to not make it happen [chuckle]. But we were involved a lot in those kind of debates where we provided information for several sides of the issue.

BERKOWITZ: And you say that you worked closely with people on the Hill, presumably on the Finance Committee on Ways and Means. Do you remember who would that be, the key people in Congress?

RETTIG: In those early days I was still a fairly junior person so I didn't work a lot directly with them, but the Senate's Jay Constantine was one of the leading staff people even though he was not at that time on the staff of the Senate Finance committee. He was with the Senate Select Committee on Aging which at that time I think was doing its kind of a championship role in trying to get things rolling on Medicare.

BERKOWITZ: Senator McNamara?

RETTIG: Senator McNamara, correct.

BERKOWITZ: How about on the House side?

RETTIG: My recollection is vague about the House side.

BERKOWITZ: So after July of '65 and Medicare passed, did your career change?

RETTIG: Yes, I became part of the team that began to do the planning for the administration of the program.

BERKOWITZ: So your boss became Arthur Hess at that point?

RETTIG: Yes, I guess that's right.

BERKOWITZ: And what did you think of him as an administrator?

RETTIG: This is for history? [laughing] I think he was OK, but not great. And his strength in the early days of the Medicare program and before it started operating was that he was a wonderful sort of negotiator. There was real fear that the program might be sabotaged by the medical profession, for example, and never would get off the ground. And there was so much that had to be done in a short time to put the program into effect that it was—I believe President Johnson once made an analogy to planning for the invasion on D-Day. So there was a lot of stuff going on. Politically, one of the things

was making sure the parties whose cooperation was needed were going to cooperate. The other big thing, the major thing was to put the program into operation. But what Art was so good at was sitting down with a bunch of doctors who hated him when he walked in the door and wound up saying, "This guy—if that's what our government is going to be like, it might not be so bad." Art had that facility to kind of win people over by just clearly being a reasonable sort of person. Possibly just too much that way—too accommodating. My thought was that at that moment he was just a terrific right guy for the job because in dealing with insurance companies, for example, who were going to have—and Blue Cross—who were going to have to play a major role in administration, he was very good at sitting down and working through the problems.

BERKOWITZ: What was your specific sort of assignment with fiscal intermediaries?

RETTIG: I felt it was a period in which there was a lot of trying to get a grip on things. I don't think the assignments were done too well. So we would eventually get questions directed to us to which we would end up saying we didn't know the answer, we were working on it. That's the kind of thing I remember.

BERKOWITZ: As I understand it you went over to the Hill in 1974? The Ways and Means committee?

RETTIG: Yes. Part of what happened was that I spent a year on a fellowship at the Woodrow Wilson School. When you asked me what my job was, I was thinking of the very early days, but subsequently I had some kind of a fairly responsible job in defining policy for how the program was going to run. At one point I found myself accompanying a GAO staff person around to various major teaching hospitals, and we explored what the heck they were doing and how a teaching physician could submit a bill for a patient he'd never seen. So when I came back from my year at Princeton I was once again continuing on with significant policy work.

BERKOWITZ: What year are we talking about? When did you come back?

RETTIG: I probably was away at school academic year 68 –69, came back and spent probably a year or so in the Bureau of Health Insurance. And then I got recruited back to do legislative planning again, so it was a return to the legislative planning side. So I was in there for—trying to remember when there were major events—they were 68, 69.

BERKOWITZ: In 68 there was a major event.

RETTIG: I think it was 69 as well, but I probably was away at school at that point. In any event, I, a year or less after coming back from school, was back with the policy staff, and I eventually headed up a division that handled health insurance policy.

BERKOWITZ: In the Office of Legislative Analysis?

RETTIG: They kept changing names, Division of Program Analysis, Office of Program Evaluation and Planning, and we did work right up to the 1972 amendments, the whole Medicare part of that.

BERKOWITZ: By which you mean the extension of Medicare for disabled and early stage renal disease?

RETTIG: Yes, it was a huge piece of legislation and we did the legislative work on that. We put together background books for the people who testified. At that point in my life I was regularly going up to Capitol Hill and working with committee staff. As I recall the '72 amendments involved a lot of work.

BERKOWITZ: Who was on the Hill in 1972?

RETTIG: On the Ways and Means Committee the responsible staff person we dealt with was Bill Fullerton who was also, once upon a time, a boss of mine at the Social Security Administration. He came to the Hill by way of a detour to the Administration on Aging and the Congressional Research Service. So you see how Congressional staffs worked in those days. With the [Ways and Means] committee he did mostly Social Security and Medicare and helped out on the welfare side. He was the staff for all those things.

BERKOWITZ: He was the staff for everything but taxes, in other words?

RETTIG: Well, that overstates it a bit because Charlie Hawkins was there. I don't know if you ever heard that name, but Charlie did a lot.

BERKOWITZ: Also from SSA, I believe?

RETTIG: Yes, I think from Ida Merriam's shop.

BERKOWITZ: He also worked on Medicaid and also worked on welfare.

RETTIG: He was really an expert on Medicaid, that's true.

BERKOWITZ: He worked with Sidney Saperstein.

RETTIG: Who did?

BERKOWITZ: Hawkins, at one point.

RETTIG: Is that right?

BERKOWITZ: Yes, Sidney Saperstein. Saperstein was the counsel at HHS.

RETTIG: I remember Sid, yes, I remember him very well. Used to work with him, too. His counterpart in the office where I worked was Manny Levine. I don't know if any of these names mean anything to you [chuckling]. I know Levine was a lawyer and a pretty much of a legislative draftsman who worked with Sid. Once again, in those days you have to understand how different congressional-executive branch relationships were. Whenever there was a Social Security bill Sid Saperstein drafted it and then the Congress passed it. I'm exaggerating some, but basically—I'm exaggerating quite a bit because legislative drafting capacity in the House was pretty good. Sid worked very closely with Larry Filson, who had a long and distinguished career in the House of Representatives Office of the Legislative Council. Final legislative drafting was of course handled by the Congress. What we used to do as SSA staff specialists was to go sit outside the door while legislative drafting was going on and a committee staff member would come out for some specialist on whatever it was. But a major part of the responsibility for legislative drafting was in the department itself.

Also, when I was at the Social Security Administration we used to write the committee reports, producing a finished draft. We would go through the legislative process with the committee, only in closed session. We knew what the committee's attitude was and what their thoughts were, and we took it as professional staff people as our duty to write as faithfully as we could what the committee thought about why it was deciding these things. So it was a point of pride to have the staff of the committee make the fewest changes possible. If you gave them something that they changed not at all or almost not at all, we thought that we had done a good job. Not to be forgotten though, if you got to write something, you got to write it the way you wanted it, and so that was valuable from the standpoint of the executive branch. SSA staff could write in anticipation of how they thought they were going to have to handle administration, things like that. And if there was something they wanted, they'd like to see in there but they weren't sure the committee thought it was OK, they would talk specifically with the staff.

I have to tell you that that changed so significantly that, when I was Health Subcommittee staff director at Ways and Means, I would never have dreamed of letting anybody from the executive branch write my committee report [chuckling]. If they wanted to get something in, they had to plead with me, and I would say, "Give me the paragraph or whatever it is you

want," and then if they did a good job of writing it for me I would let that in the committee report, but the roles were just entirely...

BERKOWITZ: Anything that happened during the 1970s?

RETTIG: What happened with the Nixon administration about that time, the turn-around, was the build up of congressional staffs. There was formerly a much more trusting relationship between the executive and legislative branches, at least in the areas that I worked with.

BERKOWITZ: How about on the Senate side in this year of 1972?

RETTIG: I think Jay Constantine was basically the key staff person there, who I think by that time, was with the Senate Finance committee and no longer with the Select Committee on Aging.

BERKOWITZ: As far as you could tell as an observer of the scene, was Mr. Mills as sharp as everyone says he's supposed to be? Did you have any insights on that?

RETTIG: I came on with the committee when Mills was still there, but he was severely into his decline.

BERKOWITZ: But that's when you got to be formally on the staff. How about when maybe you'd not quite gotten there?

RETTIG: OK, previously, yes. Part of it was real and part of it was reputation as I understand it. It was said—Bill Fullerton who preceded me at the Ways and Means committee told me—that Mills once a year used to have the head of the House Legislative Counsel's Office sit down with him and go through the Internal Revenue Code and the Social Security Act, I mean turn pages in the Social Security Act, so that Mills actually knew the legislative language, so that he understood everything. Mills' stock in trade I think really was, in those days, that he knew more than anybody else on his committee, not to say anybody else in the House of Representatives about the areas within his jurisdiction. And if he didn't, he had so impressed them that they thought he did. So he could overpower anybody intellectually on the basis of the substance, to say nothing of committee politics which was also very different in the early days.

BERKOWITZ: And then was there a similar figure on the Senate side? Russell Long or someone? Or no?

RETTIG: Byrd was chairman of the committee in the early days, as I recall when Medicare was being done, and I don't think he carried any stature of that kind. Russell Long, though—I remember when Russell became chairman

of the Senate Finance committee. I don't think he had anything like the political, I mean rather the technical, awareness that Wilbur Mills did. I would put Mills among the superb politicians in terms of knowing how to get things done.

BERKOWITZ: You also must have had a chance, in the early 1970s, to watch Robert Ball in action. He's another one with a tremendous reputation as both an administrator and as a congressional representative, liaison.

RETTIG: I'm a big fan of Robert Ball. I didn't see him often, but, again, we knew who each other were, talked on occasion. And I remember specifically one time when I was there, I think probably involving the 1972 amendments. I can't remember, we might have been going to conference, something like that. He had this big black book which we'd sent out to him. He got me on the phone one night. I was still in the office like 7 o'clock. We must have spent two hours going through that book on the phone. I can't remember where he was, whether he was home or what. He always was a match for Mills in terms of mastery of the subject. The guy that's close to him I think is Bruce Vladeck now. When Bruce gets questioned he very likely knows the answer. Bob Ball was particularly good at dealing with the members of Congress just like Wilbur Mills was. Both of them sort of understood what these people needed.

BERKOWITZ: Do you mean Wilbur Mills or Wilbur Cohen?

RETTIG: Wilbur Cohen. Both of them understood what the congressional committee people needed, and both were very good on speaking to members of Congress. I just remember many times when Bob Ball would be asked a question or challenged on something. He always knew how to answer the question or turn the question if he wanted to. I mean he was good at seeing what the person needed and wanted and then saying, "You could do this. If this isn't right, you could do so-and-so, and it would satisfy our objectives and yours," and that sort of thing. The kind of thing I was saying that Erv Wolkstein was very good at, too, but Wolkstein typically was not himself a witness. He was typically the person who sat behind the witness and had all the information. [laughing]

BERKOWITZ: Now we get to your actually coming on to the House staff in 1974. How did that come about?

RETTIG: That came about because it was the beginning of the staff growth on Capitol Hill when there was a period in which the staff, the congressional staff started to grow. Up until that time, as I said, Bill Fullerton was doing a major part of all this non-tax work of the Ways and Means committee. They were looking toward the creation of subcommittees at Ways and Means,

where Ways and Means had previously done everything in full committee under Wilbur Mills. Part of the congressional reform efforts at that time involved forcing the Ways and Means committee to create subcommittees so that supposedly it could no longer hold up progressive legislation. And so there was a health subcommittee created. So there was going to be a need to be a subcommittee staff. And then, although he didn't tell me, I suspect that Bill Fullerton already had in mind that he was going to leave. [laughing] So he was recruiting his replacement.

BERKOWITZ: Let's check in now on Wilbur Mills. In 1974 was when he lost his chairmanship, is that correct? He won his election, but he lost his chairmanship, I guess in 1975, perhaps, he lost his chairmanship.

RETTIG: Yes, that was the period in which he thought he was going to run for president, in which it was evident that he was losing his grip. I guess Fanny Fox was that year. And so my only exposure to him as a staff person was watching him not being able to hold a coffee cup without spilling it. [chuckle] I mean intellectually he seemed to be all there, seemed to be able to pull himself together to be all there.

BERKOWITZ: So who took over, who became the power on Social Security affairs when you got to the staff in 1974?

RETTIG: I'm remembering some more people. Bill Kelly was there. Is that a name that's familiar? He's probably on, I think you have the National Academy of Social Insurance membership list. Kelly is a member. He had been there for awhile and I forgot to tell you. I may have made it sound as though Bill Fullerton did all that, but Bill Kelly was there. Had been there for many years. So in terms of staff things, Social Security—meaning the cash benefit program—was basically handled by Bill Kelly.

RETTIG: Your job, though, was to work specifically on what had become the health subcommittee.

RETTIG: That's right. And that also began to happen that summer. In fact they officially created the health subcommittee even though they didn't give it any work because they were thinking ahead about seniority, subcommittee seniority. That's why they recruited both me and Mary Nell Lenhardt.

BERKOWITZ: Is she still around?

RETTIG: Yes. She is the Vice President of Blue Cross/Blue Shield, heads their Washington office.

BERKOWITZ: You got to get this job then in the health subcommittee and you were the chief legislative aide?

RETTIG: What happened was that Bill Fullerton recruited me up there? I didn't want to go because I had just taken a job with the Institute of Medicine at the National Academy of Sciences, and I would have been leaving after just about a year. I didn't think that was good form to leave that fast, so I said no initially when Bill approached me. And then Erv Wolkstein called me up. He said, "You should really go up there. You could become the next Bill Fullerton of the Ways and Means Committee." [chuckle] And basically that convinced me I should. So that's how I got up there. It was basically non-partisan, but it's like everything else on Capitol Hill. It's very personalized. It's who you know sort of in the best sense of it. In other words, I've always thought that on Capitol Hill people tended to hire people they know or who came personally highly recommended by people they trusted. Part of it is that so much of the work there on the Hill is in small groups. You can't afford to have somebody that's going to be a problem. You really want somebody that's been vouched for, very strongly so. It seemed fairly natural to me that Bill Fullerton knew me and he thought I'd be good for this and he recruited me up there and that was it, you know. Wolkstein called me up and said I should go. It was non-partisan. I'm not sure how much the committee work still is that way. I had an interview with the chief counsel, so that when I was about to be hired I was never interviewed by Mills himself but by the chief counsel at that time. He just said to me, "We don't care what political party you are. We don't even want to know. We just would rather that you were not politically active in any public kind of a way." That's how non-partisan it was. I don't know if it's still that way.

BERKOWITZ: They just wanted an expert on the field. They didn't care whether you were a Democrat. And you didn't have any congressional sponsor?

RETTIG: No, I was basically sponsored by Bill Fullerton.

BERKOWITZ: Amazing. You were sponsored by the staff member?

RETTIG: Yes.

BERKOWITZ: I can't imagine that lasted too long, that kind of a relationship, because by 1976 you were the chief staff person.

RETTIG: Yes, Bill left. I think, thinking back over it, I think he recruited his replacement.

BERKOWITZ: Who was your congressman who was the head of that committee?

RETTIG: The first chairman of the House subcommittee was Dan Rostenkowski.

BERKOWITZ: A non-partisan figure.

RETTIG: It was his first subcommittee assignment, basically, because he was on Ways and Means and they didn't have subcommittees then.

BERKOWITZ: I think we should say they did have subcommittees, but not permanent subcommittees.

RETTIG: They probably did, yes.

BERKOWITZ: For example in 1959 they had a subcommittee to investigate disability issues.

RETTIG: Yes.

BERKOWITZ: But they were never permanent, and any serious stuff always took place in the full committee.

RETTIG: Absolutely.

BERKOWITZ: Now there must have been a lot of tension between the full committee and the subcommittee beginning in 1975.

RETTIG: I guess the reason I think it wasn't, was that the Ways and Means always, still controls things very strongly from the full committee level. All the time I was there, and maybe still, your paycheck came from the full committee. You were an employee of the full committee. You were assigned to a subcommittee. To me that's an ambiguity. I'll give you an example from later days. My last subcommittee boss was Pete Stark who until recently was the Health Subcommittee chair, and who upon occasion did things that made the full committee and its full chairman uncomfortable. And occasionally I would get called into the chief counsel's office and be urged to keep Pete Stark under control [laughing]. Couldn't I work something out? The staff played those peculiar kinds of roles, but that was because, in the end, at least while Dan Rostenkowski was there, he had a fairly firm hand on whatever went on in each of the subcommittees. There were occasions when subcommittee chair and the subcommittee had different views than the full committee, but I didn't ever sense that it was a terrific power struggle.

BERKOWITZ: Let's talk for a minute about specific policy issues. It seems to me you arrived when the last gasp of national health insurance had been gasped, and that by 1974 or 75 there was not much chance that there was going to be health insurance law, maybe in our lifetime. Is that fair?

RETTIG: I think that's fair. That's the way I remember it.

BERKOWITZ: Maybe 1974 had been Wilbur Mills...

RETTIG: Well, let me say the first, yeah.

BERKOWITZ: Mills-Griffith?

RETTIG: 1974 was the last time for a long time that there appeared to be some prospect of national health insurance. The summer of 1974 was a fairly exciting time. Bill Fullerton was still there. There was a Kennedy-Mills bill, which was sort of new on the scene and gave people hope that something might happen. Behind the scenes what was happening was that the insurance companies, especially the Connecticut-based insurance companies and the labor organizations, were beginning to talk about whether we could really do something. You remember that President Nixon had CHIP. It was a program roundly condemned at the time by Senator Kennedy as totally inadequate.

BERKOWITZ: That was a comprehensive health insurance attempt? With mandates?

RETTIG: It was thought to be, and what happened was that, in the end, the parties involved withdrew it, said they didn't want it. Mills was, I guess, an enigmatic person even for somebody like Bill Fullerton who was very good at reading him. But he called something like a hearing. It was more like a mark-up session. It was open to the public and it was about health insurance, but there was like no agenda. And Bill Fullerton had to figure out what to do with that as a staff person. He called on help for that from Stuart Altman who was then Deputy Assistant Secretary for Planning and Evaluation in the department. And between the two of them they sort of put on a show. They had charts on health manpower, and they just went through all this stuff [chuckling] while waiting for something to happen. And the committee sat around and listened to this and at one point Casper Weinberger came down and sat sort of in the audience at the edge of the committee, and he and Wilbur Mills exchanged a few remarks over the heads of everybody else. It was just an interesting time, but things were kind of going on behind the scenes, which I'm sure somebody will tell you [inaudible] if you haven't heard it now. There were discussions that were secret and actually took place in the basement of a church up on Capitol Hill, St. Mark's Episcopal Church [chuckle] that included from the department Stuart, but also a guy who eventually was the CEO of Upjohn, and who died recently. So it was like two very high level people representing Casper Weinberger; representing Kennedy there was Stan Jones (now a health care consultant)...

BERKOWITZ: And husband of Judy Miller Jones who works here [The George Washington University].

RETTIG: Yes. Stan was then with Kennedy. I'm trying to think of who else was there, but the three of us were there from the Ways and Means. On behalf of Wilbur Mills that was Bill Fullerton and myself and Mary Nell Lenhardt, who is now the Vice President of Blue Cross/Blue Shield here in Washington. I think oral history can contain this information now [chuckling]. There were several, at least two of these meetings at which there was an attempt to feel all the parties out and see if there was something that could be got together.

BERKOWITZ: We were talking about the kind of atmosphere in 1974 when it seemed that there could be national health insurance. We were talking about a meeting that was arranged, for some reason not in the Capitol but in the...

RETTIG: These high-level staff meetings were in the basement of a church on Capitol Hill because they decided not to let people know they were going on. So they couldn't be in anybody's office. They were hidden away in a spot where maybe nobody would know these conversations were going on. In the committee that summer, I tell you, there was this peculiar atmosphere where there was no sort of agenda, but they then began to talk about what a specific proposal might look like if one were trying to devise one to agree on. And they reached the weekend and instructed the staff to write this up, really prepare a proposal based on the conversations that had gone on, for the consideration of the committee. And so staff, mainly Bill Fullerton and myself, Mary Nell Lenhardt and with fairly heavy involvement of Stuart Altman, put together a committee print which outlined a plan, whose details I have since forgotten, but which involved private health insurance, which, you know, was contrary to what many of the true believers thought ought to be done. But it was interesting and had a footnote on it that said, "This plan is not anybody's plan. It's not the Chairman's plan"—it was a total disclaimer. And as I recall the committee met on Monday and began to go look through that, and I'm not sure of the details, but have the feeling that later that week, perhaps as early as Tuesday, the whole thing was called off. Not because of anything, I think, that happened in public, but because the potential supporters were withdrawing. The chief of them I think was the labor movement who had decided they were going to wait for the next election when they could do better.

BERKOWITZ: Was this committee print ever published?

RETTIG: It's there somewhere. I don't even know if I have a copy of it at home. I could dig around and see if I could find it. Somewhere in probably July or August of 1974.

BERKOWITZ: When did Wilbur Mills go into the fountain with Fanny Fox?

RETTIG: I think it was that summer.

BERKOWITZ: Did that have a chilling effect?

RETTIG: Yes, but I don't think there was any direct connection, except that it was already sort of evident that Wilbur Mills' heavy influence was fading. It was known that he had a drinking problem.

BERKOWITZ: And presumably Edward Kennedy might have been something of a presidential contender in 1974?

RETTIG: Probably.

BERKOWITZ So we didn't get national health insurance in 1974, and that brings us to the more modern developments. What did people talk about after 1975 then in the Ways and Means health committee?

RETTIG: Well, minor stuff. Little fixes. And there was a period of time when it looked like there wasn't going to be anything very significant. I remember once, as an example, that there was a quirk that developed in the physician payment under Medicare that originated with the Nixon-era wage and price freeze some years earlier. And something about the way it developed was, I think, actually going to lower fees one year for physicians reimbursements. Reasonable charges, I guess at that time was what we called it, and that got to be a minor crisis that needed to be fixed. The kind of stuff we did was fairly small stuff.

BERKOWITZ: Let me ask you about a specific event that happened in 1977, which is the founding of the Health Care Financing Administration. One version of the story is that Joseph Califano, Secretary of Health, Education and Welfare for Jimmy Carter, deliberately excluded the people on the Hill from learning about this reorganization. Sort of did it on his own. Did you have any sense of that development which would have been right in the beginning of 1977, right at the beginning of the Carter administration?

RETTIG: Well, I should be able to tell you because I was there and I was staff director at the time. I basically remember its being announced. I don't remember any prior consultation. I don't remember being terribly offended by it. I remember personally thinking that I wasn't sure it made sense in some ways, because at that time I thought of Medicaid as a very different

kind of program than Medicare. I think in retrospect it did make a lot of sense. Congress at that time had reorganized itself so that Medicare and Medicaid on the House side, which used to be together in the same committee, were now handled in separate committees. So I remember that irony that the administration finally got it together so that Medicare and Medicaid policy could presumably be related to each other in some sensible way, and meanwhile the Congress had split them apart and put Medicaid in the Commerce committee, Energy and Commerce committee. But I may just not have been tuned in. In other words, I'm not aware of and I don't recall anybody being indignant about not having been consulted. I do have a general sense that there wasn't a lot of consultation, but it is conceivable that somebody sat down and Rostenkowski talked to them about it, or I guess Al Ulman was still chairman of the Committee, so there may have been conversations there.

BERKOWITZ: Rostenkowski was still your congressman on that subcommittee in 1977?

RETTIG: Probably not true [laughing]. Rostenkowski I think was only Health subcommittee chairman for a year or for maybe one Congress so he would have been there for two years, and the next Congress I believe he took the Select Revenue subcommittee, which was basically a tax subcommittee. The committee did most of the work in the full committee.

BERKOWITZ: Who would have been the Congressman after Rostenkowski?

RETTIG: It would have been Charlie Rangel. I worked for the subcommittee chair, and the chairmen I worked for while I was there were Rostenkowski, Charlie Rangel, Andy Jacobs and Pete Stark.

BERKOWITZ: Wasn't Rangel interested in Medicaid?

RETTIG: Yes, he was, kind of his jurisdiction.

BERKOWITZ: And he permitted that to happen?

RETTIG: The Congress, as part of the Congressional reform thing, had moved Medicaid entirely out of the jurisdiction of the Ways and Means committee. It was rumored—and I think I once even told Charlie Rangel that, and I don't think he confirmed it either—that Charlie Rangel should have had whatever the subcommittee's name was at the time that dealt with AFDC and SSI and basically the welfare side of the committee, and that the California congressman who was a health insurance guy, he was a major sponsor with Kennedy [James Corman]—it was said that they switched. They chose behind the scenes not to chair the subcommittees that they normally

would want to chair because they didn't think they could do anything. They couldn't deliver anything in their areas. So Charlie had health and Corman took the welfare. I'm leading you astray. You asked me a question about Medicaid. That really wasn't a choice Charlie Rangel could get because Medicaid jurisdiction had gone to another committee.

BERKOWITZ: After this period, after the 1970s, the cost of Medicare became a huge issue, and that lead in 1983 as part of that big package of Social Security benefits the beginnings of diagnosis-related groups as a way of controlling reimbursements to hospitals. What was your involvement with that legislation?

RETTIG: Yes. In terms of chronology what happened next in terms of what a big issue was, was concern about the rising costs. You'll recall that the Nixon administration came in and announced there was a health care crisis and we had to do something about it. I was still at Social Security at the time, and after he had this press conference and announced it, then we were to figure out what we were going to do [laughing] about this crisis that was just announced. And you'll recall that the Carter administration had a proposal for hospital cost containment. That took up a lot of the energy for a period of time.

BERKOWITZ: That was in 1978, I think, am I correct? It was developed by Joseph Onek in the White House.

RETTIG: Joe Onek and Karen Davis. They had plans there not only for control of hospital operating costs, but also capital. They had a big proposal and I remember discussing it with them, especially with Karen, and encouraging her to forget that stuff about capital because it wasn't going to happen [chuckling]. It wasn't going to get done. And Charlie Rangel was the subcommittee chair who on whom that fell, and I remember him personally being unenthusiastic about it but saying, "If my president wants it,"—that sort of thing. There was a big struggle which involved the health and the hospital industry principally. They put on a major push, lots of letters from hospital trustees. I think it was maybe the peak of their clout, thinking back over it. Nonetheless both Ways and Means and Energy and Commerce passed some form of this thing, but what happened over time was that it got nickled and dimed so that by the time you got done with it and had all the exceptions for deserving cases, it began to look like a Rube Goldberg contraption. The opponents were able to play on that eventually and say, "This thing is ridiculous." I don't know if you recall that Dick Gephardt at that point took the lead on the House floor killing the bill.

At that time the hospital industry developed something they called the "Voluntary Effort." They did, in fact, make a lot of efforts to control costs,

and it actually showed up in their data for awhile. But, as everybody predicted, it didn't last. Anyway, that was the sort of struggle that went on then, and thinking back over it, some of the mechanics of how you would control costs, what you would measure, had some relevance. It was like a warm-up for the DRG stuff. Also for the DRG stuff, I think it was the 1972 legislation that introduced some payment flexibility for Medicare and that called for demonstrations that could be statewide or they could be some other ways. One of them was New Jersey. So you could get a waiver if you could prove certain kinds of things. That applied to Maryland, New Jersey and some others. At one point the Ways and Means committee, believe it or not, passed a bill that would have given authority to the Secretary to devise and put in place a prospective payment system. No one had worked it through with them that they really understood it, but by the time we got to the point where the legislation had come forward they were psychologically ready for it. They had become convinced that cost reimbursement was something they had to get rid of.

BERKOWITZ: On the political side, why was the DRG part of that 1983 Social Security bill that had to do with containing old age insurance costs, avoiding bankruptcy and so on? What's your sense of why the DRG was put into that legislation?

RETTIG: If we back up a year or so before that, there was legislation that did control for Medicare only, hospital cost growth. It was a rudimentary precursor to the DRG system, and it had limits that—I'm trying to tell you that they began to rely already on DRGs but I would have to go back and look.

BERKOWITZ: What about the idea of DRGs itself? One story is that that's kind of an academic idea that was proposed by someone at Yale.

RETTIG: As far as I know it was originally not designed for reimbursement purposes. It was designed for—I don't know what—clinical purposes or whatever, and I don't know at what point somebody figured out that they could build a payment system upon it. I presume you are going to, or have talked to Bruce who probably was right in the middle of that because he was in New Jersey, I think, at the critical time. I know that the department or HCFA had been basically funding this kind of study for quite a long time, and internally had gotten themselves to the point where they were saying, "Hey, we can build a payment system on this." So this was a case in which I think an awareness of the problems of cost reimbursement and a possible system at hand for doing something different came together. You really had a situation where the executive branch really was, in this case, urging on the Congress to say we really want to do something like this.

And what the Congress did instead was to direct the secretary to come up with a proposal and send it to the Congress by a date certain—which they did. When the legislation was passed I can't remember. We did prospective payment in what? 1983? It was before that. Whatever the previous Social Security/Medicare legislation was it contained in it a direction for the secretary to do this. The secretary at that time was Schweiker, former senator from Pennsylvania, subsequently head of an insurance organization. He became a strong believer in this thing, and I attribute a lot of the fact that this happened to him personally. He somehow took this as his thing. I remember that he was going out of office, but he stayed in office long enough to come up to testify at Ways and Means and present this plan before he left office and to strongly urge its adoption. Why did we do it at that time and in that bill? Well, a proposal came up from the department at that time, as had been requested, and there was a sense that the Congress ought to get busy and do something with it.

But meanwhile this crisis in Social Security cash benefits was under way, and they had the Social Security rescue bill. The first time I realized we were going to do something really fast was when I got called down to the committee office by my then-chief counsel, John Salmon. He was with a law firm [Dewey, Ballantine] that at one time had Califano, then Califano went on and did something else. John Salmon had come from Dan Rostenkowski's personal office and was assigned to the health subcommittee staff when Rostenkowski became chairman of the health subcommittee and was the chairman's political eyes and ears on the committee staff. He played a wonderful sort of role because he had a very close relationship with Dan Rostenkowski, and I often thought it was almost analogous to a father-son relationship. Part of the role he played was what every politician needs which is somebody who can say, "You're full of baloney," a person who can holler at the boss and say, "You're doing a stupid thing." He played that role. A lot of times if you needed something to happen, he turned out to be a very good link between the professional staff and the political guy who could make something happen. He could always explain it in terms the boss would understand. He subsequently became, when Rostenkowski became chairman of the full committee, he became chief counsel of the committee. He called me down to his office that spring and said, "How fast can you do prospective payment?" [chuckling] I said, as I'd been telling everybody, "It's going to take a long time," because I remembered hospital cost containment and how everybody had an issue that needed to be dealt with. This went on and on and on. He said, "How about two weeks?" [laughing] And I think maybe the next day we had the Assistant Secretary for Legislation in our chief counsel's office. They hadn't sent the bill up yet. They had sent up the proposal, but we wanted legislative language from them. They practically fainted up at the department when they found out we wanted to act very quickly on it.

Eventually they did get some language up and actually things moved very fast, as you know. And the objective really wasn't to sandbag the industry. I'm not aware of where that political decision was made, whether that was something that Rostenkowski and John Salmon cooked up, or who else was involved in making that decision to include it in this bill. But what happened was then it basically went on a very fast track, and some of us at least knew that's the way it was going. It became evident when people could see how fast we were moving that it might join up with the Social Security bill. It was a political, strategic decision somebody made. I personally didn't make it. I was, in effect, told to see if we could get this thing really moving fast.

BERKOWITZ: It seems to me that DRGs has all these different diagnoses in it, and it seems to me that each one would create an opportunity for the particular specialty to say, "Well you don't really understand. We need five days in the hospital as opposed to two," and yet, this was a package that, as far as I know, held together without that. What is your sense of that?

RETTIG: I don't think it was so much that. That was so incredibly complex, the definition of each of the DRGs, that probably it would have taken a long time for people to begin to attack specific DRGs. So the issues were more global, like will the system work, will it do what the administration argued it would be good to do, promote specialization among hospitals so that hospitals that are real good on certain DRGS become the place you went for those DRGs because they could make money on it and they were good at it. There were all kinds of concerns about who it would help and who it would hurt because it would have, in fact, moved large chunks of money around, took away, gave, it was fairly obvious that there would have been all the same kinds of issues that ended up tearing up the cost containment legislation. Urban versus rural, teaching versus non-teaching, large versus small, and whatever other categories you can think of—geographic differences. We began to deal with those in a small way. As I recall the thing came up from the administration with no regionalization in it at all. There was a process whereby we began to introduce some of those things, and we were only part way through by the time it was through the whole committee.

At the subcommittee we were left with the recommendation that staff come up with something that the chairman of the subcommittee could present to the full committee for their consideration about issues like regionalization. At the staff level we worked with the administration in a rudimentary sort of way to see how this would help or hurt various kinds of hospitals. This was so non-public that people didn't even know this was going on. There was a period during which the administration was not very forthcoming. We felt very strongly at the staff level that they had numbers but they wouldn't show them to us, and the only reason they eventually showed them to us is

that we had a Congressional Budget Office who was running these numbers also. So we finally came to a point at which we sat down with the administration people with staff level discussions that said, "We've really got to talk about [this]."

BERKOWITZ: This is an example where CBO was playing a role that SSA would have played ten years earlier.

RETTIG: Yes, but you understand that by now SSA, or its equivalent HCFA, is now somebody you don't trust. Clearly they didn't trust us because they had numbers they wouldn't give us. These were numbers that said what will this do to rural hospitals, what will this do to hospital size, what will this do about teaching/non-teaching, major teaching, minor teaching. They had figured this kind of stuff based on the best statistical analysis they could do. The real question in all this was whether there would be behavioral changes that would rule things. Really the motivation for prospective payment was that you would change behaviors. But you couldn't project that, so you had to look at the data for where these types of institutions were now and see how when you ran prospective payment numbers against them what would happen. Finally we had our own numbers and we began to show them to the administration, and they opened up their briefcase and peeked in there and said, "Yeah, that's pretty much like what we have." [chuckling] And they found out that the numbers had differences but not in direction.

Here is a story I think is worth telling. About hospital size there was a big difference. The bigger the hospital the worse you fared. We did a lot of talking with the administration and within the Ways and Means staff about what you could do about that. And we said to ourselves you could do a break by hospital size where the payment level would vary depending on that size, for example. And we all said to each other, "We don't want to do that. If we could possibly avoid it we don't want to do that because we'd get these hard edges where a small change in size would produce a big payment change, and it would just be a mess." We heard this kind of rhetoric all along, especially from the administration, that says, "We're getting away from cost reimbursement. We don't even care about costs. We'll just do this and people are going to have to live with it." The other thing that was evident was that teaching hospitals would do poorly. Somebody started putting it together and said, "Well, these teaching hospitals that would do poorly are big." There had been a teaching adjustment in the cost control legislation that had already been enacted. It was an indirect teaching adjustment, not like the direct GMS payment in current Medicare. The assumption was, I think, that we were going to have an indirect adjustment like there was in that previous legislation. And what happened was that that adjustment was doubled, and it was doubled for the profound reason that it looked like it had

the right results when you ran the numbers. The teaching hospitals were going to get clobbered, and if you doubled the teaching adjustment it not only did well for them but it tended to solve the problem of hospital size without having a size break.

BERKOWITZ: Doubled at the staff level?

RETTIG: You mean where was this decision made? One hesitates to say that all these things were staff decisions, but they were close to it. They were put into a document that was presented to the subcommittee or committee and agreed to. I'm not absolutely sure how much they understood. Sometimes you could see the light dawning. For example, at full committee level, as I recall, there was a regional thing that was getting very strong among members representing southern hospitals. People that represented the southern states were saying, "Hey." This thing went so fast that some minimal adjustments were put in but not all the kind of stuff that was put in the earlier hospital cost containment legislation. And that was part of the strategy, because I think the people who decided to move very quickly on prospective payment were the same people who had watched the cost containment legislation get torn to pieces over time. They said, "Let's move this thing fast, let's get it done. If necessary we'll fix it later, and we'll use the political weight of the Social Security rescue legislation to pass it through."

BERKOWITZ: It has a similar theme. We're saving the old age insurance by cutting costs in a way, we're saving Medicare by cutting costs.

RETTIG: That's probably too sophisticated. On the assumption this is not going to be too widely disseminated, I'll tell you a story about what happened at a closed Democratic caucus. Before the Social Security rescue bill went to the floor, the Democrats held a caucus, and they held it in the Ways and Means committee room. I was there. I can't remember which committee person, whether it was the full committee chairman or who it was, went through the Social Security bill and members asked a lot of questions. By that time Andy Jacobs was the subcommittee chairman. All DRG legislation went through him. He, like every subcommittee chair up to Pete Stark, was somebody who did what was set down in front of him. None of them had a strong agenda of their own. Whatever came up, they handled it. They handled it well, and Andy Jacobs did, I think, a superb job with respect to prospective payment. So somebody said, "Well, Andy, you want to say something about this Medicare part of the bill?" And he said, "No, not unless you have any questions." [chuckling] And there was silence. And then Barbara Mikulski, who was then a member of the House, said, "It's a good bill. Vote for it." [chuckling] And that was the total discussion in Democratic caucus of the Medicare prospective payment.

BERKOWITZ: And she was presumably the Congresswoman for Hopkins?

RETTIG: I don't know why. I don't know how much she knew about it, because Maryland was a very special situation. In fact, maybe she liked it because at that time it probably already had a waiver.

BERKOWITZ: It had a hospital cost commission.

RETTIG: Basically there was a Maryland waiver. I don't know why she said it. I was amused because I personally had been on a program with her once at Sinai Hospital in Baltimore. I don't know why I ended up on a program with her. This was an early, pre-prospective payment period. Somebody asked about DRGs and her answer was, "I don't know what it stands for, but it's a lot of baloney." [laughing] This is the same representative who subsequently said, "It's a good bill. Vote for it." But there was no discussion of this at all in the Democratic caucus. It was so overwhelmed by the Social Security rescue that it received very little attention. If you look at the floor debates, I think what we will see is that there's a lot of stuff in there, but it's mostly stuff where people "revised and extended" their remarks. In other words, the written words were never spoken. Basically, as I recall, there was no serious debate of any consequence.

BERKOWITZ: The one difference, of course, was that hospital cost containment was all hospitals and this DRGs was just Medicare. So perhaps the politics is a little bit different.

RETTIG: I doubt it. Medicare is significant for hospitals. They're interested in major ways in the budget cuts that are about to happen now in the Medicare area. It's something like 40% of the hospitals' budget.

BERKOWITZ: One final question: why did you leave the House staff?

RETTIG: I think it was at the end of '85 that I left. A couple of reasons. One reason was that I think Pete Stark needed a new staff director. He and I had clashed behind the scenes. I had then, and still have, a good deal of respect for him, but I don't think I was the right person. I think he wanted someone who was less of a sort of technician. Our styles were different. When he became chair among our conversations I told him that we had a tradition on Ways and Means that we did things right. We tied up all the loose ends. We took some pride in doing legislation right. And he said, "I don't care about that. I want to get things done. If I want to get something done, let's do it and fix it later." And I considered that to be a legitimate approach, and it worked for him in a number of places. He had just come away from doing something like that in the tax area, and it wasn't too long—he was, I think, the guy who made it happen—that we had the COBRA legislation, the right

of continuation of coverage when people leave employment. And that was the same kind of thing. He wasn't very neat, but it got done. Anyway, it was just time for me to leave. There was kind of a strain working for him, a hard guy to work for. Put those things together and it was time for me to leave. [chuckle]

BERKOWITZ: That's quite a run, though. After you left the Hill you've done other things.

RETTIG: I have mostly worked for trade associations since. I worked for the Health Industry Manufacturers Association, the medical device people. I worked for the Mayo Clinic and actually moved to Rochester, Minnesota to do government relations for them. And then I was asked if I'd want to become executive vice president of the American Hospital Association and head their Washington office, and I found that too hard to resist. In retrospect I should have. I came back to Washington and only stayed there about two years. I had been hired by Carol McCarthy, the then-president, who basically was pushed out. Since I was on her team and had been hired personally by her, it was time for me to leave too. What have I done since then? There was a period as an independent consultant, and now I'm with the American Osteopathic Health Care Association, basically a small hospital association.

BERKOWITZ: You had three different views of this process, from the bureaucracy, from the legislative and from the provider side. Which one is the most fun to work in of those three?

RETTIG: I think it's fair to say the legislative one is the most fun, although it really was true that when I left I'd had enough of it. People ask me whether I missed it. I said, "No, I enjoyed it while I did it, and I don't miss it." And the reason is this: you're so close to the point of decision. It is true that at the Social Security Administration I talked directly with Bob Ball and others made a lot of the decisions themselves or carried them directly to the Secretary or to the people on Capitol Hill, but when you're on Capitol Hill, especially on a committee staff—I guess any place on Capitol Hill—you're very close to the guy who's going to make the decision, and what you tell him does make a difference. It's exciting to be able to present the issues and point toward a decision. It was fun. I worked with Charlie Rangel. He used to scare me, because I would try to brief him on the issues before the subcommittee, the things we were going to have to decide. And he would always say the wrong thing. He would always pick a contrary position to what I was saying, and it tripped me up until I realized he was testing us out. He wanted to know how I would respond to the arguments that would be made contrary to what I was encouraging him to do. Then he went and did his thing. I've often said to people that you have to be careful what you

tell a member of Congress because, even if you don't think he's listening, eight months later something comes out of his mouth or he does something that clearly shows he heard what you were saying. So that kind of immediacy is what's fun about working on Capitol Hill.

BERKOWITZ: I think that's a terrific note on which to end. Thank you.

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Telephone Interview with Dorothy Rice

University of California, School of Nursing on August 19, 1996
Interviewed by Mark Santangelo

SANTANGELO: Can we start out with your telling me a little bit about your education and background and how you got into statistics and health policy?

RICE: Yes. I majored in economics and minored in statistics at the University of Wisconsin and graduated with a B.A. from the University of Wisconsin in 1941. I then went to Washington to look for a job and started as an assistant statistical clerk in the Railroad Retirement Board. Very shortly thereafter war was declared. I was very, very fortunate to be in the federal government at the time, because I moved up very quickly in the federal hierarchy and did some very exciting work. First I worked for the War Production Board and then for the War Labor Board—I had majored in labor economics in college. I analyzed requests for increases in wages. On the basis of our analyses, the War Labor Board approved or disapproved the proposed increases, so it was very exciting to be part of the war effort. When the war ended I found a job in the new Division of Hospital Facilities in the Public Health Service. This was the division that was formed when a very exciting new law—the Hill-Burton Act—was enacted that provided funds for state and local governments to build hospitals and medical facilities in rural areas, and other areas. During the war no hospital facilities were built and they were really needed. We ended up building too many small hospitals, but that's another story.

SANTANGELO: What were you doing for them?

RICE: We assisted the states in developing their plans for hospital construction that had to be approved to receive federal funds. We published out the first report on health facilities that was widely used in the implementation of the state plans. I left the Public Health Service for awhile to have three sons. I left in 1949, but I always knew I would go back to work, and I came back in 1960 to the same office. But I knew very quickly that things hadn't changed too much during that period, so I began looking for another job. Happily, I moved to the Division of Research and Statistics in the Social Security Administration, and subsequently back to the Public Health Service, and then back to Social Security when Medicare was enacted. I was head of the Health Insurance Research Branch beginning in 1966. It was truly marvelous because we developed a statistical system as a byproduct of the operating system in the Social Security Administration that still remains the Medicare statistical system. In 1972 I became Deputy

Assistant Commissioner for Research and Statistics at the Social Security Administration. In 1976, I became Director of the National Center for Health Statistics (NCHS) in the Public Health Service and was there until June of 1982, when I retired from the federal Civil Service after a very full and satisfying career. But I wasn't ready to retire, so we moved to the west coast and I was fortunate to get an appointment first as a Regents' Lecturer and then as Professor in Residence as UC San Francisco, and that's where I am now. I am now Professor Emeritus and work part-time for the Institute for Health and Aging in the School of Nursing at the University of California, San Francisco. So that's my employment history.

SANTANGELO: Let's go back a little bit. I'm interested especially in your mentioning that between the 11 or 12 years when you were having your children and the time you came back to the Public Health Service, you felt that not a lot had changed there. Was that in terms of the priorities of the Division or were there still the same people?

RICE: I think I can sum it up saying that the same forms that I had designed 11 years earlier were still being used; the same reports that we had developed were still being prepared. It was not as exciting as when the program started, and the focus of the Division was somewhat changed, so it really was time to move on to something different.

SANTANGELO: And you moved to the Division of Research and Statistics in the Social Security Administration. Had your earlier career been as focused on statistical research as it later would be?

RICE: I guess so. I've always been involved in research and statistics, except for my work at the National War Labor Board where we analyzed cases. I was very fortunate to get into the research program of the Social Security Administration. At that time, we had a marvelous and very large Division of Research and Statistics in the Social Security Administration, consisting of about 500 people that was headed by Ida Merriam. Ida Merriam, as you well know, is a tremendously important person in the area of research and statistics in Social Security. She was Assistant Commissioner for Research and Statistics and she was my mentor. She operated a very important program that contributed to policy development. We worked very closely with OPEP [the Office of Program Evaluation and Planning] and with the Commissioner of Social Security and conducted a variety of important studies and surveys.

For example—and it was really the foresight of Ida Merriam—we conducted the survey of the aged in 1963. On the basis of this survey, Medicare was enacted. There was no question that the data from the survey served as a basis for the enactment of the Medicare program, which was then

administered by the Social Security Administration. It was positively exciting. I went back to the Public Health Service briefly in 1964. Medicare was enacted in 1965 and implemented on July 1, 1966 and Medicaid went into effect January 1, 1966. So I returned to Social Security and worked in the Health Insurance Research Branch, part of the Division of Research and Statistics.

SANTANGELO: And what was your mandate there when you were Chief of the Health Insurance Branch?

RICE: We conducted a variety of studies that related to the Medicare program. We were a small staff, but it was a very important group that set the stage for a large research program that is now operative in the Health Care Financing Administration. When the Health Care Financing Administration was created in 1978, I was already over at NCHS, but that whole division was moved to the Health Care Financing Administration and became the research arm of the Health Care Financing Administration and still continues in a larger way.

SANTANGELO: It had grown in time? You said that when you started it was a pretty small group.

RICE: It was a relatively small group. I think about 150 people in the Division of Health Insurance Studies moved over to the Health Care Financing Administration. Unfortunately with that move, the demise of the Office of Research and Statistics began. It has been very sad for me to watch from afar, and now ORS has less than 100 people, whereas in my time, it had over 500 people. Had I not gone to NCHS as its Director in 1976, I'm not quite sure what I would have done. By that time I was Deputy Assistant Commissioner for Research and Statistics. I don't know if I would have moved to HCFA, because basically my area of interest was always health, and I felt very strongly that health research and statistics was the area I wanted to be in. So the NCHS was perfect for me.

SANTANGELO: Tell me, during the years leading up to the creation of HCFA and at the time of its actual creation, did it make sense to you to put together the Medicare and Medicaid programs under one umbrella organization the way it was envisioned by Joe Califano?

RICE: Yes, I think that it made very good sense to put Medicare and Medicaid together. They were under the same act. There were overlapping pieces where Medicaid paid the Medicare premiums for the people who could not afford them. It made eminently good sense to have one agency that would operate both programs. I wish I could say—and I say this from afar—that there was real integration of the two programs. They still seem to

operate separately today within the Health Care Financing Administration. There is one arm of research only, so that part is good, and I think there has been a considerable amount of very good research that has been conducted and supported by the Health Care Financing Administration. So I thought it was a good move and made some good sense. I wish Medicaid had become part of Social Security, but it didn't. Now, interestingly, Social Security is back to being a separate agency apart from the Department of Health and Human Services. I've watched from afar, but I keep in touch. I still know many people both in HCFA and Social Security.

SANTANGELO: In the time that you worked for Social Security you were always in Washington, is that correct?

RICE: No. When I became Deputy Assistant Commissioner for Research and Statistics, I had offices in Baltimore and Washington. Except for a small group that was in the Universal Building on Connecticut Avenue, most of the ORS staff was in Baltimore. So it was important to be there and it worked out very well. I spent about three days a week in Baltimore and the other two in Washington.

SANTANGELO: So you wouldn't have a day, for example, where something would be happening in Washington, but you would need to get to Baltimore later that day? Did that ever happen?

RICE: Oh, yes. I traveled back and forth. Route 95 was one I used all the time. Often I had to go to a meeting in Washington that might be downtown, not in our Washington offices, so we shuttled back and forth. It was a way of life.

SANTANGELO: Tell me about your move to the National Center for Health Statistics. It happened in '76, is that correct?

RICE: Right. I was the Director of the Office of the National Center for Health Statistics from January 1, 1976 to June, 1982. It was a perfect appointment for me. This was an area of interest for me. I had followed the various surveys of the National Center for Health Statistics for which they had responsibility. As you know, the National Center for Health Statistics has the responsibility for collection, analysis and dissemination of statistics on the health of the nation. NCHS conducts a family of surveys, both sample surveys of households as well as providers. NCHS provides a wide variety of statistics that are used for policy purposes. The staff is a wonderful, dedicated group of committed people, very talented, and they really do a marvelous job.

SANTANGELO: Were there specific priorities of things that you wanted to add when you came over there, things that you added during the time you were there, different focus?

RICE: We built on what was there. We did conduct some new surveys such as the 1980 National Medical Care Utilization and Expenditure Survey. In the Public Health Service during the 1963–64 period, I had conducted several cost of illness studies, and I did continue to do those. When I retired from the federal government and came to UCSF, I continued to do more cost of illness studies. At this moment, I am writing a paper to present to the World Psychiatric Congress on the economic burden of mental disorders. I'm going to Madrid on Friday to present that paper. I am also working very closely with the states that are preparing their litigation against the tobacco industry, and they are using our estimates of the cost of smoking. We've developed those cost estimates with some colleagues at Berkeley. It is positively exciting to be part of this very, very important litigation process that is bound to win. I'm convinced this approach is right where the states are suing the tobacco industry to recoup the costs to the Medicaid program that are attributable to smoking, and we are giving the states the cost estimates. It's exciting.

But NCHS had its ups and downs. I never thought I would leave the federal government. I really enjoyed my job, but when the Reagan administration came in 1980, there were real cutbacks and I had to cut out several surveys. The National Ambulatory Care Survey was an annual survey and that became a periodic survey. The National Nursing Home Survey was a periodic survey and I cut out one phase of it, so we didn't have any good data on nursing homes for many years and that was a terrible gap. We also had to cut back other provider surveys. It's wonderful to be an administrator when you have enough funds, but when funds were cut—I became overwhelmed with the need to cut back on our surveys. We had a reduction-in-force and people were very, very upset about it. One day I came home very tired and I said to my husband, "It's just too difficult." And he said, "You know, there's a way you can give this up—you can retire." I retired on the day I became eligible, which I never thought would happen.

SANTANGELO: What does your husband do?

RICE: My husband is retired. He also had a full career in the federal Civil Service. His last job with the federal government was head of program monitoring in the Medicaid program. Previously, he worked at OMB with the VA medical care program. Both of us were in the medical care area. He says now that he doesn't understand now how he ever had time to work! He has different priorities and needs; he puts up with my work and I put up with his retirement.

SANTANGELO: You have a very impressive publication record. A lot of your articles were prepared while you were working for the government. Were you encouraged to prepare things for publication at the time, or was that something you wanted to do on your own? How did that happen?

RICE: I think it started back in the Office of Research and Statistics in the Social Security Administration. We felt very strongly that people should get credit for the work they did, and carried this forth at NCHS too—if it was research for which you had the responsibility, you should be the prime author and you could have co-authors. In that way, people have a real stake in what they publish and they must stand behind the data. We had a publication program consisting of Research and Statistics Notes, reports, and articles published in the Social Security Bulletin, which is still operating—no longer on a monthly basis but on a quarterly basis—where every published article is authored. I think that the mindset of publishing was always part of the Office of Research and Statistics and certainly part of my mindset at NCHS. And publishing in outside journals was also encouraged. In the University setting, it has always been very important. I came in at the professor level based upon my publication record, and I've been very productive since then. Over the years it has been sad to watch the demise of the Office of Research and Statistics, but it's been very exciting to watch the growth of the research in the Health Care Financing Administration. Cliff Gaus, who is now Director of the I for Health Care Policy and Research had worked for me at Social Security. It is wonderful to watch some of my protégés move up into very important positions. Barbara Cooper, with whom I authored several articles, is now one of Bruce Vladek's (I Administrator) very important right hand people. Karen Davis, now President of the Commonwealth Fund, a prominent foundation in New York, worked for me in the Social Security Administration, analyzing the data that we had collected hospital costs before I went into effect. It's wonderful to see these younger people move into very important jobs.

It's been a wonderful career and, while I have not been directly involved with the Health Care Financing Administration, I have followed all that they have done and continue to do so. I am really pleased to have been invited and participated in the 30th anniversary celebration of I that was held in Austin this spring. Papers were presented which will be published in a supplement to the Health Care Financing Review. The papers not only looked back but looked ahead to the challenge of the 21st century. We enjoyed being with old friends and reviewing the accomplishments of the past thirty years since I was enacted and looking ahead to the future. I is such an important part of the health of the elderly and disabled people. My paper was on the profile of the elderly population—past, present and future.

It has been a great career. I am one of the few people in a high position who doesn't have any advanced degrees. I have an honorary doctorate from Rutgers University, but I have no earned degrees. I have been fortunate to be able to advance with a lot of hard work to where I am today. I hope I've contributed to the growth of the health care research and statistics movement.

SANTANGELO: Someone whom we were speaking to recently was saying that statistics were a lot easier to get for I than for Medicaid because Medicaid comes from all the states, and it's very difficult to get good statistics. Was that an issue that you came across in the early years?

RICE: It certainly was. Let me tell you my story on this. When the I program was enacted in 1965, we immediately formed an advisory group to help us design our statistical system as a byproduct of the operating program. The advisory group was headed by Paul Denson. We were very excited about it and we developed what is now the I statistical system. At the same time, Title XIX, or Medicaid, was enacted and a group of us went to see Frank Land, head of the Social and Rehabilitation Service, that had the responsibility for operating Medicaid. We suggested that an advisory group be formed to develop a Medicaid statistical system, from which national data could be obtained to evaluate the program. He listened to us, but he said, "No, this is a state program, and I don't want to interfere with the states." The federal government pays 50% of the Medicaid program, and you would think that it would be important to mandate a minimum data set from every state to be able to look at the differences between the states and evaluate the program. To this day, there isn't a minimum data set that every state has to supply. We pay for 90% of the management information systems within each state under the Medicaid program, but they were all different. Except for about five states from which we're getting some comparable data, we don't have the ability to compare the states on a national basis. A very sad commentary. I feel strongly that we should mandate some minimum data sets under the proposed block grant program, but it won't happen because that is not the mindset at the national level.

SANTANGELO: What kind of impact would that have on policy?

RICE: Tremendous impact! We won't be able to evaluate what is happening in one state compared to another state. When the states have complete control of health and welfare programs, and the economy doesn't do well, it is the poorer states that will have problems in implementing the programs. We should have a reliable way to measure and evaluate what's happening so that we can make appropriate changes. It's worrisome. We had the foresight in the I program to think ahead to develop a viable statistical program. We did have some advantages. Each person who is I-eligible gets a unique

number, which is a very important aspect of being able to evaluate the use and costs of medical care services for that individual and other individuals like him or unlike him or her. This is why I has a reputation of a solid basis for studies, and the Health Care Financing Administration—to its credit—has made the data tapes available to outside researchers. A tremendous amount of research is currently being conducted and has been conducted that gives us a better basis to evaluate the program.

SANTANGELO: And evaluate it also against other countries' programs?

RICE: We are the envy of other countries. At NCHS, I had the opportunity to visit many of the health statistical agencies of foreign countries. Most have centralized statistical systems and we are the envy of other countries that have centralized statistical systems because health becomes just one part of larger system. There usually isn't enough money to conduct separate health surveys.

SANTANGELO: And to a large extent that's due to your efforts when you were there.

RICE: Hopefully I had something to contribute to it, but I've been gone a long time from the agency. NCHS has a new director, Ed Sondig, who comes from the National Cancer Institute. He is very well qualified and I think will do very well. Dr. Manning Feinleib, an epidemiologist by training, was director of NCHS from 1983 until 1995.

SANTANGELO: Do you have any other final comments about your career?

RICE: My career has been really great. I have been fortunate to be part of many exciting developments, and I take pride in variety of different things that I've done. Let me mention just one, for example, that is now carried on by a whole group at I. When I came to Social Security in 1962, I worked for Louis Reed. I had worked with him at the Division of Hospital Facilities in the Public Health Service in 1946 to 1949. Louis came to me and said, "We put out two statistical series, one on social welfare expenditures in which we look at public expenditures for health care, and the other on private health expenditures and the extent to which people are covered by private insurance. One is reported on a fiscal year basis, one on a calendar year. See what you can do about putting them together." Well, I did develop the first estimates on national health expenditures by types of expenditures and sources of funds. The methodology that I developed is still basically used by the people who produce the annual report on national health expenditures. They improved the data sources, but it is basically the same methodology that I developed years ago. They now have computers, use more data inputs and better sources than we had then, but it is truly very satisfying to know

that the methodology and data series that I developed 30 years ago are still being used today and these data are the basis from which health policy is made.

The other area I mentioned to you earlier is cost of illness studies. My first cost of illness study was developed in 1964 when I was at the Public Health Service and these estimates have contributed to understanding the magnitude of both the direct and indirect costs of various illnesses that are widely used. Every Institute Director, for example, at the National Institutes of Health, has called me over the years to ask me to provide cost data for "their" disease because they need it for budget justification. It's been a very exciting area. The other areas that I've been interested in are the aging of the population, chronic illness and disability. The aging of the baby boomers has become so important for the I program and the Social Security Administration. I continue to lecture and publish data on these subjects. So it's been a good career. I hope I've contributed to our knowledge base in the health area.

SANTANGELO: You have. Thank you very much.

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Interview with Dr. Robert Rubin, MD

Fairfax, Virginia on August 16, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: Dr. Rubin, I was interested in the fact that you are an academic doctor and you somehow got into to this policy job as Assistant Secretary of Planning and Evaluation at HHS in 1981. How did that happen?

RUBIN: I spent the academic year 1977–78 as a Robert Wood Johnson health policy fellow and I worked for Senator Richard Schweiker who was the senior Senator from Pennsylvania. When I returned to Tufts as Chief of Nephrology at two of their hospitals and as Assistant Dean of Resident Affairs, I also became a paid consultant to the Human Resources Committee and from '78 to '80 continued to work with Senator Schweiker who announced his retirement early in 1980. Of course, in November of 1980 Ronald Reagan was elected President and Schweiker was asked to be his Health and Human Services Secretary. Because of my relationship with Schweiker he asked me to become Assistant Secretary.

BERKOWITZ: Were you a Republican? An Independent?

RUBIN: A registered Democrat in the Commonwealth of Massachusetts. Not too many of those people were presidential appointees of Ronald Reagan.

BERKOWITZ: Did you have any trouble getting confirmed?

RUBIN: I had no trouble getting confirmed. It took awhile for my papers to clear the White House.

BERKOWITZ: What was the idea of having a doctor rather than an economist as head of ASPE? To my knowledge the heads of ASPE that made a difference, like Bill Morrill in the Ford administration and Henry Aaron in the Carter administration were both economists, and it had become something of a tradition that an economist or social scientist be head of ASPE. This broke the tradition. Was that intentional?

RUBIN: You made a statement and then you asked a question. You're clearly correct that I was the first physician to be Assistant Secretary for Planning and Evaluation. Your characterization of Assistant Secretaries who made a difference, I would take strong exception to. I would say that the most important thing about whether or not an Assistant Secretary makes a difference is what their relationship is with the Secretary. I believe that you probably could find almost an inverse relationship to how well known as an

economist the individual was versus their influence in the department. I think in fact probably the most influential Assistant Secretary prior to 1981 was Ben Heineman who was a lawyer.

BERKOWITZ: But he was an intimate of Joseph Califano.

RUBIN: Precisely.

BERKOWITZ: As long as we're on the subject of ASPE, one of the things that people notice about ASPE is that as a research arm of the Secretary, it essentially competes with other research arms. There has been a history of friction with research offices at SSA and other places at HHS. I wonder if that wasn't even more the case in the Reagan administration since the line agencies like SSA were filled almost exclusively with Democrats?

RUBIN: I've never asked, but I'm sure that my office was filled with Democrats too. I think that people when they look at ASPE really miss the important function that it has in contrast to the line agencies. It will be interesting to see what happens now that the line agencies of the Public Health Service report to the Secretary. I believe that if you look carefully at the research that SSA or HCFA does, you'll find that most of the research they do is not designed to implement either the President's plan or the Secretary's program. Most of what they do is to further the agency. The only office that has as its constituent the Secretary or the President are offices within the office of the Secretary, which is where ASPE is, so that if there is friction between ASPE and the so-called operating divisions, it simply mirrors whatever friction there might be between the Secretary and/or President and those line agencies in terms of their bureaucracies. Whether or not there was a lot of friction within the Reagan administration between my office and the research components of SSA and HCFA, I'll leave it for you to decide. In some areas I would say we worked very well together, there's no question. At the more senior levels we worked extremely well together.

BERKOWITZ: If an historian were looking back on this office [ASPE], one of the things that they would notice is that its claim to fame in part rested on things like the negative income tax experiment which was run out of that office, large social experiments. By 1981 there were no more of those around, so the question then becomes what was your agenda? What was the ASPE agenda?

RUBIN: It's really interesting, because earlier on you characterized ASPE as a research arm. That's about the last thing in the world I would say that ASPE is. The blurb describing what the Assistant Secretary does is policy advisor to the Secretary. That was the function of ASPE, with the exception of the policy research funds. That's really what the primary goal of ASPE was

to do. Clearly there were a lot of large-scale purely research or demonstration projects that were funded out of the office of the Assistant Secretary. A lot of times we functioned as a collection agency, that is to say parts of the Health Insurance Experiment were funded out of ASPE, but other parts of it out of the Assistant Secretary of Health's office, as well as the HCFA Administrator. And the same thing is true for other large-scale projects. I was very proud of some of the research that we did while I was there, but I really viewed ASPE as a policy analysis shop and not a research shop, in much the same way that Lewin VHI does policy analysis and occasionally we do research, but the difference between us and a university and the difference between ASPE and a university is that the major mission is to do policy analysis, not to do academic research. This confusion between research and policy analysis is mirrored in the work of several commissions, from the Grace Commission to Vice President Gore's reinventing government. While ASPE has not done very well in those reports, it is because there are folks that think that it's primarily an academic research shop, that it is competing with the nation's colleges and universities, and, while to some degree that's been true in the past, I just don't think that that is or should have been its major goal.

BERKOWITZ: You've compared ASPE to the company you work with now which is Lewin VHI. Tell us what Lewin VHI does.

RUBIN: We're a health care consulting company that does work for the federal government and the private sector. We're probably best known for the work we did on health care reform last year which was a classic example of policy analysis based on our having built a solid foundation in academic research and development.

BERKOWITZ: Now let's get back to 1981 when you were first head of ASPE. What were your policy concerns in the health field that either you brought with you or that arose in 1981? 1981 was after all the year of OBRA [Omnibus Budget Reconciliation Act], the budget reconciliation, other major events in social policy.

RUBIN: The major goals of the administration were in the context of President Carter's failed attempt at hospital cost containment. President Reagan campaigned in essence to decrease the regulatory functions of government. This was the time of the new federalism coming out of the '70s. Medicare was going broke. Social Security was going broke. And it was clear that we couldn't stand the growth in Medicare and that we needed to do something about Social Security. So it became clear when one looked at Medicare that it was the largest payer of billed charges in the United States, probably the world. If one looked at the private sector, nobody was paying billed charges. So it seemed to us that was something that needed to get

fixed. The other piece was that we needed to instill some pro-competitive things that fostered the free market, if we were going to allow the free market to operate. It was pretty clear that the regulation from the '70s, by definition, didn't have any effect—there was an increase in all kinds of costs, relative to inflation. So those were the major thrusts that we were looking at and probably the single most important thing that was done, the thing that most people will remember Schweiker's administration for, was the passage of Medicare's Prospective Payment or DRGs.

BERKOWITZ: We want to look at that, but before we do that, let me ask about one side Social Security issue that there was such a concern in that period in 1981. Did you have anything at all to do with the disability reviews which were absolutely the most controversial item on the Social Security agenda in 1981–82.

RUBIN: Actually, the most controversial was the Reagan proposal that quickly became the Schweiker proposal that quickly became the bi-partisan commission. The disability issues were—and it's interesting to see how things stuck around because this Social Security administration has precisely the same complaints on disability. In fact this firm has just done work with some of its PhD economists developing papers to show that the economic cycle intervened in the process. What was happening was the administrative law judges were not following the law. The GAO had just come out with a report that said that there was all kinds of fraud and abuse, so the administration issued a series of legislative initiatives to try to get the administrative law judges to tow the line, so to speak. And that was considered in the context of other things that were going on, changes in AFDC and some other things that were portrayed as furthering the "mean-spiritedness" of the administration.

Probably the best example of that was Bill Moyer's television program called "People Like Us," in which he had examples of people that to all the world looked like they had totally and completely been maligned by President Reagan's changes. For better or for worse, I was chosen to respond to that program in front of the White House Press Corps, to point out all of the inaccuracies and innuendos. I honestly believe Moyer was completely unaware, for example, that when he showed a kid losing Medicaid benefits in New Jersey, that New Jersey was one of 22 states that didn't have medically needy policies. It had nothing to do with President Reagan and the federal government, it just had to do with people in New Jersey choosing not to have a medical needy program. Had they had a medically needy program, this kid would have been completely covered, and the whole point of that segment would have been lost. In the disability area it was somebody who was, in point of fact mentally retarded, in point of fact had had a job, and

had left it, and there were issues within the disability law in terms of his being completely disabled, whether he was really totally disabled or whether he was really capable of holding a job. He had held the job, I forget how many months, prior to his leaving. It at least could have gotten some people to think that maybe this wasn't quite as clear-cut as was presented by CBS.

The reason I believe that the disability thing got such a broad coverage was that it was part of the piece that fit into a great story. Whether it could have been handled more adroitly by the administration, who knows?

BERKOWITZ: What's interesting to me is that that discussion—in which a lot of people used the term "social safety net"—about SSDI and about AFDC changes was so public even though the issues were quite technical, whereas the DRG discussion, by way of contrast, doesn't seem to have elicited the same great response. It seems to be much more of an inside-the-beltway kind of discussion. Is that your characterization?

RUBIN: Absolutely. It was also done in six weeks. It's been documented in the New England Journal of Medicine that John Salmon and I cut a deal, that he could get this through the House without any objections by Ways and Means members, that the chairman, Mr. Rostenkowski, was prepared to get this on the Social Security bail out which was going down the track about 100 miles an hour. Nobody was going to vote against it. We got the same commitment in the Senate, so this was something that was a done deal. The DRGS were signed in April of '83, if my memory is right. Shortly after the first of the year is when all of the work had been done. The President had signed off on DRGs as part of the budget process in the fall of '82. The foundation for all of this was laid in TEFRA [Tax Equity and Fiscal Responsibility Act] in fiscal '82. The deal there was that TEFRA was purposely made so unacceptable that the hospitals were looking for something like prospective payment. It held out promise of rewarding efficient hospitals and penalizing inefficient ones. It was reasonably well accepted by the hospitals. It was pretty generous in its first year. Depending on what your politics are it was either wildly generous or only modestly generous, but everybody agrees it was generous. You bought off one of the major constituencies in terms of potentially being against this, which were the academic health centers, the teaching hospitals, by putting in the teaching adjustment, which was preferable to a whole bunch of things that nobody wanted. It was crafted in a way so that being against it was like how can you be against efficiency? AARP [American Association of Retired Persons] really wasn't opposed to it in any sort of significant way. It was a way of being reasonably predictable regarding expenditures. The people on the Ways and Means and Finance Committees thought it was a good deal.

BERKOWITZ: You said that the hospital cost reimbursement which was under TEFRA were objectionable to hospitals. Why was that?

RUBIN: It was said to be too stingy. It had to do with cost per day, they squeezed in an allowable cost per day, and there were some suggestion it was going to get even worse. Cost-based reimbursement just wasn't going to carry the day. Hospitals in general thought that this was bad.

BERKOWITZ: Where did the idea of DRG as a substitute come from?

RUBIN: There were a bunch of different options. We had had, in HCFA, a demonstration program in New Jersey looking at a DRG system. It was different from what the federal government eventually adopted. Schweiker had some knowledge of DRGs and how they were working through personal relationships with some people in New Jersey. He came from Chester, PA, which is not too far from New Jersey, and he religiously summered at the Jersey shore. Being in the health care field as a Senator and Congressman for twenty years, he was well known, so it wasn't unusual for him to hear about these kinds of things. Actually there were two books written on DRGs. He had carefully read both of those books and had underlined them. He and I talked about his questions at some length. He became convinced that DRGs made the most sense, and it was not the initial recommendation, quite frankly, by either my office or HCFA.

BERKOWITZ: What was your initial recommendation?

RUBIN: Initially I was interested in some sort of per diem payment mechanism. That's sort of where HCFA was coming from. I was concerned that the DRG program would only work if there was a random distribution of patients with random severity of illness. I was very concerned about the non-random distribution of patients in certain kinds of referral centers. I was also concerned about the issue of differing severity in terms of various kinds of hospitals, if you believe that there really are primary, secondary and tertiary care hospitals. Part of the reason we built in the cost outlier structure, which is now gone, was to protect hospitals with very expensive patients. While I thought that there still would be inequities, I thought that that dealt with a lot of my concerns and Carolyne Davis agreed. So we pushed forward. As I'm sure you know, I was in charge of the intra and interdepartmental task force that was charged with getting this thing done. So we were in charge of drafting rules and things like that.

BERKOWITZ: This was the task force that Secretary Schweiker reported on at the beginning of 1983?

RUBIN: Right. Schweiker resigned at the end of January 1983. In essence this was done while there was no Secretary. The signing of the Federal Register rules occurred under the new Secretary.

BERKOWITZ: Was Secretary Schweiker around to testify when this was before the Senate?

RUBIN: He testified on it a couple of times. He was gone right around then. He left in the middle of the Baby Jane Doe issue.

BERKOWITZ: Another disability issue?

RUBIN: Some thought it was a civil rights issue. Who knows?

BERKOWITZ: You're talking about this last minute push in 1983? This was before you knew that that proposal was going to be part of the Social Security rescue, because that commission hadn't reached its agreement until the middle of January?

RUBIN: No. What happened was, we thought we'd have a much more leisurely pace to introduce this legislation. Initially, particularly on the House side with John Salmon, he and I never talked about making Prospective Payment with Social Security. It's even conceivable to me that Secretary Schweiker talked to Mr. Rostenkowski about doing it that way. It became clear that after the Social Security deal was cut that this was the vehicle that we could put the DRGs on. The question was, would they allow it? Because Social Security was a veto-proof, fail-safe—this was gone. It had the blessings of the Speaker, the majority leader, the minority leader, the President—I mean nobody was fussing with this. In contrast to a lot of other things that happened in the Congress, this even had relevance. It was a separate title in the Social Security Act, so the skids were really greased on this baby. The only question was that under no circumstances was anybody going to allow Social Security to get derailed. All we had to do was to keep DRGs from getting derailed. I must say that the majority of folks in the House certainly did not know that we would give almost anything to get this thing done because of the conditions. We made some concessions over rural hospitals. Mr. Gephardt wanted a couple of things regarding rural centers, but by and large it wasn't that hard to do.

BERKOWITZ: You say at some point this became a vehicle that would be good to attach to the Social Security bill. Do you remember specifically when this connection was made?

RUBIN: John Salmon gave the proposal to me. You should read this article, if you haven't already, by John Eigenhart where most of this is chronicled.

And since it was based on contemporaneous interviews with me, I would assume it's probably a hell of a lot better than my memory twelve years later. He basically says we had six weeks to get this legislation done. And we did.

BERKOWITZ: Who would you be talking to about DRGs? Who were the people in your shop and also in HCFA?

RUBIN: Patrice Feinstein from HCFA was the main negotiator. She did the bulk of the negotiating with the folks in Congress. She was Associate Administrator for Policy and Legislation. On policy issues I would talk with Carolyne Davis, the head of HCFA. On legislative issues Tom Donnelly who was the Acting Secretary and also was our Assistant Secretary for Legislation. Rarely we would talk to people at the White House, but this really wasn't a White House issue. They were disinterested and the budget was moving in the right direction, and that was that.

BERKOWITZ: You said that one of the over-arching goals—and the administration was so good about projecting to the public this idea of deregulation—would you say DRGs are an example of deregulation?

RUBIN: No.

BERKOWITZ: So they were an example of something that would help reduce Medicare costs, is that how it seemed to you?

RUBIN: Well, they were that. They were also an example of putting financial or economic incentives for getting people to do the correct thing versus coercing them, the difference between the carrot and the stick.

BERKOWITZ: After Schweiker finished, as Secretary Margaret Heckler became Secretary. Her district, if not contiguous to your old place at Tufts, reached Wellesley and maybe some other places close by. Did you know her already? Did you have any kind of history with her?

RUBIN: We were not in her district. We were in Ed Markey's in Medford. She got redistricted so Barney Frank could throw her out, which he did. She and Jean Mayer who was the president of Tufts at the time had a reasonably long history in terms of the White House report on nutrition. President Mayer and Margaret went to I believe it was China together on some congressional junket, and they become very friendly, so I had met Margaret in my capacity as then Associate Dean for Government Affairs on several occasions. At Tufts Medical Center in downtown Boston, the way the offices were set up, my office was very close to President Mayer's office. On occasion one of the jobs I had to do was when he was away and some VIP was visiting his office, the

secretary would ask me to come down and make small talk with Dr. So-and-so. So I met her a few times. I don't think she knew me. She knew that she had seen me before and that we had talked. When I told her the context, she recalled it, but we did OK with one another.

BERKOWITZ: But you left ASPE in 1984. Was that a decision just to leave with one term or more complicated?

RUBIN: No, it was actually pretty simple. It was wrong, but it was simple. I had decided that one term was what I was going to do. They were planning for the second term. The way the budget cycles and the planning cycles were, I assumed that whoever was going to take my place would need to be there for the planning cycle just prior to the election. And that basically meant they would need to be there for late April or May, probably June 1st at the latest. So I'd pretty much decided that I was going to leave in the spring of '84 for that reason and I told the Secretary that.

BERKOWITZ: In your opinion was it a good idea to put Medicare and Medicaid together, to take Medicare out of SSA, to take Medicaid out of the welfare bureaucracy and create this new agency? Did it work, as far as you were concerned? Did you get any impressions about that?

RUBIN: That's a few dozen questions in one. I think it made sense to have Medicare in its own agency. Whether it was good to take Medicaid or not, one could argue regarding the rules of that program and how the program is administered, was administered, and will be administered. I really don't have any knowledge as to how Medicare was administered prior to the creation of the Health Care Financing Administration, so I don't have anything to compare it to. I think that there were lots of deep-seated problems with HCFA that have to do with the nature of its bureaucracy, its oversight, things that are more related to its management—and by that I don't mean the people doing the managing, but a whole range of issues—than to the issues that I was dealing with and interfacing with which were really policy issues, and to a lesser degree they were research issues. I don't think they do a very good job of managing that organization.

An example: we supposedly have a national payment policy, a uniform national payment policy. That’s ridiculous. The carrier can do whatever they want and only recently has that been changed. Another example: up until Gail Wilensky’s term as I administrator, you couldn’t follow the beneficiaries in Part A and Part B, in-patient and out-patient. You had no idea how much money was spent. One of the big knocks on DRGs was that patients were discharge “quicker and sicker,” to which I would always respond, “That may be exactly the right thing to do.” And then I could add a whole line of reasoning on why that was good, and the person on the other side would

give their reasoning on why that was bad. But the truth of the matter is that neither one of us had any facts, and yet to a large degree, I was the paying for what was then called SNF [skilled nursing facility] and for a lot of those folks Medicaid was paying for the custodial care that came after that. Then you couldn't follow people, or you couldn't throughout their whole episode of illness. It was extremely difficult. Yet any rational payer that's paying the whole tab doesn't really care what the hospital fees are going to cost. They want to know the whole thing. Nobody had ever done that because, as I'm sure you know, I was still following the Blue Cross/Blue Shield model, and to a very large degree that model, particularly in the '60s when it was set up, was separate and distinct pieces. Then when they got the idea, it just required a lot of impetus to do it, it just didn't happen. So there were those kinds of issues, but as far as the basic decision to create a Health Care Financing Administration, I think it was probably a good idea.

BERKOWITZ: Thank you. I think that's a good note on which to end.

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Interview with Patricia Q. Schoeni

Alexandria, Virginia on August 19, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: I understand you were the first Director of Communications at the Health Care Financing Administration. How did you come by that job?

SCHOENI: I was in the Public Health Service at the time as the Director of Communications for another part, the Health Services and Mental Health Administration. When they decided to create HCFA, I was brought in to HCFA to help Joe Califano and Eileen Shanahan do the PR to establish the new agency. I had been in the Public Health Service about 10 or 11 years at that point. I'd had experience in a lot of Public Health Service programs, so they brought me down to help with making the original announcement of HCFA.

BERKOWITZ: This would have been in March of 1977?

SCHOENI: I came down a little before it was announced in March. I can't remember exactly when the announcement was, but I came down about February or late January, when they were planning for the announcement, to prepare the press releases and prepare all the information that would go out for the press conference we would have to announce it all.

BERKOWITZ: Did you have anything to do with the presentation to the President?

SCHOENI: The only thing I had to do with the presentation to the President was helping them prepare the materials. We helped work on the charts and the graphs, putting them together in a way that they thought would be acceptable to the President.

BERKOWITZ: Is it true that those materials were printed in the basement of the Pentagon?

SCHOENI: Yes. Absolutely true. Because Joe Califano didn't trust HHS, then HEW. He was afraid it would leak, so all the materials had to be printed, all the charts and graphs for the presidential presentation as well as the actual materials for the press conference and the press release, at the Pentagon. Everybody had a hand in writing it. It was written by a committee of 150 or something. Everything was printed in the Pentagon because he didn't trust HEW—that it would not leak out of the print shop.

BERKOWITZ: We've heard that Joseph Califano is a man who was certainly attentive to his press coverage. Eileen had come from the New York Times?

SCHOENI: Yes, Eileen Shanahan had been economics reporter on the New York Times, and she came in as the Assistant Secretary for Public Affairs. She's the one that was instrumental in bringing me down to work on this announcement. Yes, Joe Califano is very interested in his public image. It was an amazing time, and he was one of those people—I've worked with a lot of people in public affairs all over the globe in one way or another—and he was amazing in his ability to, I'll use the word, "manipulate" the press and get the most out of every press opportunity. He was an unbelievably quick study. We used to have to go in to brief him for the press conferences, including the very first one, and you'd be talking about something he knew absolutely nothing about and an hour later when the press conference took place, you'd think he had known it all his life and done his dissertation on it. A really quick study, really good with the one-liners and the lines that would get attention in the newspapers. Very concerned about his public image. We spent a lot of time and effort on public affairs at that point.

BERKOWITZ: One of the other things I've heard about Joseph Califano is that when he would hold meetings in his office Eileen would often be there and often someone would take notes. Do you have any memories of that?

SCHOENI: I wasn't in all those meetings obviously, but I was in a lot of those meetings. Anytime it concerned HCFA I was in the meetings. I don't remember specifically anybody taking notes. I remember all the people that were there, not every single one. We all took notes about what he wanted and what he didn't want. I'm sure I have them somewhere in the attic, the ones I took, because I don't throw things away like that, but we all took notes. I don't remember any official notes.

BERKOWITZ: His book *Governing America*, for example, has recreations of conversations on various things, and I think I've heard that they were taken from tape recordings that were made or some other almost-verbatim transcripts. You have no sense of that?

SCHOENI: No. The meetings we were in, there was no support staff. They were all—Ben Heineman, people like that—discussing the issues, but I never saw anybody actually taking notes.

BERKOWITZ: Who was the group that met trying to launch HCFA, publicize it?

SCHOENI: There was Ben Heineman, of course, the General Counsel at the time, Dick Warden, Eileen Shanahan. We on the PR side were worrying about the perception and how much grief we would get and how much publicity. Hale Champion was always in the room—Hale, Eileen Shanahan, Dick Warden who was head of legislation, chief lobbyist for Califano,

Heineman and myself. That was basically all. You see, they hadn't then picked a head of HCFA, so there was nobody there representing the new organization.

BERKOWITZ: What were the messages you were trying to get out?

SCHOENI: The main message was that HCFA was going to create an alignment within the Department of HEW that would focus on the health care needs of the poor and the elderly, and that, therefore, it was a much better way to do it than the way it had been done before which was Medicare being run by Social Security and Medicaid which was part of what had been called "welfare" and had evolved into variously named organizations but were still welfare. Our message was, "This makes sense. It's going to make it better for these programs." And there were a lot of obstacles to overcome in selling that message, needless to say. In the first place, there is the very close association between Social Security and Medicare, since Medicare runs off the Social Security files. You can't run Medicare without Social Security. (It is one of the interesting things now that they have separated the two agencies, separated Social Security totally from HHS, because you could argue, as we did not do then, that Medicare should have stayed in Social Security!) That was one of the objections we had to overcome. We also had to overcome the objection, that we knew was going to be raised by the press and was raised by the press, that this was just moving around the checkers on the checkerboard, and that every Secretary of any department comes in and reorganizes to put his or her mark on the department rather than there being any very good reason to do it that way. So we had to overcome that one as well.

BERKOWITZ: Did you have separate briefings for the general press and for the health press or was it one big news conference that did the launching?

SCHOENI: We had one big news conference where we had the general press first because there were too many people. Everybody had to show press credentials which drove some people off the wall. That's how you dealt with the issue. You didn't say it was only for the general press, but you required press credentials. And then we had another briefing the same day or the next day with the hoards of the trade press.

BERKOWITZ: Where did this take place? Was it in the Executive Office Building or was it at HEW?

SCHOENI: It was at HEW.

BERKOWITZ: Where? In the auditorium downstairs?

SCHOENI: Not that great big open space. It was in the room around the corner. I don't know what they call it. I was there for so many years in that building and we never called it anything special, but there's a room behind that big open space and that's set up for a press room. That's where we had the first conference.

BERKOWITZ: Do you remember whether you thought you got good play on HCFA?

SCHOENI: Oh, yes. It got very good play. It got a lot of attention. As I said, Joe Califano is brilliant at press conferences and at selling programs and selling rationale for doing things, and how much better it was going to be for the population that we were paying attention to. It got a lot of attention. Some of those same questions were raised that I mentioned earlier, but he answered them very deftly. He's very good at that.

BERKOWITZ: What was the answer to the question, that turned out to be pretty good criticism, about moving pieces around on the checkerboard?

SCHOENI: His answer to that basically was that he was looking for efficiency and effectiveness, and they could best be achieved first of all on the Medicare side by taking the program out of Social Security where it was in fact sort of a stepchild in the sense of size. That would be questionable now, but then it wasn't. But at that point you could argue that Medicare was sort of a stepchild. And he said that Medicaid, which had been in this welfare—obviously welfare was a word they weren't going to use any more, that wasn't a nice word—and he said that basically we want to give attention to these programs. If we put them up together and create a financing administration then we will be able to focus attention on these two programs.

BERKOWITZ: If Medicare was a stepchild of SSA, what was Disability?

SCHOENI: What was Disability at SSA [laughing]? A sub-stepchild. A step stepchild.

BERKOWITZ: Why was this Joseph Califano's announcement to make rather than Jimmy Carter's?

SCHOENI: Because it was Joe Califano's idea. I was not at the meetings at the White House, but I understood from the people who came back that he, of course, offered the President the opportunity to announce it and that Carter said no. I would imagine that Carter would not have wanted to do the announcing only because if it got a lot of flack, or if there was really any

adverse side to it, it's better that Joe Califano should take that than the President. But the President was offered the opportunity and declined.

BERKOWITZ: I'm trying to remember when the anti-smoking initiative came about, which was another thing that Joseph Califano was very excited about. Was that after this HCFA founding?

SCHOENI: Yes. And how I know that so very well is because I had worked in the original anti-smoking program in the Public Health Service in 1964 when Luther Terry's report came out. I worked there from 1965 to about 1969, and then I'd gone on to other parts of the Public Health Service. After we announced HCFA I was brought downtown to be the first director of HCFA's public affairs office, and it was after that, while I was in HCFA, that Joe Califano rediscovered the anti-smoking program. And although I was doing the HCFA work, I was again dragged over to the department part-time to help do the anti-smoking which I had been through 10, 12, 13 years before. So it was after HCFA, about half way through before he got fired by President Carter, that he rediscovered anti-smoking and we started up the whole smoking thing again. Because he'd given it up himself and became a disciple as only one who has smoked can be [laughing].

BERKOWITZ: How did you get the job as Director of HCFA's Public Affairs? Who gave you that job?

SCHOENI: Eileen Shanahan. There wasn't even a head of HCFA at the time. They had not brought in Bob Derzon. Don Wortman was acting. Eileen Shanahan talked to Califano, Califano talked to me and said, "Will you do this?" And I said, "Yes, I'll do this," so I stayed down there after we made the announcements.

BERKOWITZ: And how long did you stay?

SCHOENI: I stayed until July of 1980.

BERKOWITZ: So your time at HCFA was in the reign eventually of Derzon and then of Len Schaeffer. My impression is that Len Schaeffer was a real young golden boy, favored particularly by Hale Champion, but also by Joseph Califano. Was that a fair assessment and what were your relations like with Len Schaeffer?

SCHOENI: Leonard Schaeffer is all of what you've just said. He was dynamic, he was a golden boy, still is 'though he's not so young any more. Leonard Schaeffer was very organized, very effective in getting things done. Whatever had to be done got done. The downside of Leonard Schaeffer, I would say, is he's basically a ruthless person who doesn't have any concern

for people. His concerns are for his own agenda. He's always got an agenda, and he's always working his own agenda. And if you don't follow his agenda or agree with his agenda, he's very difficult to deal with. I left just before he did. I did not know he was leaving. I left and went to the General Service Administration because it was constant chaos for people working close to Leonard, since he was so difficult. He's very effective but he's very difficult to work closely with. He always has an agenda and he's very erratic, up, down and all over the place. So I decided I'd had enough of that, and I went to the General Service Administration. When I went in to announce it, he told me that he, in fact, was leaving. Then Howard Newman came in behind him and asked me to stay. I hadn't actually left yet, although I had announced it. He asked me to stay but I said, "No, I'd love to, but I can't really. I have to go since I've made a commitment."

BERKOWITZ: What was your job at GSA?

SCHOENI: I was the Assistant Administrator for Communications and Government Affairs.

BERKOWITZ: There's an agency that could use some public relations.

SCHOENI: That's right. Because they had just come off the great scandal of '78, they were in dire straits.

BERKOWITZ: When you talk about HCFA, one of the things that you hear about HCFA is that Mr. Derzon was essentially fired before Mr. Schaeffer came on. Is that true, and do you have any sense of how it played out?

SCHOENI: Yes, I think it's essentially true. They never used that word. I had to handle the public relations, the media reaction when Derzon left. We obviously never used the word "fired." We said Derzon had resigned, which I think is probably literally the truth. Califano asked for Derzon's resignation. Actually I don't think it was Califano. It was Hale Champion who asked for Derzon's resignation. And he did resign. So he was not "fired," literally, but it was clear that it was not Derzon's choice. I had that from Derzon, because I had to answer the questions. So we talked about it at great length, about how we were going to respond. That's how we responded, that Derzon had resigned, he decided he had other things he wanted to do and he had resigned.

BERKOWITZ: Why was he asked to resign?

SCHOENI: I think he was asked to resign because Califano did not think that Derzon was aggressive enough in pushing HCFA forward. Derzon is a really neat guy, a really nice man. I'm sure he was very good at what he

was doing out in California as a hospital administrator. Coming into the bureaucracy, although he had worked obviously in his own bureaucracy as an administrator, but a bureaucracy as big as HCFA with all these disparate pieces, was like a foreign country. The people in Baltimore were foreign. Those people had worked in Social Security all their lives, and it was weird. Then you had these people who had the welfare mentality. Finally you had all these new people brought in on top of all these people. Derzon is a very bright man and is a very knowledgeable person, but it wasn't his thing to pull all these people together with a heavy hand, which is what you probably needed at the beginning to get all the pieces together.

I think Califano thought that he was not aggressive enough, and he was not moving it forward. They put together all these regional offices and had all these what I could call leftover cats and dogs in the regional offices that were a product of various and sundry programs—some out of Medicare, some out of Medicaid, and very few of them knew both Medicare and Medicaid—the big problem in the regions. They knew one or the other, and they were committed to one or the other, and they couldn't handle the other one. They ignored the other one. And the regional offices, by and large, were just awful. They had some of the worst regional administrators I've ever seen—and I've worked in a lot of government agencies—like Kansas City and Chicago. They were horrendously incompetent people.

BERKOWITZ: In Chicago the main administrator was Chris Cohen. Are you talking about him?

SCHOENI: No, I was not talking about Chris Cohen, because he didn't last very long. Chris Cohen was a good guy, but Chris Cohen left very quickly. Chris Cohen was good but not the guy that followed him. The guy in Kansas City was just an absolute disaster. There were a whole bunch of them like that all over the country, just really disasters. So I think that's what happened to Derzon. He just was not moving forward aggressively enough for Califano. He wasn't bringing it together so quickly and so forcefully that Califano could brag about it, and Califano certainly didn't want anything to happen that would endanger the survival of HCFA. He had enough problems then. He was up on the Hill trying to keep Education in HEW. He didn't want anything to happen vis-à-vis HCFA that people would start saying, "Oh, he's reorganizing and now it's not working. It's working worse than it was working before."

BERKOWITZ: In all this attempt to get the message out, I was wondering if you ever thought about SSA as a model. They have so many distinctive things from their own baker in that big cafeteria at Woodlawn to a history office that they maintained for many, many years and a big press office.

SCHOENI: No, we never looked at them as a model, because they were always considered the elephant of HEW. The elephant in the sense that it was very large, had a lot of money, had a lot of power, but it was slow-moving, not a very effective organization. It was effective in the sense that they got the checks out, but that's all. Those of us, in the transition particularly, who had anything to do with them, who had to go out to Woodlawn and meet with those people and see the Disability Office were not impressed. The Disability Office would send chills up and down your spine when you walked in and looked at the people who were doing that side of the business in Social Security. I think they were sub I.Q., druggies, smoking pot in the offices. And that's just Disability. It was considered a slow-moving, non-innovative, unprogressive kind of place and nobody much looked to Social Security as a model. It had a lot of people in Public Affairs, but again, their Public Affairs was not the aggressive kind of Public Affairs that Joe Califano wanted. They prided themselves, and still do I would think although I don't know anything first-hand now, on the steady-Eddie kind of image. They did what they had to do. They turned out the checks. As long as they turned out the checks, nobody cared who was on the rolls and who wasn't on the rolls. Checks going to dead people two years after they died was another matter. So they kept it all steady. They never aggressively sought public relations or publicity, whereas HCFA was out there, of course, because Joe wanted a very active outreach for PR. No, Social Security was the last one to be a model. I'm not talking about organization; I'm talking about the image that Joe Califano wanted.

BERKOWITZ: How about SRS?

SCHOENI: No. SRS was the personification of the worst of the bureaucracy. It was an old-line bureaucracy with old-line bureaucrats who had been there forever. It was, again, a dumping ground for a lot of people who had been too long at the fair. So, no. SRS was long gone, well gone. They had to absorb a lot of those people who had been in SRS. Three and a half years after HCFA started, there was still little if any contact between the Medicaid people and the Medicare people. One thing HCFA was never able to do, and for understandable reasons, was to bring those two groups together because there was nobody with any cross-knowledge between Medicare and Medicaid. It turned out that as things happened and we made announcements about savings from fraud and abuse efforts and all those wonderful things we did in HCFA, it fell finally to me and the people who worked for me in PR to answer questions that went across between Medicare and Medicaid, because the program people were either Medicare people or they were Medicaid people. They were never brought together.

BERKOWITZ: What were the achievements of HCFA between 1977 and 1980? You mentioned fraud and abuse. What were the other PR initiatives?

SCHOENI: Obviously fraud and abuse was a big PR initiative. Califano hired Tom Morris as the first Inspector General in the federal government, not just in HEW, and they went after the fraud and abuse and looked at how much money they could save and started looking at doctors' records and that kind of thing. So that was a definite achievement in that it was the first time that anybody had looked at how Medicare and Medicaid operated in the sense of who was getting the money and what they were doing with it. I think it depends upon whether you think some things are achievements or a fault of the Medicare/Medicaid program, depending on which side of the fence you're on. In fact, under HCFA they improved the administration of the Medicare and the Medicaid program as far as making states—on the Medicaid side—conform to the laws. So it made more people eligible and more people got on the rolls. Now that is a good for the poor. It's not a good if you think about the fact that that was when Medicaid started growing and growing and growing. And the same thing with Medicare. Medicare laws had been changed in 1972. More and more people were added to Medicare, and—while it was Congress that passed the changes—there was no opposition from the administration to these additional services being covered by Medicare. It's to the good for the elderly; it's not for the cost of the program. HCFA also, in those first few years with Derzon and Schaeffer, started to look at what you do about provider costs and how much is paid to providers, and the issue of unbundling. All those things came to the fore in those early days of HCFA, the unbundling that physicians were doing under Medicare particularly.

BERKOWITZ: What do you mean by unbundling?

SCHOENI: Unbundling is a term they use in insurance. What they found physicians were doing, as the government tried to tighten up on Medicare costs and was lowering the fees, was taking what had been one service and "unbundling" it into three or four services. For example, it used to be that a doctor's visit for a sore throat included an exam and a culture and other tests. Physicians "unbundled" and were paid for an office visit and then for the tests separately. That's an overly simplistic example, but they started unbundling in much more complicated procedures, collecting money for all the pieces rather than for what used to be one charge. It started costing Medicare a lot more money, and to this day still costs more money. But they've done some things like DRGs, which doesn't help on the physician side but helps on the hospital side, trying to control those kinds of practices. HCFA first identified those practices and started trying to do something to stop them. Doctors and hospitals are always going to be able to game the system. No matter what the system is, they find a way to game it.

BERKOWITZ: As you were talking, it struck me that this is a very technical matter, this hospital and doctor reimbursement. I'm curious as to how you get the message out with something this inherently complicated.

SCHOENI: It is very complicated, two of the most complicated programs in the federal government. People don't realize when you get down to it how complicated they really are. But when you were dealing with the public and with the press, you never got into those nitty-gritty kinds of things, because people can't understand. So what you did is you stuck to the general principles and said, "We want to make sure you get better care and that the government doesn't pay any more than it has to pay. It saves you money, because you're paying the co-pays on the doctor bills." So you sell it on the broad principles. You don't do PR for physicians because that's a waste of time and effort. They're making the money hand over fist. As you well know, the Medicare program and even Medicaid, but particularly Medicare has made a lot of physicians a lot richer than they would have been had there not been Medicare. The ones who have profited most in this country may not even be the elderly; it may be their hospitals and doctors that have made it off of Medicare.

BERKOWITZ: In your HCFA years, who struck you as the stars within the agency that you wanted to publicize the most, struck you as doing a good job?

SCHOENI: That's hard to say. You'd have to give Schaeffer credit for the job that he did. Don Wortman and the team that put HCFA together did an excellent job. I think Keith Weikel, who was the head of the Medicaid bureau, did a really fantastic job. Medicare is hard to say. Tom Tierney was there, he was the head of the Medicare side, but he had been an old Social Security type. He was a really nice man, but he wasn't going to change anything. He hadn't changed in thirty-five years, he wasn't going to change then, so I can't say he was a star. I think most of the people on the Medicare side were more of a stumbling block than anything. I don't know if I know of any other stars [laughing].

BERKOWITZ: Thank you very much.

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Telephone Interview with M. Keith Weikel

Toledo, Ohio on September 29, 1995
Interviewed by Mark Santangelo

SANTANGELO: Dr. Weikel, let me begin by asking you to tell me how you got interested in health care/health policy issues and about your professional background.

WEIKEL: I got into the health care field as an undergraduate in pharmacy, and then when I went to graduate school at the University of Wisconsin, in pharmacy initially, I switched into the graduate school of business and got my doctorate there in economics and marketing. All of that time I was interested in health care policy, so I studied a number of different aspects of it at the graduate level. Then for one year I taught health care administration and economics and marketing at the Philadelphia College of Pharmacy and Science. Then I went into the pharmaceutical industry for a number of years. In the pharmaceutical industry I was in marketing research and then in sales and brand management. Then I started a health economics research group and spent most of my time looking at health care policy as it impacted the pharmaceutical industry. I was looking at the socio-economic trends impacting the delivery of health care services and how that impacted the pharmaceutical industry and our company specifically. As a part of that I spent a reasonable amount of time in Washington in preparation of position papers for the company on issues that were being addressed in Congressional hearings. I was always interested in getting into government from a political point of view and perhaps running for office. At any rate, I ended up in the 1970s joining the Department of Health, Education and Welfare in the Secretary's office to become the Director of Health Evaluation.

SANTANGELO: How did that appointment come about?

WEIKEL: I was active in the campaign in 1968 and somebody put my résumé in the data bank and they called me and started talking to me. After a year or so, I decided to move from the pharmaceutical industry to Washington with the idea that I was going to stay for a couple of years and then go back into the industry or go into teaching at the graduate level. I got sidetracked with Potomac fever.

SANTANGELO: What were your responsibilities in the office of the Secretary?

WEIKEL: When I was in the office of the Secretary I had the responsibility of developing a health evaluation system. A year or so before that, the

Congress had appropriated 1% of the total federal health care funding to be used to evaluate the effectiveness of those programs. The position in the Secretary's office was set up to develop a system to evaluate all of the health care programs ranging from the Public Health Service hospitals, neighborhood health centers, community mental health centers—the whole gamut of health services provided through the various appropriations in the Department of Health, Education and Welfare.

SANTANGELO: Was there a specific charge you had from the Secretary?

WEIKEL: The charge really came from the Congress and from there the funds were appropriated to the department. My charge was to set up an evaluation system. Basically we put in place a system where each of the agencies had to develop a plan to evaluate their programs and make proposals for whether they were going to do it in-house or whether they were going to use outside contractors and what the scope of the study would be, the length of the study and the cost of the study. That had to come up through the Secretary's office and was reviewed on an annual basis, and there was a specific plan that was put together then and monitored through implementation. We actually tracked the results and made sure those results were reported to the Secretary and actually came into play in the public policy debates.

SANTANGELO: Were there different methodologies that the various agencies used?

WEIKEL: There were a whole host of different approaches. Most of the work at that time was contracted out, but the evaluations themselves, in terms of methodologies, ranged all over the place.

SANTANGELO: Who was the Secretary during this period?

WEIKEL: I'd initially been hired when Bob Finch was there, and then before I came on he resigned so I had to go back through the entire process again. So I was ultimately hired under Elliott Richardson. Lou Butler was the Assistant Secretary that I worked for. Then Elliott Richardson left and Cap Weinberger came on. I worked for Weinberger and ultimately for David Matthews. The last year I was there I worked for Califano.

SANTANGELO: You said that you reported mostly to Lou Butler, the Assistant Secretary. Was that just at first?

WEIKEL: Lou Butler was the first one. There was a Deputy Assistant Secretary at the time, Jim Ebert, that I worked closely with. After Lou Butler it was Larry Lynn who was the Assistant Secretary for Planning and

Evaluation and Stuart Altman who was the Deputy Assistant Secretary for Health Care. Then I moved from the Secretary's office to the Health Services Administration for a period of time, for about a year plus where I was the Associate Administrator for Planning, Evaluation, Budgeting and Legislation. Then I became the Commissioner of the Medical Services Administration, which at that point was in SRS [Social and Rehabilitation Services] which then became part of HCFA.

SANTANGELO: From your perspective, having worked with a number of secretaries as well as more than one presidential administration, I wonder if you could give us some sense of some of the major goals in health policy as you saw that changing through this period.

WEIKEL: That's a big question. When I first came on, Nixon was there, and I think the focus at that point was not so much on growing the programs but on how we could make them more cost-effective. That was clearly the thrust rather than just expanding the programs, although in the late '60s and early '70s the programs were expanding at a very significant rate of growth. So we were involved in looking at projects that would address how those programs could be made more cost-effective. That was pretty much the thrust under Nixon and Ford. Obviously during that time Nixon had the initial mission to China, and that was a major focus on the foreign policy side. As a result of that there had been discussions of what could be done on the domestic policy side. I know Richardson had a number of meetings at the White House.

I can remember him coming back and, in one case, really being pumped because they were determining how they could strategically do the same thing on domestic policy as they had done in opening up our relationships with China. One of the things that evolved from that was a so-called "mega proposal" that involved a whole series of things. The fundamental thrust of it from the public policy point of view was could we, in fact, cash out a lot of the benefits and provide the beneficiaries with cash and do away with the need for the bureaucracies and the regulations, etc. And that got into things like the welfare program. Ironically, when you think about what's going on now, you think of Senator Moynihan who is pretty much an advocate of that type of thing too. Basically the Democrats at that time just wouldn't hear of that and, I think, wanted the bureaucracy in place and the system as it was, even though I think today they would be a lot closer to that position.

SANTANGELO: What year would this have been? When was this "mega proposal" proposed?

WEIKEL: I think it must have been probably 1973.

SANTANGELO: Would the larger issues of what was going on between the executive and Congress also have played a role in the Democrats' reaction?

WEIKEL: You mean Watergate? Actually I think this started before that, so it may have been as early as '72 or '73, but clearly, once you got into the Watergate situation that colored everything that was going on in Washington.

SANTANGELO: I imagine that made your job a lot more difficult?

WEIKEL: No doubt about it. Although—it did and it didn't. Frankly, it impacted getting decisions out of the White House, but in terms of running our programs on a day-to-day basis and our dealings with the Congress, I really don't think it made that much of a difference. Richardson was a strategic thinker, so he was really excited about the "mega proposal." Also, Nixon introduced during that time period CHAP [Comprehensive Health Assurance Plan] which was basically a national health insurance plan.

SANTANGELO: When Secretary Richardson left you worked under Cap Weinberger. Did he have a different set of priorities?

WEIKEL: I don't think Cap was as much into looking at things strategically as Richardson did, frankly. I think Cap was a very good administrator and did get into the detail. I think Cap was an exceptional public servant. He clearly had the reputation of being a cutter, having come out of the Office of Management and Budget. Cap was interested in the programs and their effectiveness and, I thought, was excellent to work for or with. He worked extremely hard and was very dedicated. I remember testifying with him a number of times as one of the backup witnesses.

One of the things that I remember with him specifically was starting back in the late '60s there had always been an attempt to control the cost of pharmaceutical products that the government was paying for under Medicaid specifically. The Democratic administrations had really attempted that. Charlie Edwards, Assistant Secretary for Health, and Cap asked me to work on the project of looking at what we should be doing in the area of controlling pharmaceutical costs for multi-source drugs. We actually implemented the Maximum Allowable Cost proposal for multiple-source drugs. I think the whole pharmaceutical industry was shocked that a Republican would be the one who would ultimately get that implemented when the Democrats had been trying to do something similar to that for a number of years. It seemed to be the antithesis of the position that a Republican administration would take. I think what they forgot to analyze was that the focus was on how we can efficiently and effectively spend the taxpayers' dollars.

So when Cap saw that there was a cost savings as a result of doing this and there was no scientific reason not to do it, he was extremely supportive. It was because of Cap's commitment to that that we were able to argue that thing through, had multiple hearings before the Congress on it, and ultimately got support and got it implemented. It's an indication of the kinds of things that Weinberger would get interested in.

SANTANGELO: Exactly when would this have been?

WEIKEL: With Weinberger? I think that was in the '73–'74 area.

SANTANGELO: Is '73 the year you left the health evaluation division?

WEIKEL: I think it is. I think in '73 I went out to the agency.

SANTANGELO: How did that come about?

WEIKEL: I had been in the position for about two and half years and Charlie Edwards, who I like, had approached me about going out there and helping them. At that point the agency was new and they were just getting it started. They had split a number of the programs between the Health Services Administration and the Health Resources Administration. This was an opportunity to help put this together and to do some things differently. I thought it would be valuable, having worked in the Secretary's office, to work in an agency, and that proved to be very true because one of things I saw was that people at the agency would panic when they'd get a call from the Secretary's office. They didn't differentiate whether it was coming from a junior level support person or from the Secretary. So I thought having the perspective of how the Secretary's office worked made me much more effective and allowed me to keep a sense of control and balance out there.

SANTANGELO: And what was your position at the Health Services Administration?

WEIKEL: I had responsibility again for the planning and evaluation and the legislative activity and the budget. We were essentially setting it up from scratch, so I hired a totally new staff to work in that area.

SANTANGELO: Since you got to start with a tabula rasa, what wound up being the early priorities that you tried to set?

WEIKEL: We were looking at a lot of the delivery programs from the Indian Health Service to the neighborhood health centers, the rural health delivery programs. We focused on programs of that type and what we needed to do to make them more effective. That was the general thrust.

SANTANGELO: Out in the agency were you still in contact with the Secretary's office?

WEIKEL: Yes, sure.

SANTANGELO: That certainly would have been an advantage having come from there.

WEIKEL: Definitely.

SANTANGELO: What was the general mission of the Health Services Administration at that time?

WEIKEL: The mission was to manage either the grants or the programs directly on all the direct delivery programs. We had the Public Health Service hospitals, the Indian Health Service hospitals, the neighborhood health centers, the rural health program, and the program to provide physicians to rural areas.

SANTANGELO: Were there major issues with any of those?

WEIKEL: There were issues with a lot of them, but one of the continuing sagas was what the appropriate role of the Public Health Service hospitals would be, and should we keep the Public Health Service hospitals. Fundamentally they were there to service the merchant seamen and that didn't seem to be an appropriate mission any longer. That was a continuous issue. The HMO enabling legislation was in '72, I believe, and the game in Washington is whenever you have something new, then your program becomes part of that. So a lot of these organizations were trying to portray themselves as being a part of managed care one way or another. There was a lot of work on that. We also were doing a lot of work on utilization review, the PSROs were under our jurisdiction.

SANTANGELO: Were the PSROs a fairly recent addition?

WEIKEL: They came in about that time, in '72 I believe.

SANTANGELO: Did you have a role in their original implementation?

WEIKEL: I was involved to the extent that I remember attending a lot of meetings even when I was in the Secretary's office as to how we would actually roll out the PSROs. Gene Rubel was very actively involved at that time. Two other people were Paul Betaldin and Mike Guran. Paul and Mike were both physicians. I didn't have a direct role in the implementation.

SANTANGELO: How long did you stay in this role at the Health Services Administration?

WEIKEL: It was a little over a year. In the summer of '74 I moved to the position of the Commissioner of the Medical Services Administration. Actually that started while Nixon was still there, and I think my appointment came the day after Nixon officially resigned. In fact, I remember vividly, I was giving my first speech in that position at a hotel in south Washington and we were on break when I saw the helicopter actually fly right over the hotel with Nixon on his way to California.

SANTANGELO: Then Ford was sworn in. Was there any concern on your part that with the change in administration that that would affect your role in any way?

WEIKEL: There always is at that point, but it wasn't a big concern of mine, frankly.

SANTANGELO: How did that play out over the next several years?

WEIKEL: I was there for the two years of Ford's administration and one year under Carter. Ford was fairly active. I only had a couple sessions that I was involved in with him, but I think he was a lot smarter than people give him credit for. He certainly got into the details of the budget and understood the budget more than a lot of presidents do. I think that the thing that he got into, ironically, is exactly what's going on in the Congress now. He presented a proposal—in fact, I have a picture with him at the signing ceremony where he was sending the bill to the Hill—to essentially block grant Medicaid back to the states. The states were always complaining about the federal regulation. Particularly in the key states there were some really powerful state people—the heads of the single state agencies in Oklahoma, Wisconsin and Texas are three examples that pop out—who were extremely powerful and they could rattle a lot of cages in Washington. Whenever you had a regulation that you had to enforce—many times they were legislatively mandated but you had to enforce them—they'd get really ticked off and they'd go up on the Hill and raise a lot of hell.

I remember meeting with those three guys and it was an interesting meeting. In this case all three of them were Democrats, and I say that just to identify it, because frankly I got along on the Hill probably better with the Democratic side than I did with the Republican side. But it was interesting when the block grant proposal was made by Ford that these three people who would normally have been advocating something like that, all of a sudden, when they saw that it was a real possibility, they turned 180 degrees and said, "No, we get along great with you guys." What happened

was that they didn't want to have to take the heat in their states. It was a better relationship, sort of the good cop-bad cop, if they could blame the Feds for something that they were doing. They wouldn't have to take the heat. They could transfer it on to Washington. And that same thing is going to happen, by the way, with the current block grant. The governors aren't going to be able to blame Washington if this in fact goes through. They're going to have to step up to it and take the heat. So it's ironic when I think about it. Back in 1975 when that got sent up, it didn't get anywhere on the Hill. So history certainly has a way of repeating itself.

SANTANGELO: Especially in Washington.

WEIKEL: Oh, yes. There's a short institutional memory.

SANTANGELO: What were some of your major focuses as the Commissioner? You were Commissioner for three years, is that correct?

WEIKEL: Yes, about that, maybe a little more. Almost four, I guess. I left, I think, in '78. One of my focuses was to try to reduce the rate of growth in the expenditures in the cost of the program, and it was really moving along in the early '70s in terms of the percentage growth each year. We were looking to put some controls in to really impact that rate of growth. I think we were reasonably successful in that we lowered the rate of growth during that time. That's one. We put in a program to focus on the fraud and abuse. I had a major initiative in the fraud and abuse area. It was something that we had to start from scratch. There wasn't anything there to speak of when I got there. I remember vividly my key staff thinking I was crazy because I was willing to go to the Hill and admit that there was fraud in my program. They said no sane program director would ever do that. I think that was one of the things that helped me in Washington and in my relationships on the Hill, because when I was there, and this is where the Nixon thing played out, it became extremely adversarial between the administration and the Hill. I think it's gotten even worse since then. But when I started in Washington in 1970–71 it wasn't as bad as it was when I left there. I think the Watergate-Nixon era certainly contributed to that significantly.

At any rate, I did testify multiple times on the issues of fraud and abuse. I can remember one vividly where Tom Tierney who was head of Medicare testified. It was like a two-day hearing before the House Operations Committee. Congressman Fountain was chairman of it. I openly admitted that there was fraud and had some estimates and told them what I was doing to address that, and Tom Tierney's approach was that, "It's really not a significant issue." Medicare had done a lot more than Medicaid on that issue, but he got absolutely torn up for a day or more, basically because of the position he took. I point that out because I think that also was a

changing element in Washington. I still think that if you know your program and you lay out the strengths and weaknesses of your program, you're a lot better off. You'll occasionally get burned, but generally speaking you'll be treated OK. Whereas Tom was being more defensive of his program, saying there really wasn't any significant fraud in it. The fraud and abuse initiative and trying to save dollars by eliminating that was a major undertaking. We hired a number of inspectors in a fraud group that was at the federal level as well as working with the states to have them focus on that. I can remember having a press conference in Massachusetts with Tommy O'Neill, Tip O'Neill's son who was then Lieutenant Governor, and he was heading up the initiative in Massachusetts as I was heading it up on the federal level. I think that program at least got attention to the issue. We put some resources into it to attempt to put better discipline out there to prevent fraud and abuse and focused the state agencies on that.

SANTANGELO: That was an ongoing issue throughout your administration as Commissioner?

WEIKEL: Definitely. Another program that I spent a lot of time on while I was there was the Early Periodic Screening Diagnosis and Treatment Program [EPSDT]. It was a program, again, that was a Congressional mandate that we provide services of a preventive nature to children, and it was one that was very poorly implemented, if at all, before I got there. There was a lot of interest in child health at that time, and it was one that there were a number of Congressional hearings on. I testified a number of times where we were being beaten up, and one of the issues in that was that there was a penalty that was mandated by the law on the states if they didn't implement the program. There were a couple of those penalties that were automatically implemented. One was in EPSDT and the other was on utilization review where you had to assess a penalty against the states. With the EPSDT program we increased the staffing directed to that and spent a lot of time and effort working with the states to try to get them to beef-up their program in order to provide better prevention services to the children that were covered by Medicaid and, in most cases, AFDC as well.

I think we were successful in growing the number of children who were receiving services quite dramatically during that three/four year period on EPSDT. A woman by the name of Bea Moore was the director of that program for me. That was a major initiative. But where we got into battles with a number of states, with the single state agency head, as well as with the number of governors who got really irate, was when we assessed a penalty for them failing to implement the EPSDT program. One that I remember vividly was Governor Bohen of Indiana who sent a letter to President Ford just devastating the agency and myself because we had

assessed this penalty and we didn't understand what was going on, even though a case had gone all the way to the Supreme Court also confirming that they hadn't implemented the program. Jack Suahn, who was the Deputy Administrator at the time, and myself were sent to Indiana by the White House to meet with Governor Bohen, who later became the Secretary. He was a delightful gentleman but he really didn't know a lot of the details about what was going on with his programs. His agency head, Wayne Stanton, who I believe may even be currently a HCFA employee, and was certainly for a period of years during the Reagan administration, was totally giving him false information. There were other letters from governors where they had been assessed a penalty also.

SANTANGELO: Were there other cases where you went out to meet with them?

WEIKEL: We had met on another occasion, and I don't recall what it was about, with Governor Busby in Georgia. It may have been something like the EPSDT program, but that was a much friendlier discussion—it was constructive. But there were a number of other letters from governors because they were upset about how we were mandating that they implement the services that were clearly mandated by the legislation. It wasn't even a regulatory issue. It wasn't something that we constructed a regulation. This was mandated by Congress. There was a similar issue where we had a major initiative under way to insure that the appropriate utilization review programs were going on to review the appropriateness of each of the patients in nursing centers. That was, again, mandated by Congress. No option. A lot of states didn't do that, and there was a mandatory deduction from their federal matching share. We had a major monitoring effort underway, that we had to have underway for the implementation. On both EPSDT as well as on this UR [utilization review] piece, there were multiple Congressional hearings. I can remember getting absolutely beaten up on a couple of these.

The one I remember was on EPSDT where the staff of the House Commerce Committee, which at that point was headed by Congressman Moss, came down and we shared all the information because I operated pretty much in an open-book fashion. We weren't trying to hide anything in the program. They came down and we showed them what we were doing, what the weaknesses were, what the strengths were, and then they had a Congressional hearing and played like they "discovered" this information, that we didn't know. That really ticked me off. One particular Christmas holiday they issued a press release that I'll always remember 'til the day I die. It hit the news media—that the lack of implementation of the EPSDT program was causing children to die, and I can remember my daughter, who

wasn't very old at the time, asking me if this program was really causing children to die. And I was infuriated.

SANTANGELO: What did you do about it?

WEIKEL: I made multiple calls, but this is one of the problems in Washington. Even though I had excellent relationships with members of Congress and their staffs, it was over the holidays and I couldn't get a single one to stand up, and of course the story was already out. It was the worst kind of journalism. It was the worst kind of public service in terms of putting out a half-truth and getting a message out there that didn't reflect at all what had taken place.

SANTANGELO: Did the national press give the story some play?

WEIKEL: Yes, there was some play. And there had been some play before on the fraud and abuse, but that played both ways. We got a reasonable amount of national press on our fraud and abuse initiative.

SANTANGELO: I've even seen an article in '77 in the New York Times about that.

WEIKEL: Exactly. In fact I may have been quoted on the front page. I said New York City was a "vast wasteland."

SANTANGELO: That's the kind of thing that will get on the front page.

WEIKEL: [laughing] I pretty much said what I thought. Actually I remember on Good Morning America I debated a guy who was head of the Medicaid program in New York City which had an awful track record.

SANTANGELO: So we've been through about four major things.

WEIKEL: Right. I think David Matthews was there after Weinberger left about a year and a half. Matthews was the least industrious Secretary I've seen. He was very, very smart. He was purely an academician. He came from the University of Alabama. I think he was president of one of the major parts of the University and he was a social historian, so he took this very broad, long-term view of everything. He was exceptionally smart but he didn't work very hard at the job. He really basically didn't read briefing books for hearings—that type of thing—which was not true of Weinberger or of Richardson at all. He wasn't that concerned about the day-to-day activities of what was going on. He was much more concerned about the broader, longer-term view, how we could change direction, but really didn't put in enough effort, nor did his direct staff, to make a difference, I think. He got into some issues with me where, I remember for example, on this UR

implementation where you had to assess a penalty. And we were assessing some penalties which were, again, automatically triggered the way the legislation was written, and he was absolutely irate with me and my staff. I can remember being in a meeting with him with almost all of the Assistant Secretaries and myself, and he didn't understand why anyone would assess a penalty against a state because it would only injure the people we were trying to help. He wanted to know what the psychological make-up of my staff was that would allow them or me to make that kind of recommendation.

I guess what I remember is that none of the Assistant Secretaries stood up. They all ducked on that one. I told him it wasn't a matter of the psychological make-up of my staff, that we had taken an oath to uphold the law, and that whether we liked the law, whether we believed it was the right law or not, we had an obligation to administer it. It wasn't a regulation, it was a law passed by the Congress, and if we disagreed with that we needed to get the law changed. At any rate, that was an interesting interaction with him. I actually got along fairly well with him after that.

SANTANGELO: I note that you received a special citation from him.

WEIKEL: Yes, I did [laughing]. We began to understand one another. I think the fact that I stood up to him, I think he respected that. He was amazing in this way: I remember one morning we were testifying before Congressman Moss's committee again, and it was on this utilization review and the penalties. Part of the problem was that there were a couple of times that I testified where I was under oath. You know Washington is a sieve, so they ended up having a number of memos that I had written to the Secretary recommending penalties be taken. The Secretary had ultimately signed off on them, and they knew that nothing happened to them in the Secretary's office, so they asked me about this and I had to tell them. There were three or four hearings altogether around this whole issue. On one I remember going over there, and he called me and said, "We're going up to the Hill in 15 or 20 minutes. I'd like you to come over to the office and let's just talk about this." We'd given him a briefing the day before and he had a briefing book. He never read the briefing book. He had taken some notes on one sheet of yellow paper, and he asked me to come over and explain the law to him. I will have to give the guy credit. He went for two plus hours toe-to-toe with Congressman Moss. He never gave an inch, and that's all he knew. It was a little bit like Reagan is accused of. He had a certain philosophy and he just stuck to that. This guy, with one sheet of paper, just went for maybe two-three hours on the hearing and never budged. I had some respect for him after that. Many people could not do that.

SANTANGELO: Our next major topic would be the actual creation of HCFA as an agency. We've heard that there was a Ford administration proposal that was similar. How did that come about and why was that not implemented at first?

WEIKEL: Weinberger was initially interested. I really can't say why it wasn't implemented. I think one of the reasons that it ultimately got implemented by Califano was that Califano had a very small group working on it, and he kept that more secure than most things in Washington. All the documents were typed at the Defense Department. There wasn't a single document typed in HEW. I think that is a big difference. You couldn't get people shooting at it before it was announced. And I think when the Ford discussions came up there still wasn't 100% consensus inside. I think that was more self-interest than anything else.

SANTANGELO: At the time when Secretary Califano was having this small group that was creating the proposal and typing up those documents at the Defense Department, how involved were you in the discussions?

WEIKEL: I was involved. I had multiple conversations with Califano. Don Wortman at the time was the Acting Administrator, and I was very involved with Don. Don was really the one who was doing a lot of the work with Califano directly. I'd say he had a lot more contact with him than I did, but Don Wortman and I talked about it frequently.

SANTANGELO: Did it make sense to you at the time?

WEIKEL: Absolutely. It did during the Ford administration also.

SANTANGELO: What about other people on the Medicaid side of things? Were there people to whom it either did not make sense or just were not interested?

WEIKEL: It wasn't that widely shared. The Ford stuff obviously was talked about, but in the Califano situation it was pretty much kept under wraps, very tightly controlled. My deputy, who was Paul Wilging at the time, certainly knew about it and I think was supportive of it. I think most of the people could see some value in it. There was always some concern, though, in the Medicaid agency that the Medicaid folks would get swallowed up by Medicare, because Medicare was so much larger in terms of staffing and resources than Medicaid was. There was a real concern among the staff, and probably a legitimate concern, that they would be viewed as second-class citizens because of the resource issue one, and two, that they were providing services to the low income population whereas Medicare was more respectable because it was providing services broadly to society.

SANTANGELO: How large was the staffing difference? Do you have any sense of that?

WEIKEL: I'd have to go back and look, but it was significant, certainly probably double, maybe even more. Maybe as much as quadruple.

SANTANGELO: We've already alluded to the fact that Secretary Califano was the new Secretary after Jimmy Carter became President. How was your working relationship with him?

WEIKEL: We had a good working relationship. I had multiple conversations with him. Then Bob Derzon came in as the Administrator, and Derzon was the one who was interfacing most of the time. I was only one of I think three Republican appointees that was asked to stay on. I think the head of NIH was and myself and I believe there was one other one, but that became an increasing issue with some members of the Hill, just purely political. It wasn't personal. I never took it as personal. Then Califano in his style—I can remember a number of times where you brief Califano, not only me but other people, saying these are the facts and you can't get into this area or say this—didn't always let the facts get in his way. I think he was very dynamic, but there were many times when he'd go out to a press conference and do almost what you told him not to do. Joe then wanted to go on the attack on fraud and abuse—this is one of the ironies that I was the first person ever to do anything on fraud and abuse in Medicaid—and did in a press conference and basically attacked the past administration of the program. At that point he realized that I was becoming an issue. How could he attack that when I was there? So fundamentally, in about August of '77, they said, "Look, we're going to take care of you. You've helped us, but you ought to start looking around." It was becoming too much of a political issue.

SANTANGELO: And ultimately you wound up leaving around when?

WEIKEL: I left in November, but in August I announced that I was going to leave. I announced it to the staff and there was a public announcement because I wanted to be able to go out and look. In that kind of position you couldn't go out and look, it would have been out anyway.

SANTANGELO: So you only had a brief period of time when you were running Medicaid as part of HCFA?

WEIKEL: That's correct.

SANTANGELO: A very transitional time, I would think. But did you get a sense of how it was going to work out?

WEIKEL: I think that it was really too early, frankly, to do that. It happened pretty rapidly, but it was very early.

SANTANGELO: When was Bob Derzon selected to run the agency?

WEIKEL: I can't remember exactly when it was, but it would have been probably spring to late spring.

SANTANGELO: So you had enough time to work with him and see how that was going to go?

WEIKEL: Sure.

SANTANGELO: How did that play out? What were his strengths?

WEIKEL: Bob came out of the hospital industry. I don't think Bob was a strong day-to-day manager, let me put it that way. I think what Bob was interested in truly was public policy. I think we got into a lot of relatively long academic discussions about public policy and issues that perhaps were more appropriate at a Secretary's office level than in the agency. To me Medicaid and Medicare are really running, operating, day-to-day health financing programs, and what you need to do is make sure that you have adequate systems in place for financial controls, utilization controls, payments are made in a timely fashion, beneficiaries know what they're entitled to, and the enrollment procedures are simple—those kinds of things. We didn't focus on those kinds of issues with Bob. Bob was much more interested in what would the impact of smoking be on the utilization of services, in looking at some of the more macro policies like that, rather the day-to-day operations of Medicaid and Medicare. That's how I would characterize him. Ultimately he lasted less than a year I believe. I think that's predominantly why. And I think the difference is when Len Schaeffer came in, and I met a number of times with Len when I was still in Washington, Len took a much different approach to it. He took much more of an operator's approach to it and really did get into the nitty-gritty of the operations. And I think that's what you have to do in Medicaid and Medicare. Obviously with the legislation being proposed now a lot of that may change.

SANTANGELO: You left in the fall of '77?

WEIKEL: Yes, late fall.

SANTANGELO: What did you wind up doing after that?

WEIKEL: When I decided in August that I was going to look around, I said, "I want this to be my last move," and so I decided that I wanted to do one of two things. I didn't want to go back into the pharmaceutical industry

because I think it's difficult to go back, plus I didn't really have any experience on the service side of the delivery system. I wanted to either go on the service side of the health care industry or I wanted to go on the financing side, so I looked in the insurance industry and on the service side. And I ended up sending letters or résumés to a whole series of contacts or people that I had a network with, and I also sent probably a couple hundred to a combination of head hunters and CEOs of companies that I'd be interested in working with. I ultimately boiled it down. Out of that probably I had ten that expressed an interest, and I boiled that down to two. It was a toss up: I was offered the presidency of Blue Cross/Blue Shield of Maine and a Vice Presidency of American Medical International. That was one of the toughest decisions of my career because they were dramatically different jobs, and both of them were good.

I ultimately went with American Medical International as Vice President. At the time, they owned and operated about 160 hospitals and a number of other ancillary service companies. I was hired to head their government relations as well as run the government contracting group they had. Within the first year—I didn't think they should be in the government contracting business, I thought it was a conflict of interest—so after 15 months we ended up closing it, abolishing it. I did the government relations work for them, but then within the first year I took over as CEO of one of their subsidiaries. In fact it has an association with George Washington University, Frieson International. I was CEO of Frieson International which was involved in the architectural design of hospitals and master planning for hospitals. I basically redirected the company to be focused almost exclusively on doing strategic planning for health care organizations. We still did some architectural work also. I spent the rest of my time at AMI doing that type of thing, became a group vice president of AMI and continued to have responsibility for their government relations as well as running Freeson International.

SANTANGELO: Did you testify on the Hill at that point?

WEIKEL: I think, as I recall, I believe I only testified one time when I was with AMI, and that was in the role of President of the Federation of American Hospitals.

SANTANGELO: Was this in '83?

WEIKEL: Yes, it was.

SANTANGELO: I've seen the testimony. That's actually how I tracked you down. That was in '83 when they were talking about implementation of the

DRGs. From your perspective as the president of that organization, what was your take on the DRGs?

WEIKEL: I was in favor of it. And the organization was very much in favor of DRGs, and we actively lobbied for it. It happened much faster than any of us thought it would, frankly. It was a real lesson for me, because I've concluded that you should be careful of what you ask for because it may come true. There isn't any reimbursement system that the government can't screw around with from a policy point of view. We were concerned about 223 limits and this cut and that cut before, thinking that if we knew prospectively what we were going to get, then it would be much better. But of course then they look and see whether in their opinion you made too much money, and they're still adjusting everything. They adjust the capital, they adjust the education parts of it, all sorts of manipulations every year with it. It's ironic that the last few years the same issue is being raised about long-term care. I've been one of those that have been very cautious about it because I don't care what the reimbursement system is, both the providers and the government are going to find a way to manipulate it to their interest. So I don't believe DRGs are a panacea to the hospital industry or to the government. The amazing thing to me, historically, is how rapidly that train moved out and actually got implemented. When we started in '83 I don't think we really believed we were going to get it, and all of a sudden it was there.

SANTANGELO: Tacked onto that Social Security omnibus bill.

WEIKEL: The Federation was very active; Mike Bromberg was very active in all this. And probably because of Mike, frankly, and Mike's tremendous contacts on the Hill and Mike's respect is probably why it moved so fast. If you look at the data the first few years, there was some windfall to the industry, but that rapidly disappeared.

SANTANGELO: Did you wind up staying with AMI?

WEIKEL: I stayed with AMI about 8 years. I left at the end of 1984. If you look at the financial data you'll see that the hospital industry really went into the dumper shortly thereafter. I had done a lot of analysis about the delivery system and did a lot of futurist type of work, when I was in the pharmaceutical industry as well as at AMI, as to where the delivery system was going. So I could see partially what was going to happen to the hospital side. AMI was going to move my subsidiary to Beverly Hills and my family wasn't wild about that. I was also concerned that the hospital industry had seen its best day financially, so I began to look around. I decided I was going to make a change and I tried to predict what two areas would have a better future. I looked at both long-term care and managed care and ended

up having opportunities in both, similar to when I left government. Ultimately I boiled it down and became the Chief Operating Officer of Manor Health Care, which didn't require me to move because they were based in Silver Spring. I stayed there a few years and then I moved to HCR as the Chief Operating Officer.

SANTANGELO: And that brings us up to date. One last question: looking back on your career, especially your government career, what are the things that you feel most strongly about that government did well, that Medicaid did well, that you did well? And the flip side of that, looking back, would be some things that you might want to do differently.

WEIKEL: I have no regrets. I enjoyed my time in government. I never worked harder. Some of the brightest people I've ever worked with were in government. I think some of the most naive people I've ever worked with were in government. I think that there are a lot of exceptional folks in the bureaucracy, particularly at the senior levels. I think the tragedy in government is that you can have a lot of folks who aren't pulling their weight, maybe 25%, and it's very difficult to do anything about those. You have the top 20% that are just doing incredible service, and then you have the group in the middle that a high percentage of those are giving you a good day's work, whether they're overpaid or not I don't want to get into. In some cases they are, and in some cases they're underpaid. But certainly in terms of work ethic and pure intelligence they're the best group of people that I've ever worked with, but also frustrating because of the 25% that were getting in your way. I think it was a great move for me personally. It was psychologically rewarding. I think it was a good influence on our children growing up. I don't regret if for a second. My intention when I left, and up until maybe even a couple of years ago was always to go back for another term of service. With the Weinberger indictment I got turned off by that, to be honest. Having worked with him and known how ethical he was, when I see what happened to him as purely political, it is a real turn-off on how negative government has become. He was one of the few people to be opposed to selling arms to the Iranians. What I saw was a number of Democrats who also believed that, but nobody was willing to stand up. To put somebody through, at the age of 75 was a tragedy. So you wonder whether you want to go through the harassment that you have to in public service any more. I think that's a sad commentary because I enjoyed public service.

I have a lot of respect for those folks who've done it and are doing it, but I think the rules of engagement are changing and I think that's wrong. Not that they shouldn't change at all, but I think that's just gotten totally out of balance, and I believe that's what the American society is upset about,

including the way Congress is behaving right now. Americans say it's a blight on both Republicans and Democrats that they act like a bunch of juveniles up there yelling at one another.

In terms of my service, I'm very proud of it. I think I've learned a lot, and I think I've contributed a lot. One, I think that you need to get more people from different walks of life into government. We must have more than people who are just straight out of academic institutions. I think highly of academicians so I don't mean it that way. But we have a lot of folks on the Hill today where the average age is probably under thirty with no real life experience. I believe that one of the problems is that you need to bring to those jobs in Washington someone that has some real life experience at trying to run something, at trying to do something, at trying to earn a living and support a group of employees—to bring that kind of experience there rather than just the simple academic experience.

I think the academic experience is important also, but as a part of modifying it to having some real life input. I believe that's one of the things I brought. That's one of the reasons I probably had some of the success that I did even in the respect that I had from the people on the Hill, because I brought a business experience, not that it was extensive or comprehensive. I was a rare commodity at that time. There was one other person that I'm aware of in HEW that had real business experience, that was a guy by the name of Jerry Riso. That's unfortunate because I think you can be involved in social service and still bring a business attitude toward that and still be compassionate and caring. I think that's something I brought, and I think that, therefore, having the business background was a contribution not only to the programs but to the other employees that I worked with.

I'm proud of what we did in terms of slowing the growth of Medicaid expenditures, of providing preventive services to a much larger number of children, to putting programs in place to address some of the fraud and abuse, to putting an evaluation process in place in the Secretary's office to at least make some impact on improving performance of programs. I don't think it was ever what it could be. The potential was much greater than anything we were ever able to accomplish, but in some cases we did impact some programs in a positive way. I believe that was good.

The other piece is that a lot of business people don't understand the public policy process. They don't understand, they put everybody in the same category in terms of bureaucrats, and I don't think that's right. I think it would be a real advantage to have more business people run through Washington at some point in their career. It would improve public policy and it would also improve what's going on in corporate America. I believe that the role of government is to kick corporate America in the head when they're

not doing the job, but other times they ought to stay out of the way and not just muck it up from a regulatory point of view. I just see government going amok in many ways from a regulatory point of view.

One of the problems is that you can hide in Washington behind the regulations. You never have to face the beneficiary or the provider. Some of the regulations don't make any sense. Karen Nelson wrote the Medicaid eligibility regs. Karen is super, super smart and a good public servant, but they were so complicated that she was probably the only one that understood them. And I think that's a common problem there. I think we have to get things simple so that they can be administered. It's a problem in legislation. Some of the legislation is so complex you can't possibly administer it, and I think that's what's happening in a lot of areas. When I today don't know whether my tax return is right because my CPA tells me that the only way they can determine whether there's a change in it is by running it through the computer, that scares the hell out of me. But I think that's where we've gotten. Not only our tax code but a lot of the regulations that we're dealing with. People who are well motivated don't know whether it's right or wrong in terms of the regulations. I'm not talking in terms of whether it's just right or wrong. I think those are some of the things that have to be changed. It would be exciting if you thought you had a chance to do that, but I think the environment has changed significantly back there. But I do think some of those staff positions need some gray hair on them.

SANTANGELO: I'd like to thank you very much.

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Interview with David Weinman

Alexandria, Virginia on August 18, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: Mr. Weinman, you were involved with the creation of HCFA, of putting that organization together. What was your job at the time that you started to do that?

WEINMAN: At the time I was in charge of the organizational group, which drew up the skeleton organization that was to become HCFA, which as you probably know, was an amalgam of five different elements of the Department of Health, Education and Welfare at that time.

BERKOWITZ: Were you an employee of HEW?

WEINMAN: Yes, I was an employee of HEW and had been working for the Social and Rehabilitation Service on a short term assignment, when, after the election, the decision was made to fold in Medicare and Medicaid, some long-term care programs and come up with what turned out to be the Health Care Financing Administration.

BERKOWITZ: Let me ask you about yourself. You say you were on assignment to the Social and Rehabilitation Service in 1976–77. What had you been doing before that?

WEINMAN: I was a career civil servant and spent ultimately twenty-six years as a career civil servant starting in the early '60s and going through the mid-'80s. My particular interest and experience, in terms of being a civil servant, was that I worked with eight different agencies and fifteen programs, including a number of new programs. Thus working for HCFA at the time was nothing new. I had worked with the Peace Corps, with OEO, the War on Poverty, OMB and a number of other new programs, so this was simply another chance to participate in an organization being established. It was a very exciting one, when you realize that our first budget at HCFA was fifty billion dollars, which at that time was a lot of money. It's not so much money today.

BERKOWITZ: Was your assignment at SRS your first in HEW?

WEINMAN: No, I had been with the Professional Standards Review Program, PSRO, which was later folded into HCFA as part of the Bureau of Quality Assurance.

BERKOWITZ: Can you describe that program a little bit for us? I've never been certain what it does.

WEINMAN: The Professional Standards Review program was an attempt to review procedures that doctors utilize in terms of quality and cost effectiveness. It was to set a standard and make sure that operations and medical procedures were in fact necessary and that they were performed in the most efficacious and cost effective way. It was an attempt to bring the doctors in, and on board in terms of trying to reduce medical costs. It was the first real attempt at that, and yet at the same time, not just to contain the costs but to make sure that there was in fact a quality standard brought to those medical procedures.

BERKOWITZ: What part of HHS was it in, this PSRO?

WEINMAN: It was on the Health side. It was under the Assistant Secretary for Health, and there was a Director of the Office of Professional Standards Review. OPSR on the organizational chart had oversight of the Bureau of Quality Assurance.

BERKOWITZ: What brought you over to SRS?

WEINMAN: I was there, actually working for an old colleague of mine for whom I had worked and to whom I had reported in the Office of Economic Opportunity, Don Wortman. He had been sent back after the election in which Carter came to Washington again as the acting head of SRS for a period of time, and that led to his then being given the assignment of pulling together Health Care Financing. Since I had been working for him—he and I had both earlier worked prior to the election on the refugee program and at SRS—I just joined him as his Special Assistant, and he put me in charge of this task heading up the group to develop the organizational design.

BERKOWITZ: Was that before the Humphrey Building was built?

WEINMAN: No, the Humphrey Building was there.

BERKOWITZ: Were you working in the Humphrey Building?

WEINMAN: No, we were working in South Building, the Switzer Building.

BERKOWITZ: Were there many tales of Mary Switzer circulating about SRS?

WEINMAN: Not that I remember. Again, I was never fully a part of SRS except for two very brief periods. Don Wortman was given his new assignment January 21, 1977. I remember he called me up on Inauguration

Day and asked me to do this. Joe Califano, of course, came in as the Secretary of HEW at that time. As you know probably, at least as an outside observer, Joe was a very active guy with a true sense of PR, both for programs and Joe.

BERKOWITZ: So your particular task was to work on the creation of what became HCFA on a very short-term, very quick basis. Do you remember who else worked with you on that HCFA initiative? You reported to Don Wortman, is that right?

WEINMAN: Yes. There was a group. Judy Moore, who recently retired, was one of them. Ron Schwartz, who had been with SRS, was there. Ann Verano, who is still with HCFA, worked with us. John Berry, who had been in Dallas with HEW came to Washington. Larry McDonough, who has been working in the San Francisco region of HHS in Medicaid, was there. Ruth Hanft was another. She's been in and out of HHS, and you may know her as a consultant. Finally Carolyn Betts who had been in SRS was a member. Those were the primary participants.

BERKOWITZ: Were you the head of the team?

WEINMAN: Yes.

BERKOWITZ: What do you remember about your specific assignment? What did Don Wortman tell you to do?

WEINMAN: Basically our main task was to come up with a new organization, which would amalgamate Medicare, Medicaid, the Bureau of Quality Assurance and some of the long-term care functions. This was not an easy task! I mean, in theory it was an easy task to develop an organization, but it was not easy to integrate five separate elements, not exactly in love with each other, and with their own territorial prerogatives. It turned out to be a fairly rough run in the sense that you could come up with the organization, as ultimately we did, and we said, "This is the way it's going to be,"—but old loyalties die hard. Medicare, as you may remember, had been in existence since 1966. Eleven years later, after it had been pretty much off on its own was the big guy on the block, suddenly its told to report to somebody called the Administrator of HCFA. That was Bob Derzon who had been heading a hospital in San Francisco. It was just a whole new world all of a sudden!

There was a lot of rear guard action. It was a little bit bloody, as organizational struggles go. The sadness of the whole thing was I'd been with organization in the '60s such as the Peace Corps and OEO, and there was a real joie de vivre, a real organizational excitement about them. I feel

that in HCFA one of our failures was that we never were able to generate for the employees being integrated into this organization a sense of, "This is a really critical thing." As you may remember, at that point in the '70s not a lot was being created. The '60s were behind us, we'd gone through the Nixon years, and we were starting to be very static, very much status quo in terms of new programs. Suddenly we had a chance to create not only a new program but a billion dollar program. You compare that to OEO.

The overall budget for OEO in the '60s was two billion, and our first budget in HCFA was fifty billion. That's a big difference! I think we should really have been a crown jewel of the Carter administration in terms of generating challenge and excitement. I personally feel it was really a failure of top leadership, and by that I don't mean Don Wortman who is a first-rate administrator and understands how to generate that kind of enthusiasm. He's a very consensus-building kind of leader. Basically the leadership that came after Don was never able to knock heads effectively at the senior level and say, "We are on one team." I was very disappointed in that. There was too much guarding of one's own preserve. Tom Tierney is an example. He was certainly a capable guy, but Tom could never get over the fact that Medicare was just now part of a larger whole. That message went down the Medicare line. Medicaid was a little bit easier. Basically, though, it was a number of senior staff in HCFA playing individual games and agendas instead of for the larger good.

BERKOWITZ: When you created this plan, which you did very quickly, did you meet with all these people? Did you meet after hours? How did it work?

WEINMAN: Oh yes, there were a lot of long hours. We had discrete tasks, and we looked at various organizational options. We consciously did consult them. I think they would probably tell you, however, they were never consulted enough. I guess one of the eternal lessons I learned out of this particular kind of reorganization was that however much you think you're communicating, it's never enough. I think any of the organizational elements would say, "Well they really didn't consult us. They just kind of rolled on." And it wasn't that we were changing the nature of the programs as much as we were designing an organizational framework that would pull them together.

BERKOWITZ: What were your specific tasks in this project?

WEINMAN: Basically to come up with an organizational design for Health Care Financing that would take five independent entities, or at least separate entities and weld them into one organization. The other component that got involved in that and ultimately was a very critical issue was how did you design the regional structure. As you know there had been, although now

they're starting to redesign it, ten standard regions and, of course, you had elements in each of both Medicare and Medicaid. So how did you bring them in? That whole issue of how strong the regions were to be, how strong they were to be vis a vis headquarters, what kind of regional administrators you had and what kind of responsibility they had was the primary issue that ultimately did in the first administrator, Bob Derzon. He never quite got that one under control. It's my understanding—I left the organization about a year after that, and before he left—that Califano finally was so frustrated he sent somebody else in to get the thing organized in that regard. Actually Bob had been informed of the Secretary's view since a couple of us had gotten the word very clearly from the Humphrey building. That's another whole issue, though, of bringing new people into Washington and putting them in charge of a new organization. We're very naive in this country about that.

BERKOWITZ: You said that there were different organizational schemes that you talked about in this working group to found HCFA. Do you remember what the salient issues were?

WEINMAN: Not like I used to! Issues like whether you put Medicare and Medicaid together in one bureau, whether you have them maintain their separate identities, what do you do with the PSRO program or the quality assurance element, and how it is located. I remember questions primarily of integration and who is subsuming whom as the key operational issues. Basically where was the power going to be, and who was going to make the decisions.

BERKOWITZ: Did you have any predilections on those issues?

WEINMAN: I think if we were driven by any predilections, it was basically to make sure that the whole element of separateness was reduced in intensity. You see prior to that you had a situation in which particularly Medicaid, Medicare and the PSRO program theoretically had to work together, but in fact did not because when the PSRO program was set up to review Medicare and Medicaid kinds of operations, they didn't like that very much. So OPSR never really had the clout, although they had the so-called Quality Standard Program. The point with HCFA was to put all the program elements into one organization with one boss and try to remove that segregation or that separateness.

BERKOWITZ: Were you afraid of resistance from the Social Security Administration?

WEINMAN: Yes, certainly SSA—and Medicare was part of SSA—had had a lot of clout and suddenly Medicare was removed. I don't know whether you've ever been in Baltimore to see their campus. It's like a college

campus. They were physically separated from the other elements. That had represented a lot of freedom. Ironically, Don Wortman ultimately went on to be the Acting Commissioner of SSA for a period of time.

BERKOWITZ: In all this did you report only to Mr. Wortman, or did you also have a chance to talk with Califano?

WEINMAN: No, I basically reported to Don Wortman and then Bob Derzon when he came in as the first HCFA administrator.

BERKOWITZ: What was Wortman's input to you?

WEINMAN: Basically he reviewed our work. There were a lot of details that he was juggling, and he did the main liaison work vis-a-vis Secretary Califano.

BERKOWITZ: You had concluded your work by when? You started in January.

WEINMAN: No. Don and I went to SRS in January, and we started HCFA, I think in March. We had an organization with acting heads by late June or July. I became the Acting Director of the Office of Management and Budget in HCFA as my next job after heading the organizational group.

BERKOWIT: And in that job you reported to Bob Derzon? How did he see his mission as the first to head HCFA?

WEINMAN: I think Bob was a very knowledgeable guy in terms of health care. He'd been at it a long time both in New York City and in San Francisco, so he was not unsophisticated in terms of health issues. I think Bob's biggest problem, and it's certainly one that's repeated again and again as people come to Washington, was that when you attempt to do something as we were trying to do, a major reorganization but only one piece of some other things that Califano was trying to do in HEW, you only have so long to grab the issue. It's a bronco. You either tame it and ride it, or you lose it and get thrown off. I think Bob never fully appreciated the short timeframe in which that kind of situation occurs. So he tended to be more deliberative, more thoughtful, slower than in fact he should have been. As I say, he had an excellent background. He had actually had major managerial experience. Unfortunately for people who come in from the outside, and I saw that several times in my government career, and try to manage government agencies, it is just not like running General Motors or other businesses.

We have different constituencies. First you have the Congress. You're being watched the whole time by committees on the Hill that have a very vested interest in their pieces of the health pie being integrated. Don and Bob,

naturally, had to go to the Hill periodically and meet with Congressional staff. You have the people in the organization, and they're very anxious not knowing what's going to happen to their jobs. And finally you have the PR front. It's just a very, very tough and complex job. The only thing I would analogize HCFA to was my subsequent work on the Department of Education, when it was created. I think Shirley Hufstedler had frankly a very similar experience to Bob Derzon. This was a very bright lady. She had been a judge, good lawyer, but that in no sense made her automatically a good manager to lead a reorganization. Again and again, my experience has been that you see people who are bright and capable in some areas being put into jobs that they may not be particularly suited for, or are going to have to learn about in order to do the job the right way.

BERKOWITZ: How long were you at HCFA?

WEINMAN: I was at HCFA until August of 1978. I spent about a year as the Director of the Office of Management and Budget, and then I went over to the Inspector General's office at HEW.

BERKOWITZ: And what did this Office of Management and Budget do?

WEINMAN: We did the nuts and bolts. We were the administrative area. The budget was put out within that office and all the housekeeping—all the kind of non-fun things.

BERKOWITZ: Let's talk about one of the housekeeping issues. Were you working in Washington when you did this? Were the Medicaid people still in Washington?

WEINMAN: Yes, yes. That was Medicaid headquarters. Then, of course, there were the regional offices. Medicare was still up at Woodlawn. The PSRO program, then the Bureau of Quality Assurance, had its regional offices.

BERKOWITZ: Did it strike you as a priority to get the Medicaid people to Baltimore or the Medicare people to Washington?

WEINMAN: I think it struck us as a priority to get everybody in the same building or complex. They've never totally solved that problem, though they are now about to try again in 1995. If I understand correctly, they are finally going to have everybody in one building and just a very small staff in Washington. I guess it will always be bifurcated as long as you've got it in Baltimore, but I think this should be the best consolidation that they've had.

BERKOWITZ: I was thinking that this notion of integrating Medicare and Medicaid was made considerably harder in that period by not even having them on the same campus.

WEINMAN: Absolutely. If you look at organizational culture as an issue, Social Security, SSA, had a totally different culture from much of HEW. It was more like the warm fuzzy feel of being wrapped around with all sorts of security, and they were off by themselves in Woodlawn. It was really hard for those people to understand in some ways. They were being asked to report, to come to meetings in Washington and meet people who had not been their supervisors. You can understand that. They reacted. I was called names periodically. My motives were questioned about what I was doing, and why wasn't I doing it the way they wanted it done. I was called a liar a few times. It got rough.

BERKOWITZ: Let me ask you a little more about yourself. What attracted you to government in the first place?

WEINMAN: I'm a child of the '60s. As a law student I stood at the Michigan Union in 1960 when Jack Kennedy was running for president and announced the Peace Corps. I ultimately went into the Peace Corps, and I've always liked the idea that there's a higher good than just going out and making money.

BERKOWITZ: You stayed up 'til two in the morning to hear Jack Kennedy speak?

WEINMAN: I did.

BERKOWITZ: Why did you leave government?

WEINMAN: Because government as I knew it in the mid-80s was not a government in which I particularly believed. The government and the people who work for the government are you and me. People tend to treat them as somebody else, but basically they're just your neighbor, and they're people. I saw the exciting days, when people really got turned on. I'm a great believer in people being excited by whatever they do, and when it got to the mid-'80s, it was very clear that the string had run out. I was dumbfounded frankly in a way, because, if you remember historically, when the '60s took over, the Eisenhower regime had just come to what was the nadir of feeling about government and civil servants in '59 and early '60. I thought it would be at least another 35 years before we hit the wall again. In fact, the cycle accelerated, and by the early '80s with Reagan we were heading right back to where we'd been in the late '50s. It was a much shorter cycle than I

thought it would be. I had a chance in the end to take an early retirement. I'd done 26 years and had a great time. There were other things to do in life.

BERKOWITZ: Did you ever return to the health care field?

WEINMAN: No. I only spent those five years, 1973–1978.

BERKOWITZ: Let me ask you one last question about HCFA. When you were at the Office of Management and Budget at the Health Care Financing Administration, whom did you deal with in the White House, OMB or in the departmental structure?

WEINMAN: We did not deal directly with anybody in the White House or OMB. OMB dealt with the people in HEW headquarters, the head of the budget, the Assistant Secretary for Management and Budget, and we would relate to them as one part of the department, albeit a very big part because of the cost of our program. Our ties were basically internal ties. One was Charlie Miller, the budget director. There was also the Assistant Secretary for Management and Budget in the Carter days, Fred Bohen.

BERKOWITZ: I said that would be the last, but I actually do have one more question about reorganizations. You mentioned that you were also at the Department of Education early on in its life. That was another example of reorganization that took vocational rehabilitation and the Office of Education out of HEW. It was bitterly contested in HEW, it was bitterly contested by the vocational rehabilitation people who had fitted into SRS in the period we've been speaking of. It's been described by one of the prominent players at HEW as "political payoff pure and simple," whereas HCFA has never been described just that way. HCFA has always been described as an effort to make government work better, to develop the organizational capacity perhaps for national health insurance in the future. Is that fair? Can you compare and contrast those two reorganizations?

WEINMAN: I would agree that I don't think anybody ever saw HCFA as a political payoff to anybody. In fact we were running against the tide. I don't think it was something that the Hill necessarily really liked the idea of, since you have segregated lines on the Hill. What we were trying to do was cut across and consolidate lines, which would cut into different kinds of power bases. I don't think it was politically motivated. I think it was motivated by the possibility of savings and organizational good sense. I'm less familiar with the political background of the Department of Education. It sounds like that could well have been some kind of political payoff. In any case, what was striking to me again was the situation in which people were brought in and asked to perform tasks that they weren't really particularly qualified to do. I feel very strongly that, because you're a great lawyer, and lawyers are

basically highly skilled technicians, they may or may not happen to be managers. And I don't think Hufstedler was particularly a gifted manager or leader, as good a lawyer and judge as she may have been. You get into a kind of box in the sense that when you put an organization together in Washington, you have a lot of political observers, and the people at the top tend to focus on Congress and the other external constituencies about town, and they start making commitments.

The thing they usually forget is what they really ought to be working on simultaneously is building and maintaining their organizational spirit, because these are the people who are going to deliver on the commitments that they're making. I said that one day to a lady that I didn't know well at all, Liz Carpenter who had been in the Johnson administration, and I tried to explain to her what I was observing, and she said, "Well, the Secretary is very busy." And I said, "But don't you understand that it's these people that are going to deliver?" One of the things I was really proud of in a small way, was we had set up the system, when we put together the Department of Education, to go around and interview all the super-grades, now SESers and senior 15s, and talk to them about what they might be doing in the new configuration. In other words it was an attempt, perhaps unprecedented, to come to grips with organizational anxiety.

We literally brought in consultants who interviewed everybody. We talked about, "If it is going to change, what do you think?" in an attempt to get on top of the organizational human resource side. I had trouble finally, thanks to a guy named Dick Beatty who's now a big-time New York lawyer and financier, in getting the interview results to Secretary Hufstedler. I finally had them delivered by another route. I think it's a critical issue that the people who are reorganized or moved out get some strong consideration, because you don't know but what in the end you may have to use them to get there. In any case, just from the humane point of view it's necessary—people spend a lot of time in their lives at work. This was an attempt to do that.

BERKOWITZ: But if you had done that in the case of HCFA, if you had had a lot of consideration for the people in Medicare, they might have said they didn't want to do it at all.

WEINMAN: Yes, they probably would have said right from the beginning that they didn't want to do it at all, but people tend to be realists also. People can be flexible, they can bend, they can work with it, if they feel somebody is providing some consideration to them. You may get a few recalcitrants, but I don't think that's most people by and large. People can be and are intelligent. Most of all, people want to have some sense of control over their lives and what they do and the kind of work they provide. The key

to that is to help them to understand that you may have to change some of the ground rules, but that you care about them and that you still want them to be productive.

BERKOWITZ: Thank you very much.

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Interview with Paul Willging

American Health Care Association, Washington, D.C. on June 26, 1996
Interviewed by Edward Berkowitz

BERKOWITZ: First of all, are you from Minnesota?

WILLGING: I was born in Westchester County in New York and spent most of my life in Minnesota—grade school, high school, college—until I went off to Columbia University for a PhD.

BERKOWITZ: Now, as I look at your vita, I see you have an MA in International Affairs. You must have done an about-face at some point in your educational career.

WILLGING: I have a Bachelor's degree in German literature and a Fulbright scholarship from the University of Berlin, Free University. At that point I discovered a professor in Soviet politics and policy so I switched fields in midstream and went on to Columbia to get a Master's in International Affairs and a PhD in Soviet Foreign Policy. It was just intriguing at the time.

BERKOWITZ: Was that a culture shock for you? When you were growing up had you been in New York long enough for you to remember it?

WILLGING: I think it was culture shock to some extent. When I actually left New Rochelle, New York where I was born, I couldn't have been more than a couple of years old. My dad was a college professor, and in the early forties most of the male college students disappeared from campuses and entered the service. I was very young—three or four years old—when we moved to Wisconsin where my dad then taught high school. So coming back to New York to study was a bit of a shock. It wasn't too bothersome; it was an interesting experience as long as you didn't have to do it for the rest of your life.

BERKOWITZ: What caused you to go into social policy and health policy?

WILLGING: It's a convoluted family kind of story. When I was in Berlin, I married a German national. I came back with her to the States and I realized fairly quickly that I didn't want to become an academician, not because it isn't a worthy calling but I just did not enjoy research. I did not want to enter any field where I might not have a chance to move forward. At that time, publish or perish still had a certain validity to it because of the environment of the academic world. So the next step was to look around in terms of applying what I had learned in the public sector, and, with a

German national as a wife, I found suddenly I was a security risk. She had relatives in what was still the German Democratic Republic. So neither NSA, nor the CIA, nor the State Department were too anxious to take a chance on me until she had become naturalized. And she wasn't interested in becoming a naturalized citizen at the time, although last year she became an American citizen. So that began to limit my options to some extent.

However, soon I discovered a place called the International Affairs staff in the Office of Research and Statistics at the Social Security Administration. The Office of Research and Statistics was headed by a very congenial, very bright woman called Ida Merriam. Medicare was still a part of the SSA back in the sixties when I entered government and was the only option available to me at the time. The International Affairs staff said, "Maybe this guy with a PhD in Soviet policy can analyze Swedish pension systems for us." I thought that after a couple of days analyzing Swedish pension systems it wasn't the most exciting thing I had ever done, but in the Office of Research and Statistics there was also a group called the Division of Health Insurance Studies which was responsible for looking at Medicare type issues. Within a day, literally, I was a management intern in the Division of Health Insurance Studies. I did nine months or so there and then moved over to the National Institutes of Health as the Executive Officer for the Assistant Director of Planning and Evaluation. From there I moved on to the Division of Health Evaluation in the Office of the Secretary, working for a guy who is now in the nursing home industry. He later became an associate administrator out at the Public Health Service and from there moved to the Medicaid program as the Commissioner for what was then called the Medical Services Administration.

BERKOWITZ: Which was part of the RSA?

WILLGING: He was my rabbi, if you will, and if I had any luck along the way, it was latching onto someone who kept bringing me along with him. He became the commissioner for the Medical Services Administration and I became his deputy commissioner. And that was how I ended up with HCFA.

BERKOWITZ: And that was Keith Weikel?

WILLGING: That was Keith Weikel.

BERKOWITZ: When you worked for Ida Merriam, what year was that?

WILLGING: I left government in 1982 and I had been in government for thirteen years so it would have been 1969.

BERKOWITZ: So when you worked for Ida Merriam, Medicare had already been passed.

WILLGING: Medicare had been passed and enacted three years earlier. It was part of the Bureau of Health Insurance.

BERKOWITZ: Four years earlier, right?

WILLGING: Four years. It was enacted in 1965–66. I wasn't there so I never recall it. But they set up the Bureau of Health Insurance in the SSA. Tom Tierney was the head of the Bureau of Health Insurance. Ida was the Social Commissioner of the SSA for Research and Statistics. The Division of Health Insurance Studies was headed by Howard West and he had a deputy named Dorothy. I don't remember her last name. It was a very congenial group. That was the first management intern slot. I was a three-year management intern with four nine month assignments. I did the first three and then quit the program early as Keith Weikel started moving around. I simply followed him as a career civil servant.

BERKOWITZ: Did you every meet Ida Merriam personally? What did you think of her?

WILLGING: Extremely bright, extremely gracious lady.

BERKOWITZ: You weren't scared of her? A lot of people were scared of her.

WILLGING: I was sort of a gopher. This was my first job and part of my function was on my knees measuring bank partitions, changing office configurations—really exciting stuff. I suspect, bright as she was, she could intimidate intellectually. I never interfaced with Ida Merriam on an intellectual basis. I interfaced with her as a human being and found her quite congenial and gracious.

BERKOWITZ: Where did you meet Keith Weikel? At what stage was that?

WILLGING: My third assignment. I did my first nine months with Social Security, my second nine months with the National Institutes of Health. I was then approached to take on a position again in the management intern rotational series in the Division of Health Evaluation. The Division of Health Evaluation was one of the constituent divisions of the Office of the Deputy Assistant Secretary for Health Planning and Evaluation, Stuart Altman. Stuart had two or three divisions, Keith had one—the Division of Health Evaluation. Basically, it was a part of the Public Health Service that essentially set aside one percent of the appropriations every year to evaluate programs. I'm not sure how their evaluations ever were or whether they led to any changes in terms of programs, but it was a nice little job to

run all these contractors. There was a budget of some thirty billion dollars a year to let contracts with various think tanks to take a look at programs—how well they were working and how they could be improved. Keith headed that shop. I worked for him. He then was solicited to be the Associate Administrator of Planning and Evaluation at the Health Services Administration which was one of the constituent organizations of the Public Health Service, something called HSMHA, Health Services Mental Health Administration. He was working for Hal Buzzel who was the administrator for about a year and a half. He was then recruited by Jack Svahn with whom he was close. Actually it was Jim Dwight.

BERKOWITZ: Those are all SRS guys. Jack Svahn had come from California.

WILLGING: They had all come from California. Keith is a fairly gregarious, outgoing kind of guy. He got along with them; they got along with him. Keith was asked to serve as the Commissioner of the Medical Service Administration for that program. I stayed on at the Health Services Administration hoping to take on the job that Keith had left as an associate administrator. As one does in one's career, I had made a few non-friends along the way. I recall John Marshall, who was the Deputy Administrator of HSA. John could not stand me and the sentiments were clearly reciprocal. But, unbeknownst to me, when they posted the job that I had chosen to apply for, they had changed the requirement of PhD to a PhD in health sciences. That was designed for one reason only which was to exclude me from being considered for the job. The result was that I called Keith basically begging him to take me back because he had asked me to come down with him in the first place. I said I would like to be an associate administrator. He took me back after extracting a pound of flesh, and I became his deputy commissioner.

I have always felt that for every ten competent people there is one who has been lucky enough to latch on to somebody who helped him with his career. Keith was clearly that for me. When Joe Califano came on with the Carter administration, Keith set a record of sorts. Keith was a Republican, of course, who was hired in the Nixon administration. Keith lasted for something like nine to twelve months—I can't be quite sure—as a Republican appointee in a Democratic administration because he was good, extremely good. He got along well with people, had vision and knew how to manage. We were sitting at a reception one day for one of the programs we had called the EPSDT Program [Early Periodic Screening Diagnosis and Treatment Program] for kids under Medicaid, and there was some type of congratulatory reception. Joe Califano was there and talked about what a great job the Medical Services Administration had done with respect to this

program and how they anticipated the job would be done just as well, if not better, under its new commissioner. It was the first time that Keith had heard that there was going to be a new commissioner. So Keith moved on and went to a hospital group called American Medical International until they thought they wanted to bring the division back to Los Angeles where the headquarter of AMI were. Keith has always been a political animal and didn't really want to move to LA. He ended up working for Manor Care. He's now the CEO for HCR, Health Care Retirement, and doing extremely well.

BERKOWITZ: Please tell me about Stuart Altman. He's somebody that you say has quite a reputation. I've heard that he's not a very good administrator, sort of chaotic.

WILLGING: I think he is a little chaotic, but he had people working for him when I was in government who could manage, so it didn't make much difference. Stuart, however, had a combined talent, almost unique among those I've seen in the policy side of government. Stuart had superb academic credentials. He could think along with the best of them. And Stuart had a very finely tuned set of political antennae as well. He knew how to match what made sense analytically with what made sense politically. I didn't see many of those in government. I found those who had impeccable academic credentials who could think along with the best of them but had no idea what would fly politically. I've seen hacks who had incredible political credentials but couldn't analyze their way out of a mousetrap. Stuart, I always felt, did both well. I always liked Stuart. I know others had different feelings. He's been, I guess, a legend in terms of his longevity. He started at Brandeis and his specialty was largely health manpower, nursing in particular. Then he was Deputy Assistant Secretary and was the head of PROPAC for God knows how long. People thought he was chairman for life until he finally did move on. He had a fairly stellar career, the only being that he wanted to be president of Brandeis.

BERKOWITZ: He was Dean of the Heller School.

WILLGING: I like Stuart, got along with him personally as well. Stuart could be, for some, difficult, but I never had a problem with Stuart.

BERKOWITZ: Let me take you back now to 1977 when HCFA was created. Were you still working in January 1977 with Keith on Medicaid?

WILLGING: No, no longer Keith. Keith had moved out when Carter came in. I don't remember the exact date when Carter came in, but nine months later Joe Califano fired Keith and another guy came in. Keith may have been there then. You probably know this better than I do.

BERKOWITZ: I think Keith did work for HCFA and was brought in to head the Medicaid Bureau when HCFA was created.

WILLGING: It was always the Medical Services Administration, I think, when Keith was there. It became the Medicaid Bureau after SRS was abolished.

BERKOWITZ: SRS was abolished simultaneously with HCFA's creation.

WILLGING: There was a Medicaid Bureau and a Medicare Bureau. I worked then for Dick Heim. He had been the director of the Department of Social Services in New Mexico and was recruited to take over the Medicaid Bureau. I worked with him for awhile. At some point—I think Joe Califano was still there—he brought in Leonard Schaeffer who said we hadn't yet seen the potential of this Health Care Financing Administration. As Califano began to merge these programs, it didn't make sense to have a Medicare Bureau and a Medicaid Bureau. We had to pull them together. So people basically took component parts from throughout the administration or the department and put them in the same organizational structure but never merged them. I think one of the reasons they were never merged was that the people who were running them understood they were not the same programs. Medicaid was a grant program under the states and Medicare was a vendor payment program. Medicaid became a vendor payment program only when the money got to the states, so at that point it was just a grant program based on certain criteria. Medicare actually paid providers.

But that didn't stop Joe and Len. They were going to merge the damn thing. So they did it by setting up bureaus that were functionally based—a bureau of program operations, bureau of health standards and quality. At that time I think it was still the direct payment program which functioned as an intermediary. Obviously all of us were scurrying for the senior jobs at the time. I wanted to be a bureau director. Leonard in his wisdom decided I was still deputy material. I never had a real job in government. I was always a deputy here, a deputy there. I became deputy in...it may have been 1978. That was my initial job in the second version of HCFA, the first version being these independent bureaus when I was deputy to Dick Heim.

BERKOWITZ: And Dick Heim's job was?

WILLGING: He was director of the Medicaid Bureau, which was the successor to the Medical Services Administration.

BERKOWITZ: And then at some point this was under Leonard Schaeffer. There was a Bureau of Program Operations created.

WILLGING: Correct. I became the first Deputy Director under Mildred Tysowski. She had been deputy to Tom Tierney who had been the head of the Bureau. Tom, some argue, was forced out. She became the Bureau director and I became her deputy.

BERKOWITZ: She was an old SSA person.

WILLGING: She was an old SSA person. The Medicaid Bureau, which was then merged into this new operation, most of which then went into the Bureau of Program Operations, was eighty percent old SSA people. We probably didn't need more than 190 people. We were a grant program. Money went out to the states and state Medicaid directors liked to think they ran the program. We liked to think that we provided oversight, and I think they were right and we were wrong. They did pretty much what they wanted to do. We had some enforcement mechanisms that created political brouhahas every time we tried to use them, and we would back off. There were penalties, for example, if you didn't appropriately run the EPSDT Program. I recall having announced publicly hundreds of such penalties, and I also remember never having pulled one of them. It was basically a political operation. We did, in fact, do reviews of state plans, amendments of state plans to make sure that they came close to adhering to federal law regulations. But the primary function it had was to make sure that what states proposed to do in their state plans and their state plan amendments didn't violate too egregiously the requirements laid down by the SSA.

BERKOWITZ: Was there a political chain of command if you wanted to reprimand states?

WILLGING: Normally if it wasn't too controversial, it was taken care of by the SRS [Social Rehabilitation Services] administrator. Bureaucrats have an intuitive sense of what has to go to the Secretary. Remember, as Deputy Director I was probably four levels away from the secretary—deputy to director to administrator then on to the secretary.

BERKOWITZ: When you were Deputy Director for the Bureau of Program Operations did you then start to learn about Medicare?

WILLGING: Oh, yes, I had no choice. There were some very senior people who had also been with the Bureau of Health Insurance for quite some time. Lamont Williamson had the key division within that office. Whether I learned it well, I can't say.

BERKOWITZ: What were some of the issues that came up?

WILLGING: In our operation we were less involved with policy, which was the Bureau of Program Policy, and more involved in operations. What we were responsible for was overseeing the day-to-day functions of the intermediaries and carriers. So we were more interested in timeliness of claims processing, budgets—that sort of thing. We were very functionally organized at that time. This was the bureau that took care of monitoring the quality of services provided, health standards quality. This was the bureau that worried about oversights, the bureau of quality control. We were the ones worrying about how well the bills were paid. I think probably the biggest problems we dealt with were in our attempts to move away from the non-competitive approach to selecting contractors and intermediaries who were essentially nominated by provider types. We began to move into a more competitive environment when we put out for bids. We spent a lot of time worrying about the bid in Illinois called EDS. They knew a lot about hardware, software, and processing pieces of paper and knew absolutely nothing about health care providers and beneficiaries. That turned out to be the scandal of the week. But those are the sorts of things we worried about at Program Operations. It was a very mechanical kind of thing and not the more intriguing policy issues via policy that would eventually work its way through Congress or policy in terms of payment, coverage and eligibility.

BERKOWITZ: Other than the one in Illinois, were there other carriers or intermediaries that were egregiously slow or inefficient?

WILLGING: I'm sure there were but it's so far back that I don't remember who they were. We had, in fact, a fairly formalized system of judging them in terms of everything from the amount of time it took to get back to a beneficiary's inquiry, to the amount of time it took to process a claim, to the amount of money they would recover in terms of erroneously processed claims. Which ones were higher, which ones were lower, I couldn't tell you.

BERKOWITZ: Are they any analogues in Medicaid for this?

WILLGING: We put together systems in terms of reviewing Medicaid programs, but they were rudimentary and never got anywhere. Political sensitivities were always part of it. We would send out teams, but I'm not sure we could ever point to a systemic data collection process or systemic data whereby we could, in fact, rank states. One of our biggest problems was that we couldn't even give relative cost indices in terms of state Medicare programs because they had such flexibility in specifying exactly how their programs were run. We spent a lot of time before HCFA was established trying to install in each state of what we called MMIS, Medicaid Management Information Systems, where you have computerized payment of claims and obviously computerized generation of data. Most states were still on manual claims processing programs. That succeeded in the sense

that every state eventually put in an MMIS. It didn't succeed with Medicaid. We never got a consistent national system. There was just too much variability. Every state, for example, would have a cost report that had to be submitted by its providers, be they nursing homes or hospitals. Every state's cost report was different from any other state's cost report. So you had apples, oranges, bananas and every other type of fruit. I would say that the oversight of Medicaid by the federal government, despite the complaints by the states, has been minimal and really limited to the attempt to make sure they fall within the federal law. That left the states, of course, to argue that they could do their thing. That's about all we would do. I think that's what we successfully accomplished as far as Medicaid is concerned. There may or may not be better systems today. I tend to think not.

BERKOWITZ: Presumably that is the program that you are in touch with, nursing homes.

WILLGING: Yes, very much so. In fact, we found that we had to work toward—even today—developing our own data systems for nursing home costs because you cannot rely on the federal government. We have two approaches to data here at the American Health Care Association. In terms of Medicare, they've got such an extensive data base that we simply load their tapes on our computers and analyze that. In terms of Medicaid, we are really dependent upon our own providers through our affiliates to get any kind of consistent database together. And we rely on companies such as Health Care Industry Analysts of Baltimore that collects cost reports from providers in each of the fifty states and develops its own database.

BERKOWITZ: Let me take you back now to the period when HCFA was created and Len Schaeffer was the second administrator. Did you work with him or were you always shielded by your bureau chief?

WILLGING: I worked reasonably closely with Len. I wasn't so much shielded. Milly and I got along extremely well. There was no problem with that relationship. I was, to a considerable extent, treated with equal deference, I think, by Len. Again, that area, as long as it didn't blow up, as was the case with EDS in Illinois, was not an area that the administrator would worry about very much. We were the nuts and bolts of processing claims. I have yet to meet an administrator who is as interested in that as in the policy side. Where is the industry going? Where is health care going? Where is Medicare/Medicaid going as far as policy concerned? So, while we got along reasonably well, I don't suspect Leonard remembers who the hell I was. I wouldn't say that we had more than a dozen or so truly substantive discussions in the course of my career with him.

BERKOWITZ: Were you identified as a civil servant at this time and not as Democrat or a Republican?

WILLGING: I think so up until—when did Reagan get elected? I was close to Keith. Keith was close to Jack Svahn. That apparently gave me some kind of caché. I didn't know that until January 18, I think, 1981. I was with a guy called Newt Collier at a meeting in Chicago. Newt was the Deputy to the Administrator of the Health Care Financing Administration. While we were at this meeting, I got a call and was told that it was the Chief of Staff to Dick Schweiker, who was coming on as Secretary. Here I am, a deputy bureaucrat and he said, "I'm so-and-so, and as of two days from now you are the Acting Administrator for the Health Care Financing Administration." I guess I was the only acceptable civil servant left in HCFA—which is how I ended up as the shortest tenured Acting Administrator of HCFA. But I was clearly looked upon as a civil servant.

BERKOWITZ: Was Jack Svahn the main protector there? Because he was pretty powerful.

WILLGING: I expect Jack was the one who suggested me being the caretaker. That's all I was, the caretaker, the guy who provided as limited amount of damage as anyone else might. I was never accepted as the Acting Administrator and indeed once I became Deputy Administrator, under Carolyne Davis, I was never accepted by the sixth floor as a legitimate second in command in the agency, which was once of the reasons I finally left.

BERKOWITZ: Were you resentful about Carolyne?

WILLGING: No, no, I was absolutely loyal to Carolyne. Carolyne did something that was never tried before, probably something that will never be tried again and I think appropriately so. I had served as Acting Administrator for forty days, and then I worked with Carolyne as her Acting Deputy Administrator when she came on. Carolyne took a liking to me; I took a liking to Carolyne. She was extremely loyal to me, much to her chagrin. But she recommended me as Deputy Administrator. This was unheard of. I mean, here you have a political appointee as Administrator, and you've got this career civil servant as Deputy Administrator. Then you've got four political appointees as Associate Administrators. Technically it worked for me. Carolyne—I give her credit and love her forever for having done it. I think in terms of the appropriateness of the decision in terms of getting the job then it was probably one of the worst decisions she could have made. I didn't know it at the time. I was thrilled that I could be Deputy Administrator. The problem was that the incoming Reagan administration. Like George Wallace, Reagan ran against Washington bureaucrats, right?

And the Reagan people who came in, Schweiker and his coterie, his minions, felt the same way about civil servants—they're out to get us. They do all these terrible things and we've got to control them.

BERKOWITZ: And they're all Democrats.

WILLGING: And they're all Democrats. And here is this guy who is—my God. I don't know what Carolyne must have gone through to get me appointed in the first place. It must have been hell and high water. Whenever Carolyne was out of town or wasn't available for meetings with the Secretary, one of the people who worked for her would be invited to go in. Patricia Feinstein, for example, who was Associate for Policy, Dr. Donovan who was the Associate for Management. I was relied upon by Carolyne to internally manage the agency but was not respected at all by those for whom she worked. I don't know that I was bitter as much as I was resigned to the fact that every so often in your career you come to a fork in the road and, as Yogi Berra once said, you should take it. So I came to that fork in the road and decided to take it. I was interviewed by Michelle Robertson who wrote for one of the trade presses magazines, Modern Health Care or one of those, and asked how long I thought I'd still be around. I said that I thought probably another year or so. They read that on the sixth floor and decided that indeed it would be less than a year. The advantage of having been a civil servant was that they couldn't fire you, but they could send you to Kansas City. Luckily I had become close to the woman who was second in command of Blue Cross/Blue Shield. I was brought in there as assistant vice president. So that was the end of my career with the Health Care Financing Administration in 1982.

BERKOWITZ: Do you prefer your present job to your old one at HCFA?

WILLGING: The ability of someone in the executive branch to appreciably impact public policy is limited—certainly at the level I was at and, I suspect, even at the level of Bruce Vladek. There were so many other constraints on you in terms of being second guessed. And that's on the administrative side and the policy side. You are never in control of your budget. You've got the Office of Management and Budget, you've got somebody over there in the Department, the Assistant Secretary for OMB. In Personnel you've got somebody, the Assistant Secretary for Human Resources, and you've got the Office of Personnel Management. In my present job, you truly have control of your fate as far as administration is concerned, and, in turn, an impact on the policy process. For better or for worse, I have more to do with what policies are enacted by Congress now than I ever would certainly have had as Deputy Administrator and, I suspect, as Administrator as well. We can deal directly with Congress. I don't have to worry about being second

guessed or having to clear stuff through the Assistant Secretary for Legislation, or the White House.

BERKOWITZ: Don't you now have to deal with your industry folks, the presidents that come in every year?

WILLGING: I do, but if you run a trade association reasonably well, you have a small group of five or six whom you bounce your ideas off in developing policies. However, as they become more global more clearance is required to get by. But it doesn't take anywhere nearly as long as it did in government. And once it's done, it's done. You don't have a lot of people second guessing you even though you've always got some folks who are upset. A good example is the minimum wage issue being debated now in Congress. What should our policy be on minimum wage? We concluded that even though it might get paid for by state Medicaid programs, minimum wage increases don't appeal to us. But that was a stupid policy to espouse. That's just more government regulation. It's low road, not high road. It doesn't do anyone any good in terms of PR, so we decided that our policy had to be supportive with the condition that the increase be paid for by the Medicaid program. That's the kind of policy that took us about four or five days to come up with. It turned out to be a very controversial one in the case of one or two of our state affiliates. In fact, one has just decided the hell with it and are taking their marbles and going back home. That happens periodically as well. You don't have then one state affiliate getting upset with you about a policy and you suddenly scurrying back off the policy to get back to a lowest common denominator. We always did that in government; we didn't know long we could adhere to a policy that became politically controversial.

BERKOWITZ: How did you go from your expertise in health care finance to this long-term care? Long-term care is a bit different. Did that develop on the job here?

WILLGING: Yes, on the job here. I was in New York for about a year as Assistant Vice President for Subscribed Services which I discovered made the bureaucratic milieu and HCFA seem almost entrepreneurial. I had 400 people, and amongst the 400 of us we answered three million phone calls a year, responded to 500,000 letters and talked to 75,000 on the street.

BERKOWITZ: I was probably one of those. I'm still trying to get some bills straightened out. (laughter)

WILLGING: The first year was fine in a way because it was essentially a sweatshop, but it was an efficiently managed sweatshop. Sheila Smythe, who brought me in to work with a contractor to systematize the whole thing

not only reduced the staff by twenty-five percent but increased the quality. In fact, we got the average response time for telephone calls down to five or six seconds. Responses to letters would go out in a matter of a week or so. We put in a monitoring system. I was one of those people you read about in the papers who was listening in on these poor folks who are trying to respond to hundreds of telephone calls a day, making sure that somebody doesn't yell at a subscriber. It all worked out extremely well, and then I said, "Now what do I do the second year?"

Luckily, at that time I had gotten a call from an old colleague from the nursing home industry who was the head of the association representing just the large multi-facility chains. He was moving off to work for one of the chains and asked if I wanted to take over his job as head of the association. I said, "Fine." I didn't think I really wanted to spend much more time listening to telephone calls in New York. I came down not knowing at the time that they were already talking about merging that group with this group. So I came down and took a job with a very short tenure. I was luckily offered the job here when the merger took place and learned about long-term care which I probably know much better than I ever knew Medicare or Medicaid or any of the other things I did in government because, quite frankly, the accountability is so much higher in the private sector. You can go though a lifetime in even very senior levels in government and know very little about what you're doing and never suffer for it because your decisions are second guessed by everyone, and, therefore, your ability to conquer something is so limited.

So, too, is the accountability because nobody really knows who is responsible for doing well or doing badly. We were all underneath the same umbrella and could hide quite easily. Here you don’t have that option. You can be caught pretty quickly if you don’t know what you’re doing. Especially since you have to justify the results with the outcomes, and if you don’t learn quickly you can be in real trouble. At least that’s been my perception. So I like to think I know a bit about long-term care, and I left it up to my colleagues to learn much about I and Medicaid while I was working on that side.

BERKOWITZ: Thank you very much.

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Interview with Don Wortman

Washington, D.C. on July 11, 1995
Interviewed by Edward Berkowitz

BERKOWITZ: The questions we want to focus on have to do with the establishment of HCFA. We'll talk a little bit about your background before this because we know that Joseph Califano called on you in 1977 to work on that HCFA organization, so one of the questions we would ask is why. Where are you from originally?

WORTMAN: You talking about career-wise?

BERKOWITZ: Where did you grow up?

WORTMAN: I and my wife are small town folk. We grew up in Lacota, Iowa, a town of around 400 folks and we just celebrated, by the way, our 50th high school reunion out there in a restaurant appropriately named The Barn. Out of our class of 11, two are deceased, and of the 9 remaining 8 were there, with or without spouses. Our roots are very deep in small town Iowa, and our mothers were pregnant together. My wife was valedictorian of my class of 11. So I'm quite a contrast to these big city products who graduated from high schools which had two to four hundred in their class like my kids did, you know.

BERKOWITZ: Can I ask what year you were born?

WORTMAN: Yes, 1927. I'm 67.

BERKOWITZ: OK, and you grew up in Iowa and somehow got to Washington.

WORTMAN: Grew up in Iowa. Went into the military service right after high school. My folks were very proud. I enlisted when I was 17 with their consent, and I'm very fortunate the Japanese surrendered shortly thereafter. In July of '45 I enlisted and the Japanese surrendered in August of '45. By the way, this Enola Gay exhibition gets me right down in here, that's not up here, because I wouldn't be here had Truman not found a way to end that war. There's no question in my mind. I was bound for the infantry. Then after the war I joined my brother at Macalester College in St. Paul and graduated from there in '51 with a major—co-major—political science and economics. The Macalester liberal arts experience had much to do with shaping my objectives and values in life, and two professors specifically, G. Theodore Mitan and J. Huntley Dupre. Then I went on to the University of

Minnesota Public Administration Center for a master's degree. It is now called the Hubert H. Humphrey School of Public and International Affairs, much more prestigious name now. I then sought employment in the federal government and finally got it through an intern program at the Atomic Energy Commission.

My federal career can be summarized: 12 years with the AEC, both in Washington and Albuquerque, then 5 years with OEO—no wait, it was closer to 6 years, I think, with OEO under Sargent Shriver and Don Rumsfeld and Frank Carlucci, and then 2 years with the Price Commission/Cost of Living Council with bosses like Jack Grayson, John Dunlop, Rumsfeld again, George Schultz, and then 5 years at the Department of HEW which is now HHS, and there I did all kinds of things. For Weinberger, I ran the inflation effort that Ford had called WIN which was "really a big winner." I must say I say that with some degree of cynicism. I ran the Social Rehabilitation Service for 6 months while they were looking for a new political appointee, and then I got involved for Cap [Caspar Weinberger] in the replacement, relocation of the Vietnamese refugees. I ran that for him. And then Ford came into power and David Matthews became secretary and I concluded my work on the Vietnamese refugee task force for Matthews and then I became head of his office of regulatory reform.

Then I did a lot of special assignments for David Matthews. Then Joe [Califano] and Hale [Champion] came on board, and immediately they talked to me about going back to run the old SRS, but it wasn't until after January 20th, probably the first few days, that Joe and Hale one evening assembled me, Jack Young, then the Assistant Secretary for Management and Budget, also a career officer of the government by the way, and Tom Morris who'd worked with Joe at DOD under McNamara. Tom had been Assistant Secretary for Manpower and he'd also been Assistant Secretary for Logistics I think. He'd done a number of different things for McNamara. Joe assembled us in his office one night and said, "I want to undertake a major reorganization of the department consistent with President Carter's intent, campaign promise you might say," and we talked about ideas on that. With some foresight, Jack Young had had his organization and management staff do some analysis of alternative models of how you might run HEW, so there was some sort of staff work done, a major book that Jack had done, and he'd done it with David Matthew's approval. But Jack was very careful in that work not to recommend an alternative, so we then proceeded to meet with Joe and Hale, and in order to keep secret always after working hours.

BERKOWITZ: When are we talking about? Are we talking about March?

WORTMAN: No, we're talking about January.

BERKOWITZ: January. So this is very soon after?

WORTMAN: This whole thing was done in less than two months. They took office on January 20th and announced this major reorganization on March 8th.

BERKOWITZ: So he started meeting with you between January 20th and January 30th?

WORTMAN: Yes, I would say, I'll bet you I was called to that meeting within three or four days.

BERKOWITZ: And it was directly with Califano, in his office?

WORTMAN: Directly. Just the five of us. He trusted Tom implicitly because they were old colleagues. He had done enough—Joe was not one of those political appointees, since he'd been in government, who brought a lot of baggage about distrust of careerists. He just doesn't have that. He's prepared to charge ahead. I'm sure he checked us all out and then he may have known Jack a little bit. Jack was in key roles at the old BOB. Jack was a senior officer at BOB, was known to a lot of people, had been at NASA. He may have known Jack. He didn't know me although I had strong endorsements from people like Shriver. He may have checked that out, I don't know.

BERKOWITZ: You think that would have been a positive thing for Califano? An endorsement from Shriver?

WORTMAN: I would assume so, yes.

BERKOWITZ: You don't think they were at loggerheads in the Johnson White House quite a bit?

WORTMAN: Maybe that's just a supposition I'm making. He would have checked me out though, but I'd pretty well established my career identity as an executive who could work with both parties by that time. Ever since OEO I'd been working at the highest levels of government as an interface with the political level and in fact, most people don't know this, but in 1967 I relinquished voluntarily under Sarge my career status. I was dependent on the good will of my political masters. There were a few times when it didn't look like I was going to survive, and I started looking in the private sector for work. So, anyway, Joe met with us, and he's a hard charger, and he had us developing alternatives and I must say that my life was damn near impossible because the whole thing was to be super-secret. Joe did not want the constituent elements to get wind of this because they are so powerful and influential. He didn't trust, and there was a whole history of this, he and

Hale did not trust the embryonic development of the White House staff. Joe had been there, and he knew that he had to be the first horse out of the gate if he was going to get something done, otherwise he'd be stymied by the White House staff and BOB, the old BOB, and, so, the emphasis on secrecy was intense. Yet you can't do a major reorganization without developing data, and early on, for instance, I told Joe we couldn't proceed without legal counsel. Just couldn't proceed, because he was looking at such bold alternatives that I wasn't one to assure him, and neither was Jack or Tom, that he could do all this statutorily. And, so, it wasn't too long before they authorized a senior member of the General Counsel staff who was a political appointee, Dick Beatty, to come and help us. But that was after we'd sort of decided on a direction.

BERKOWITZ: That's interesting, because in other initiatives Califano seemed always to depend on lawyers. Another issue of that same period was signing regulations for Section 504 of the Rehabilitation Act. For those kinds of questions he depended very, very heavily on lawyers. You might sense that that was his way, just to reach out to some lawyers. His staff was very weighted with lawyers wasn't it?

WORTMAN: It certainly was, numerous young, bright lawyers.

BERKOWITZ: So you're saying this was an exception to that style?

WORTMAN: I would guess so. You're a better observer of all that. He did have a lot of bright lawyers around him, but this was an exception. You're right. Tom didn't have to fulfill operational obligations during the day like Jack and I did. I'd taken over a major maligned organization of government, the Social and Rehabilitation Service, which I'd run six months earlier for six months before Bob Fulton came in, unfortunately a career friend of mine. He took a presidential appointment thinking Ford might be reelected.

BERKOWITZ: This was not a full-time job, this reorganization. You were also running SRS?

WORTMAN: Oh, I was running SRS, yes, and I had to, I couldn't leave SRS. There was no deputy either, I mean, I'm there. State welfare officers would call me. We were in the middle of a major contest between the federal government and many states, in fact most all states, on a two to four billion dollar set of social services claims, a dispute over what was allowable under federal regulations.

BERKOWITZ: The thing that later became uncontrollable spending for social services, that episode?

WORTMAN: The congress had to put a stop to that.

Then we had to negotiate out of that, and I had these high priced Arnold & Porter lawyers coming and I had issues, issues galore.

BERKOWITZ: And rehab people coming to see you probably trying to figure out what's happening.

WORTMAN: Oh, yes, and Long had his pet program there—Child Support Enforcement. If I didn't pay attention to that, give due service to Child Support Enforcement which at that time was still developing as a major national initiative (and it's interesting historically, the liberals were anti that program, then the conservatives, then the feminist movement came along and the liberal tone started to get more mottled and mixed. It was sort of fascinating, and now today it's OK to go get those guys.)

BERKOWITZ: So, in this SRS they had vocational rehabilitation, Medicaid, Social services, yes?

WORTMAN: Medicaid, Keith Weikel ran that. Title XX. Social services, AFDC, and those were the major pieces of the pie.

BERKOWITZ: So now were you considered in this reorganization an expert on Medicaid?

WORTMAN: No, I would have to assume you'd have to talk to others about that. I assume that I was considered a strong executive, and I assume that they knew that I tended in my manner to gain the trust and the engagement of my employees. That's one of the reasons why Cap sent me into SRS in the first place, because it had become a much dispirited organization. He sent me over there after some of the California crowd left.

BERKOWITZ: Jack Svahn sounded very tough on that child support item, I know.

WORTMAN: They sent me over there. It was interesting—just a little anecdote—this is going to sound like I'm puffin' my own balloon, but these are meaningful events to me. At the conclusion of my first six months as acting administrator of SRS, they had a big ceremony in the old North building, that's before the Humphrey building was built, in the auditorium there and Wilbur Cohen was there. It was a big ceremony and they were announcing the appointment of my good friend Bob Fulton to be the new administrator of SRS and what happened caught David Matthews by surprise. I was sitting in the audience. I wasn't asked to sit up front and that was appropriate. The focus was on my buddy Fulton. You're talking about one of my best buddies. We go back to Atomic Energy Commission together,

so I didn't want to steal any of his thunder either. I'm a great believer that once you've led an organization and you go, you GO. You leave it behind. But anyway, there was a spontaneous standing ovation for me, and I think it caught Matthews by surprise that there was this much affirmation of affection for me based on my six months there, and maybe Joe heard about that. I don't know, because you've got to worry about the union and how people are going to react to these things when you consider major reorganization.

BERKOWITZ: You'd studied public administration at Minnesota. You also studied about the famous reorganizations of 1939. Did you have ideas then about how this should go?

WORTMAN: Myself? Going into it?

BERKOWITZ: Maybe breaking up the power of the Social Security Administration for example?

WORTMAN: No, I did not. I guess you'd have to say as an old careerist, somewhat shaped by events, I came at it and was attuned at that point in time, I'm sure, to be suspicious about reorganization as a solution to public policy matters. Just as I am suspicious about it today. Too often reorganization is used as a cover for insoluble or lack of political will in public policy issues. So, I probably was a little skeptical going into this. I generally approach reorganization with all the ballyhoo, and Joe put a hell of a lot of ballyhoo in his statements, I was probably skeptical. Now when we started talking to Joe, and Joe had the ideas, not Hale. Joe is the one who was pressing. It was clear from the outset he wanted to put these health financing programs together, Medicaid and Medicare. What else he wanted to do wasn't so clear. One evening he asked me to look at and price out moving Medicaid to Social Security. I'll never forget that. I sort of winced when he said it and then I went back in and showed him the dollar data. I said—I don't know if you know what a strong ego this man has?

BERKOWITZ: Yes, I'm aware of that.

WORTMAN: But I said, in a very nice way, I didn't point a finger at him, "Let me tell you, Joe, in all honesty, if you do all this and put this all under the commissioner of social security you'll be going to staff meetings in Baltimore. And that's the last we heard about it. Because there are what? 98% of the dollars and 99% of the staff all in one big organization of government.

BERKOWITZ: Did you get a sense that one gets in retrospect that Califano wanted to break up that Social Security Administration? He didn't like these people that were sort of still players in social security?

WORTMAN: Oh, that's true, that's true.

BERKOWITZ: And as Secretary of HEW, he realized that if he was going to get to play he was going to have to break up that agency.

WORTMAN: I do not recall that so explicitly. I do recall his frustration with Ball, Cohen.

BERKOWITZ: Nelson Cruikshank?

WORTMAN: Yes, I do recall he was very worried. There was a view that Tom Tierney, head of Medicare, a powerful bureau, had his own political base in House Ways and Means, and Joe and Hale and I talked about that, and they were very concerned that this was going to be too difficult for me to handle. There was some truth to that. In fact, my inner circle of friends love to remember the anecdotes about how Tierney tried to upstage me, and he used to call me Dan. He used to call me Dan, I think on purpose and Anne Marie Hummel, who's still at HCFA says, "I've never seen you so mad. I've only seen you really mad twice in your whole government experience," and she's worked with me in a lot of capacities. And she says, "Don, you looked up there and you said, 'God damn it, Tom, my name is Don. It's not Dan,'" or something like that. I don't know what all I said. So they were worried about Tierney. And they did not trust Cardwell at first. Remember now, Bruce is another very able career officer.

BERKOWITZ: He was the Commissioner of Social Security?

WORTMAN: He was the Commissioner of Social Security. He had been comptroller of HEW. Came up through FDA, an extremely fine person. And they didn't trust Cardwell. Even after we got this thing under way they started talking to me saying you're going to go out there as deputy commissioner into another holding action I suppose. Go from one holding action to another holding action and what thanks do you get? You get sent to CIA. But, anyway, they were making clear they didn't trust Bruce all that much, and I was going to go out there as their person at Social Security until they can resolve some things. I never was privy to the fact that Hale had his eye on that job. I don't know if you know that anecdote, but Hale Champion wanted to be commissioner and Stan Ross would come in as under secretary. Joe's law partner, friend through the legal business.

BERKOWITZ: And colleague at the White House, wasn't he also?

WORTMAN: Oh, is that right, OK, that's some background I didn't know. So anyway, the White House rejected that. I'm not exactly sure I know the whole story there. I had a little feeling it was a little payback for the sort of one-upmanship that Joe and Hale kept pulling on BOB and the White House staff. See when Joe got this reorganization to the point he was comfortable with it and had it all sort of shaped, he arranged a meeting with the president two days before the press conference, something like that. Let's see my note from the president. It's 3/3, so it was a few days before.

BERKOWITZ: March 3, 1977?

WORTMAN: Yes. The note to Joe from the president was written March 3rd, and I assume that may have been the day after or the day of the briefing Joe gave him. As I understand it, nobody else was in there so this made Joe look awfully good to Carter, awfully good.

BERKOWITZ: In other words Joe briefed the president one on one, just by himself?

WORTMAN: Yes, no staff.

BERKOWITZ: No HHS staff?

WORTMAN: No HHS staff.

BERKOWITZ: No White House staff?

WORTMAN: No BOB, OMB staff, no domestic policy staff. That was all part of it. Super-secret. And I must tell you, I've never worked on anything except in the early days of AEC on the nuclear stockpiling stuff, I've never worked on anything we held secret so well. Another tribute to careerists whose egos—in other words we're not out there playing some game in the press or something, some long-term game. Tom and Jack and I kept our mouths shut. We had charts all done at Fort Belvoir. We had one secretary, Sammie Bear, loyal to both Tom and Joe, she worked for Joe at the White House. She was loyal to me, she'd been my secretary. She didn't breathe a word.

BERKOWITZ: Was Eileen Shanahan at the meetings with Califano?

WORTMAN: Towards the end, the very end. All this formative stuff was conducted with very few in the room and all I recall is Dick Beatty being added. I don't even think Gene Eidenburg—Hale's trusted lieutenant who was very sharp—I don't even recall Gene being at those meetings. It didn't take long for Joe to work through the alternatives, and since Tom and I were

very clear he wanted to put Medicaid and Medicare together, once we did that the other pieces fell into place.

BERKOWITZ: Did he tell you that directly at the first meeting? Say, "I'm very interested in that."

WORTMAN: Very clear, pretty clear. I recall being pretty clear about that. It's too bad both Tom and Jack are deceased because you've only got me to recollect all that really except for Joe and Hale. Hale was there all the time. I don't recall Hale having particularly strong views. He was more like us, sort of weighing them, what the pros and cons were, and what the constituent elements would say and all of that.

BERKOWITZ: So your job was to take that idea of putting Medicaid and SRS?

BERKOWITZ: We were talking about Califano sending signals about Medicare and Medicaid.

WORTMAN: So we took it from there and then the idea of putting all the income transfer programs into SSA appealed to him. As you read the press release, of course, the emphasis was on the economies that were going to be affected, highly exaggerated in my view, but it had a lot to do with cutting down fraud and abuse.

BERKOWITZ: Let me just get a sense of how you worked then. You'd have these meetings at night with Joe Califano, occasionally once a week maybe, more often?

WORTMAN: Oh, maybe twice.

BERKOWITZ: Twice a week in that period between say January 25th and March 1. He'd meet with you at night in his office there on the top of the Cohen Building as it's called now. How did you answer substantive questions without having your own staff?

WORTMAN: Jack had some of that. You know he was in the central management in terms of budget data and employment data. He could get that. He did not engage Cardwell in this. I can't really recall the sequence in which principle officials got briefed. A few days before all this took place. At some point they got brought in but at least for the first month it was pretty hush-hush, just a few of us doing the work. And Jack would produce some of the data and then I'd produce some of the data.

BERKOWITZ: How about typing drafts? Who typed the drafts?

WORTMAN: Sammie Bear.

BERKOWITZ: She worked in Califano's office?

WORTMAN: Worked for Tom Morris. She was assigned to the task force. She and Tom had an office and we, Jack and I, would meet with Tom. The three of us would meet there, privately. That would be our task force meeting place.

BERKOWITZ: Meet there in her office?

WORTMAN: Tom and Sammie had a set of offices up there near Joe.

BERKOWITZ: Sammie?

WORTMAN: Sammie Bear. She's now down at Ocean View, Delaware. She was in the Johnson White House, but she was a careerist. She worked for Governor Connolly and so Joe trusted her, and it was a well-deserved trust. She's outstanding. And she became my trusted colleague and worked with me on a lot of these different things I've done. After I left government she continued to work for me for about 10 years.

BERKOWITZ: And she's where today?

WORTMAN: She's in Ocean View, Delaware. I have her number. She's retired fully.

BERKOWITZ: She might be somebody we should talk to.

WORTMAN: Yes, she'll tell you a lot about Tom and Jack and myself at that time and Joe trusted her implicitly. After this assignment was over she became an advance person for Joe, planning trips and things like that.

BERKOWITZ: So you had this idea about combining Medicare and Medicaid, and you say you were skeptical about saving money?

WORTMAN: I was skeptical about all reorganizations. Oh, and the money, that was ridiculous.

BERKOWITZ: What were the claims that were made?

WORTMAN: Aw, they were ridiculous, just ridiculous and unfortunately for me then, and some of my reporter friends will tell you—I sat there in the room that day—and some of my staff will tell you too, this press release which I had helped draft, well every night it would come down to me from

Joe's office, and have this two billion dollar savings figure in it, and I would just about "throw up."

BERKOWITZ: What was the date on the press release?

WORTMAN: March 8, 1977. Here, this is the key paragraph. "Although it is not possible at this time to give a precise estimate (that's me, I finally got that in) the savings for the US taxpayer related to these reorganization initiatives, especially those involving efforts to eradicate fraud and abuse [here we go, it'll all be fraud and abuse, if you want to do anything about public policy which is saleable] will be at least one billion dollars over the next two years and will reach a total of at least two billion annually by 1981." That is off by a factor of 10!

BERKOWITZ: That was supposed to be fraud and abuse mainly in Medicaid? Is that the notion there?

WORTMAN: Well, fraud and abuse, it was the whole bit. Medicaid, Medicare was the primary thing. Need to get more uniform policies that would apply to the third party providers and all that stuff. It was all of that. Then there'd be improved application of criteria for eligibility in SSI and AFDC. By putting them together you'd have improved administration, and you get the child support and AFDC and it would all be beautiful. Then if you could pull in food stamps, man, we could have this thing licked for a change. You've heard that before?

BERKOWITZ: In other words, these are savings from both income maintenance and from the medical costs?

WORTMAN: Yes, we hoped.

BERKOWITZ: Surely the food stamps, the Department of Agriculture was not about to give you that?

WORTMAN: Oh, no, no. Cap Weinberger had made that pitch and got soundly pushed back, and Joe never did. He never made a pitch for food stamps.

BERKOWITZ: Does that press release mention the Health Care Financing Administration by name?

WORTMAN: Yes. That, by the way, is my creation.

BERKOWITZ: Is it? Can you tell us about that?

WORTMAN: And I don't like it. But it's the best I could come up with. I don't like the acronym which I also came up with, HCFA [as pronounced], it doesn't have, it's a little bit like the GSA's SLUC [as pronounced]. Have you ever heard of SLUC? It doesn't have a ring to it I like. SLUC was Standard Level Users Charge which most Americans would call rent but the government can't call it rent. It was SLUC. So we had all these titles and we're running down to the wire and Joe didn't seem to focus on this as much as I thought he would, because he's pretty creative on the PR side of life. So I came up with the Health Care Financing Administration, HCFA. That sort of won the day although I've never been too happy, too pleased about it.

BERKOWITZ: When did you come up with it? Early on?

WORTMAN: Oh, no, no. Late, late, late, late. Like days before this thing. Days. We were still kicking around different things.

BERKOWITZ: Did you take the problems in order? Did you look at first income maintenance and then health?

WORTMAN: First health financing, then income maintenance, then social services, then these educational programs, consolidation, that kind of stuff.

BERKOWITZ: So in some ways health was the top priority.

WORTMAN: Yes. Clearly. That's the way I think it reads. It starts out with health care. Have you got this stuff?

BERKOWITZ: No.

WORTMAN: Before we leave here today you may want to run and make a copy of a few things here. I've got these notes that Carter wrote to Joe and Joe wrote to me.

BERKOWITZ: What do we have here? This is a fact sheet?

WORTMAN: No, you have there the explanatory material that accompanied the statement. Here's the press statement and then attached to it, which you have right there, is no different than this. This is the whole package that Joe had at the press conference along with these charts.

BERKOWITZ: Right. Now this was March 8 that you had the press conference? This was an HEW press conference, I take it?

WORTMAN: Right.

BERKOWITZ: The President sort of let Califano have the ball on this?

WORTMAN: Especially to see where we put the emphasis you know. This, I must say, in a historical sense, this emphasis on making significant savings in so-called fraud and abuse, and under this reorganization we created an Inspector General and that was before an Inspector General became a statutory requirement. HEW once again was sort of out front of something that became government policy. Joe created an Inspector General and appointed his good friend Tom Morris to the job. Tom was an outstanding civil servant, but that whole climate then led Tom to produce his first major report on potential savings on fraud and abuse throughout the department, and rather than saying something would reach two billion annually, Tom comes out and says there's two billion dollars of readily identifiable savings. Well, that whole climate got Tom and Joe in "deep yogurt" because the Congress, the Appropriations Committee, even though it was the same party, what would you do if you're up there looking for money? They took it. You're such a good manager, Joe, you've done all this reorganization to save money, you've attested to it yourself, we'll take the two billion. Now we're talking real money. We're not talking press release money. We're talking real money, right out of your program hide. It was the biggest fiasco in Tom Morris's career. It embarrassed him mightily. I'm sure if he could write about it he'd say he regretted that one. It put us, put me and him, people with high regard for each other, it put us in very tense circumstances, because I thought the whole thing was a bad idea in the first place. Sort of an over-eagerness to identify looseness in your own programs, so I just want to make a point, Ed, that this sort of led from one thing to the other and it ended up accumulating as quite a problem for Califano. He had to go personally up there to the Hill and use a hell of a lot of chips to get a lot of that money restored, if not all of it. I forget how it all worked out. Difficult circumstances and they made the bed, they made their bed there.

BERKOWITZ: Well, did anyone say, when these discussions were going on, was it open ended? Did you debate one another? Did anybody say this putting Medicaid and Medicare together is not going to produce that much change?

WORTMAN: Oh, I did.

BERKOWITZ: You did?

WORTMAN: Oh, yes. Jack Young and I never bought those figures. Tom was, after all, new to the place, and by this time I'd been there three years now doing all kinds of things. I knew the department quite well because I'd done so darn many things. And Jack Young and I didn't buy these figures. Jack is not a very bashful person. He's sort of the one who called Joe to task about buying new equipment for the kitchen and paying a cook so damn much money. Remember that story?

BERKOWITZ: This also happened right around the same time?

WORTMAN: Yes, Jack was not a very timid executive.

BERKOWITZ: Well did you confront Califano on this, in these meetings with him and say, "Joe, it's not going to happen, let's not over sell this?"

WORTMAN: I would not want to overstate our confrontation. I would say that we—I'm going to have to speculate a little bit here, but I'm sure Jack and I registered some disbelief initially at the kind of savings and then the train starts to run down the track. We're running towards a lot of deadlines to get all this legal work done, that package prepared, big charts done all out at Fort Belvoir. Starting to brief everybody. By this time you had to brief the senior staff. You can't have your own staff caught by surprise. You're doing briefings and running around and every night, though, the people working for me I'm sure they'll remember how I used to cuss. Late at night I'd get this thing one more time and I'd scratch out two billion and put maybe two hundred million. Every time I did it I kept upping my own estimate because I was trying to find some middle ground with the boss. I think I probably got up to two hundred million, factor of ten different than two billion. And then, sure enough, I don't know who the AP guy was, but he knew me well. I'd been at the department for three years and worked on a lot of sort of hot issues, like the refugees and initiatives for different secretaries. I think I, well, one of the things I pride myself on is I tried to talk straight to the press. They might not get any answer from me, but at least they were told they weren't going to get any answer from me. I didn't mess around. And sure enough, the AP guy called me down and said, "What do you have backing up this estimate of two billion in savings?" And all I said was, "You son of a bitch." I wasn't going to talk about it.

BERKOWITZ: I'd like to ask you also about the administrative side of all this. Did you see in your mind as you were thinking about this, that means we've got to get most people to Woodlawn?

WORTMAN: You're talking about Medicare?

BERKOWITZ: Medicare and Medicaid too. Bring those Medicaid people from wherever they were in Washington, from the Switzer Building or wherever they were over to Woodlawn, or did you think that through?

WORTMAN: Oh, yes.

BERKOWITZ: Was that in your bailiwick?

WORTMAN: That's another anecdote. It had to do with SSA. I do not recall Joe and Hale talking about consolidation building-wise or geographic-wise. I

do recall them worrying about Tierney, and a number of times they asked me, "Don, if he's giving you too much of a problem we'll find a solution for you." But I could tell they weren't eager to do that because they themselves were uncertain about what can of worms that might open. So I got the feeling, "Work this out, Don, as distasteful as you find it," and I did find it distasteful to work with him[Tierney]. He was not a very cooperative person and yet the man had a fantastic sense of humor. I must say that even though I was charged up going into some of those staff meetings about all I had to get done and then he'd call me Dan, and then he'd smoke in the meetings, and by that time this old devil had this terrible cough. So he'd be sitting there and I'm giving these orders, you can imagine this, all these confidants of mine—Dave Weinman, McDonough, Anne Marie Hummel, John Berry, Carolyn Betts—and all these people who were my trusted inner circle to make sure I can get all this done, and all these people were sitting there on the periphery because they were my task force to get everything I had to do done. People I trusted. I met with them every morning and then I'd meet with this big staff that I inherited every other day or so. So any way, I'd get going with everything we had to do, and Tierney would make some goddamn quip and just cut me to ribbons, you know. Very clever. And sometimes I'd have to laugh because some of it was so damn funny. And he's like an old ward boss, you know, and then he'd sit there, [exaggerated cough]. Here again I was making a big statement, [another exaggerated cough]. I still remember the last one. Oh, I was glad I could laugh, look back on it and laugh. Anyway, soon after Bruce [Cardwell] left in December of 77, and I'd been out there for about 6 months I became Acting Commissioner of SSA. I went on June 17th.

BERKOWITZ: What was your title up to then?

WORTMAN: I went out as Deputy Commissioner of the Social Security Administration. You asked when the reorganization was complete. From two other items I've extracted from my files I'd say June 17th.

BERKOWITZ: 1977?

WORTMAN: I'm basing this on a letter that was sent to all SRS employees on June 17th from Virginia Smith, my acting deputy administrator of SRS and HCFA. She'd been regional administrator for SRS and everybody trusted her and I did too. So she came up at my request to help me. You also note my immediate appointment to SSA on June 19th, so we sent the letter and disbanded SRS and I gave every employee a little memento of appreciation, because it had been a much maligned and under appreciated organization for ten years.

BERKOWITZ: So the SRS goes out of existence there. No wonder John Gardner was interested since that was his baby. And it was replaced by Rehabilitation Services Administration at that point?

WORTMAN: It was gone.

BERKOWITZ: Just gone? Where was voc rehab after that then?

WORTMAN: It went with Title XX I suppose. Went over to the Office of Human Development.

BERKOWITZ: OK, which was created in this reorganization?

WORTMAN: Or strengthened. I'd have to go back and read my notes on that. Then Bob Derzon came. I was acting administrator. Legally, to do all this, I had to have three titles for awhile. I was acting administrator of SRS, acting administrator of HCFA, and chairman of the reorganization. Those three titles gave me legal grounds to deal with unions, to deal with personnel transfers, to deal with statutory and regulatory obligations, so I could sign all this paper work and keep things moving. And then Derzon showed up. Let's see, March, April, let's say Derzon shows up 15 May.

BERKOWITZ: May of 1977?

WORTMAN: Right.

BERKOWITZ: As head of HCFA, first head of HCFA?

WORTMAN: First head of HCFA, and then for a few weeks I'm his acting deputy and Derzon's making a big plea for me to stay on as his deputy as he's getting a sense of what all this is about. And Derzon and I do hit it off—as people. In fact, it's interesting that when Derzon came on board, within days after his appointment he had already committed to a major appearance in London. Dorothy and I had already invested big time money on a major trip to England, and I needed a vacation really badly at that time. It was a little stressful, but Joe finally bit his teeth and we both went, and we overlapped for an overnight in London and the Derzon's entertained us royally even though I was sound asleep most of the time. But any way, Derzon and I got along, and I liked Bob Derzon. But then my focus shifted over night because I went to SSA In June, and it was clear that Cardwell was on his way out. He knew that. I must say, as often happens with political appointees, and I'm digressing some, Cardwell's competence and objectivity were highly respected by Hale and Joe by the time he left. He was a first class chap, and even though Bruce had not picked me, I think as career executives the two of us were committed to making our relationship work. It

was easy for me because I'd respected Bruce from when I first got to know him when I joined HEW in '73. We worked on some things together.

BERKOWITZ: This is Bruce Cardwell you're talking about?

WORTMAN: Bruce Cardwell, yes. So we made that work.

BERKOWITZ: As commissioner and deputy commissioner?

WORTMAN: Yes. And then when Bruce left—this is a long way to get around to a story. So the story is this, it's a great story if I do say so myself. Anyway, Bruce is about to leave and I'm called to another private chat with Joe. Joe says, "Don, we've got to start bringing all those actuaries and the policy people from SSA down to Washington. And I want you to do that." And I said, "Oh, boy, Joe," and Hale was sitting there, just the three of us. I said, "Oh, boy. If you want me to move those elements in a hurry, Parren Mitchell, Mathias, they'll stop us, they'll just stop us." "No, you can do it, Don. If I can't pull this off then I shouldn't be Secretary of HEW." Well, anyway, so anything like that had to do some analysis, and I knew even if I only had three people in the room, this one I couldn't contain. I was a newcomer to those SSA people in Baltimore. Their loyalties were not to Don Wortman. Maybe if I'd been there a year, some of the people I had work on this would not want to violate a confidence of a trusted boss, but I hadn't built those relationships, had no opportunity.

So anyway, I went up there and I knew it was going to leak, and within days or weeks [Senator] Mathias put a rider on an appropriation bill that was riding through, I don't know if it was a supplemental or what, that no funds herein shall be in anyway used to transfer any people from Baltimore to Washington. Just a simple one sentence. And I've always wondered if that—Joe and I never quite got into a trust level like I'd been so successful with a lot of political leaders, I got it with Hale but not with Joe—and I always wondered if he thought I'd played him on that one. I really hadn't. I just knew that was the way it was going to play out. And we never moved on that idea again. I did tell him, if you let me do this over three or four years, I can get some of these elements down here in incremental form. That might have been too bold. Over three or four years? But political officers with their two-year time horizons can't sit still for that. So that's what came to my mind. They never did talk to me about consolidating either geographically or building-wise, these people.

BERKOWITZ: We're talking about the process of getting out the word about this report on the Health Care Financing Administration. We talked about the fact that there was a statement on March 8 and at some point, maybe late February, these briefings with the people at HEW.

WORTMAN: Yes, must have. I don't remember that so distinctly, but people like Bruce [Cardwell] had to be brought in and the legislative people and the public affairs people, and at some point Eileen Shanahan was brought in, I'm sure. I would assume these draft press releases that I kept complaining about came from the public affairs people by that time as we got down to the wire. In effect, a lot of the analytical work had been done and the public affairs/legislative people evidently were brought in small numbers at the last minute and then they sort of took over.

BERKOWITZ: What about the people sort of right outside the department, like Ball and Cohen and those people?

WORTMAN: Not a soul. That wouldn't have worked. I'm telling you, you get the American Hospital Association and the Blues and the nurses, you get AFL/CIO, you get all those people involved, they'd stop you.

BERKOWITZ: Because they've been so comfortable?

WORTMAN: Yes, constituent interests always sort of work out their accommodations with existing structures, for the most part, and it creates a high degree of uncertainty for them, this kind of change. The surprise of this was masterful whether the public, the political scientists or public administrators, you, or I agree that this is the way major reorganization should be done. That's a separate question, but this was masterful. It caught everybody by surprise, it didn't permit anybody to mobilize against it.

BERKOWITZ: What about on the Hill?

WORTMAN: I think it fueled the Hill to, especially [Representative Jack] Brooks to put in legislation, which now exists that this kind of thing can't happen without consultation with Congress. I'd have to go back and study that, but it contributed in a significant way to the kinds of steps that Brooks took to stop the executive from doing things this massive.

BERKOWITZ: And this was legal? The executive had the right to do this without congressional consultation?

WORTMAN: This was a pretty big thing, creating a big agency. Today in the government you couldn't create an agency or destroy an agency (or a bureau, I use agency/bureau synonymously) without consultation with the Congress.

BERKOWITZ: Did you at some point tell the Ways and Means and Finance committees you were about to change their programs around?

WORTMAN: I suspect, knowing Joe and how shrewd he was in Congressional relations, that they were probably given 24-hour notice.

BERKOWITZ: Really? That's all?

WORTMAN: Maybe 48, no more. They may not have been. It's amazing. That's why Haynes Johnson wrote about this. "How did you get this done, Don?" I can see him now. "How did you pull this off?" I'd never been a part of anything, especially on the domestic side that had been kept secret so long.

BERKOWITZ: Wasn't Califano afraid of retaliation from the committees, as indeed there was from Brooks and so on?

WORTMAN: Yes, he wasn't afraid of retaliation from anybody, and as he says, during the '76 campaign President Jimmy Carter promised the nation significant reorganization of the federal departments as part of his larger commitment to manage a competent, efficient government. That's his first paragraph. He was focused on Jimmy Carter, and Jimmy Carter, you know, wrote this note saying, March 3rd, "To Joe Califano from the White House: I'm very proud of your reorganization effort. Please prepare a brief (3–4 minute) presentation of the charts for our next cabinet meeting. J.C." That's a hand written note. Not too many folks get hand written notes.

BERKOWITZ: Do you think that Califano maybe thought that this was his way of showing he knew so much more about Washington than the people running the other departments, his rivals in a sense?

WORTMAN: Good point! Good point. I think that's probably true. He's a very shrewd man, and a pretty complicated individual. That's an interesting point, yes, I think so. And the way he bamboozled the OMB and White House domestic policy staff, he just (cutting sound) right through. Harrison Welford didn't know about this one, and of course he was just getting organized on that big reorganization thing. What's-his-name, the closest advisor to Jimmy?

BERKOWITZ: Watson?

WORTMAN: Not Watson.

BERKOWITZ: Jody Powell?

WORTMAN: The other guy, the guy that was supposed to be

BERKOWITZ: Another Georgian?

WORTMAN: Yes, that guy that

BERKOWITZ: Not Bert Lance?

WORTMAN: No, the guy who was his closest political advisor. The one that Sally Quinn did the knife job on that was unfair?

BERKOWITZ: I can't think of who it was. It'll come to us. [Hamilton Jordan]

WORTMAN: Well, anyway, at that time he and Watson were vying for the chief of staff role. He tended to be the most powerful, yet he was quite disorganized. Anyway, Joe went by 'em all. And I think your point is well taken.

BERKOWITZ: When you did this report, which we have here on the table in front of us, how much into detail does it go about what HCFA would look like? In other words, does it see the shape of HCFA? Did you think about duplicating things? SSA was full of research capability and had this big research thing on Connecticut Avenue in Washington, and it had several legislative analysis departments and so on.

WORTMAN: Just to make Medicare, Medicaid and quality control. That was it.

BERKOWITZ: So the level of detail we're looking at on, let's see what date this would be?

WORTMAN: March.

BERKOWITZ: On a March 8, 1977 organization chart and under the Health Care Financing Administration simply three bureaus are listed?

WORTMAN: Right.

BERKOWITZ: With then a little bit of elaboration under quality control.

WORTMAN: Right.

BERKOWITZ: That was it.

WORTMAN: You see here again the fraud and abuse, the elevation of quality control.

BERKOWITZ: In effect the quality control is the only thing in which there are things iterated, like professional standards reviews, nursing home facilities and program integrity.

WORTMAN: Some of that was iterated because that came from the public health side of the organization. PSRO came over the assistant secretary from Health.

BERKOWITZ: That's another bit of moving stuff around.

WORTMAN: Right.

BERKOWITZ: Did anyone give any thought to the fact that SSA had all these little specialized shops that did legislative review and things that go back a long way in terms of research. Ida Merriam was the head of for many years.

WORTMAN: Right. Jack Carroll.

BERKOWITZ: Was the idea that these would all be duplicated in HCFA and, if so, how was that going to save money?

WORTMAN: I picked up Cliff Gaus, who's still in the health business; I saw his name the other day on some organization. As part of this I picked up a statistical unit, maybe out of public health, run by a chap by the name of Cliff Gaus, and I inherited him, too. He was not in SRS. Can't remember, but I did pick up a small statistical unit. Could have been that that was one of those statistical units that was in Merriam or Jack Carroll's shop up there.

BERKOWITZ: By the Chinese restaurant by the Universal Building?

WORTMAN: Up by the, not the Radisson, but the hotel up on Connecticut Avenue.

BERKOWITZ: The Hilton?

WORTMAN: Probably picked that group up out there.

BERKOWITZ: So what you're saying is that beyond the idea of moving Medicare and Medicaid and the idea that somehow it was going to contribute to quality control, no thought was really given to how this agency would look once it was established.

WORTMAN: We didn't have time to do that. That was left to me and people like Bob Derzon to worry that out.

BERKOWITZ: That's what you did after March, figure out about that?

WORTMAN: Yes, I started to think about that. How we were going to organize the region. There was a lot discombobulation in the regions caused

by this and we had to think through how we were going to organize the region, how we were going to organize the headquarters. I must say that various times the alignment in headquarters was different than the alignment in the region. And HCFA went through a certain amount of growing pains in terms of organization. People like Len Schaeffer and succeeding administrators will tell you about that. I sure did not perfect it. By the time I left there, I did not perfect that. And I don't recall, other than just sort of limping along, you might say, I don't recall making any great progress on thinking through the organization while I was still there. I don't recall that.

BERKOWITZ: What about this fundamental merging of Medicare and Medicaid? Surely the idea was that somehow they both make medical payments, and therefore there would be economies of scale.

WORTMAN: That was the idea.

BERKOWITZ: Did anyone have a clear idea of how that was going to be?

WORTMAN: You're aware that for a period of time they tried to organize functionally at HCFA.

BERKOWITZ: Tell me about that.

WORTMAN: Well, I'm not the best one, but they had major units for policy and for operations a little bit like SSA had worked. More recently they had recreated the bureau for Medicaid. They recreated the same sort of bureau that Keith Weikel, Dr. Keith Weikel, ran for me the two times I was head of SRS. First they put these programs together and then the nature of the relationship with the states, the nature of the statutory base was so different that the force-fit doesn't work, and then comes a succeeding political appointee and makes a big plus out of recreating the Medicaid bureau. It's all there in the record.

BERKOWITZ: Right. Isn't that true at SSA as well, that there was, at this time I believe Stan Ross was eager to have different kinds of organization, I believe by program?

WORTMAN: By function. More by function.

BERKOWITZ: Similar kinds of things.

WORTMAN: Stan Ross actually messed up that place coming in for one year and reorganizing. Bad message. But, anyway—personal view. They did for a while try to get those programs working closer together, and when you got one program that's being delivered through 50 state governments plus a few

additional territories like Puerto Rico and the District of Columbia, and you have these different contractual relationships for Medicare, that's a different shape up, a different shape up. And so now today, if you went out to HCFA all I can tell you is you will find a full-fledged Medicaid bureau. And there's a lot of fanfare about recreating it. And if you and I live long enough, Ed, you might, they'll probably merge them again. Sit tight.

BERKOWITZ: I want to just follow up one thread of this to complete the record. You were at SSA as deputy commissioner beginning in June of 1977. How long did that assignment last? **Wortman:** Well, Bruce left and then I became acting commissioner on January 1, 1978, and stayed in that capacity until about the end of October when Stan Ross was brought in. Then some signals were sent, just through daily conduct, that I was no longer of value and Mr. Ross, as they do in bureaucratic life, they had a big ceremony, gave me an award, and, thank God for Carlucci, I went to CIA on January 1, 1979, and concluded the last two years of the Carter administration at CIA as the deputy director for administration, one of the four barons, as we call them, of the CIA. I worked for Stansfield Turner and Frank Carlucci there. Just to conclude my story a little bit, then my good friends William Howard Taft and Carlucci told me, who were working on transition for Ronald Reagan, that my name was not surviving well. Remember earlier I told you I no longer had career protection. I'd lost that in 1967. I thought it'd be best to retire rather than go through having [William] Casey fire me, which Casey as I look back in retrospect, would clearly have done, given my image in government. So I was at SSA for 18 months.

BERKOWITZ: And during those 18 months were you focused on HCFA stuff at all, were you trying to kind of clean out Medicare and give it over to HCFA?

WORTMAN: No, I was trying to make sure that we provided the necessary support for HCFA. The dependency of HCFA on SSA eligibility apparatus, on SSAs 1300 field offices, all of that where a lot of American people make their first inquiries when they're confused. There's a very important relationship.

BERKOWITZ: Yes, I hadn't thought about that. But absolutely right. In other words, wherever you have HCFA, people are still getting Medicare through Social Security and therefore their benefit questions are going to be at an SSA district office.

WORTMAN: Well, they may get referred to some other 800 number at some point. I don't know about all the workings today, but you still have this network of interface with the American people, because HCFA does not relate with the American people except by paper, not face to face.

BERKOWITZ: It interfaces with fiscal intermediaries and maybe with hospitals and certainly with staffs, not with people.

WORTMAN: That's right, not with people. And they may have five or six thousand people as compared to seventy thousand in SSA. So I worried about that, but still I had enough to do. I had AFDC to run, and as we all know, maybe, maybe not, welfare reform is ever present. It's probably the longest running show in town, and I had Barry Van Lare running AFDC and Lou Hays on Child Support Enforcement. Senator Long wanted to make sure in this reorganization that priority went to Child Support Enforcement. As I'm sorting out my house now in this move to Albuquerque, I've got all these wonderful photos of Long and Joe and I at a big Child Support Enforcement conference at the Hilton hotel. We had 3000 people and we gave 'em a big pitch about Child Support Enforcement, and there's pictures of Long and Joe and myself on the dais, talking to state and county welfare administrators about the importance of Child Support Enforcement.

BERKOWITZ: In other words, another hidden place to find billions of dollars?

WORTMAN: Yes, another place. I'm still not sure, by the way, if you do a real good cost benefit on that program, real good, a Rand type analysis, that it pays off cost-benefit wise. When I left government the dollars invested still had not reached equilibrium as far as dollars gained.

BERKOWITZ: I can tell you that I once talked to Jack Svahn about this—welfare reform—and I said why are you screwing around with this Child Support. He looked at me and said, "It pays twelve dollars for every dollar spent."

WORTMAN: That's B.S. Could be more refined now, as far as tracking the absent spouse, I don't know about that. I'm suspicious.

BERKOWITZ: So you were around for the President's program for better jobs and income?

WORTMAN: Yes, yes, so anyway, I had to focus heavily on welfare reform. I had to meet with my former boss Bill Morrill and we had many task forces.

BERKOWITZ: He was head of ASPE, the Assistant Secretary for Planning and Evaluation?

WORTMAN: He'd been my boss. He's my close friend. I'm wrong. He was gone at the time. It would have been the guy at Brookings.

BERKOWITZ: Henry Aaron?

WORTMAN: Henry Aaron, it was Henry. Head of ASPE.

BERKOWITZ: So this involvement with HCFA was really because of having been on this reorganization task force, and then you began to get back into other things.

WORTMAN: Yea, and here again I was thrust into a role where Joe had a lot of interests and once again I'm acting commissioner. Those were long days. I'd drive up to Baltimore, get there by seven in the morning and by 2 o'clock Joe would be having conniption fits because he wanted to pull my string, have me in meetings in D.C.. For him it was just intolerable that I was in Baltimore. It was intolerable for me trying to be in two places all of the time.

BERKOWITZ: I'm curious. Did your opinions of Ball and Cohen and Cruikshank change when you became more involved with SSA? Did they seem better or worse to you after that?

WORTMAN: I've always had this particular affection for Wilbur Cohen. If you ask me to explain all that I don't know, but I've always found in my different jobs involved in welfare administration and at OEO that I could have rather forthright discussions with Wilbur Cohen and I was confident they would never go further. As far as explaining what my personal opinion was on a public policy issue and why, even though publically we may have taken different positions. He was always very respectful and he would understand because he's such an old pro himself.

BERKOWITZ: Had been there for the creation of SRS, in fact did the staff work.

WORTMAN: That's right. That's why he was at this function that day with Bob Fulton.

BERKOWITZ: Did you ever ask him about HCFA? Did you ever ask Wilbur in passing whether he thought, after it was over, whether it was a good idea?

WORTMAN: No, and he never saw fit to mention his view to me. I'd kept my distance from Bob Ball. He was such a power at SSA and I knew that Joe was feeling curtailed in options he could pursue by this powerful group of Democrats, you might say, so I purposely kept very much arm's length from Ball, Arthur Hess. I had a lot of respect for those people, though. I'm having a little trouble with this because I hold some of these Americans in very high regard even though I found it important for me in doing my job conscientiously with my political masters to keep a distance.

BERKOWITZ: Yes. It's a shame, because it seems to me that Arthur Hess could really help the HCFA stuff since he put Medicare together.

WORTMAN: That's right. I always found I had enlightening discussions with Art Hess in terms of policy options.

BERKOWITZ: Well this is terrific.

WORTMAN: Always had a feeling with some others that I was being positioned or worked over just a little bit.

BERKOWITZ: Bob thought in a little more strategic terms.

WORTMAN: He was goal driven like Arthur Fleming.

BERKOWITZ: Not quite as certain as Arthur Fleming perhaps.

WORTMAN: Yes, that's right. They still had the same agenda.
BERKOWITZ: Let me ask you one last question if I might and that is, who should we talk to. We're trying to get this story straight about HCFA's starting and this task force of the initiation. You've mentioned a lot names. I've been trying to write some of them down. Where's Keith Weikel today, for example? Do you know?

WORTMAN: Yes, Keith is a major executive with a profit-making hospital and, if you want, I could call Aimee on some of these, Ed, and give you some numbers, but I can give you Keith. Keith and I are still friends. He's an extremely fine chap. He would be an interesting person for you to talk to.

BERKOWITZ: We're going to talk to Joe Califano. We're going to talk to Champion.

WORTMAN: Hale? Yes.

BERKOWITZ: We're going to talk to Fred Bohen. Who else should we be talking to. Doesn't have to be such a bigwig, but maybe somebody else.

WORTMAN: The little task force. Some of their memories are better than mine. John Berry, I used John Berry a lot because he's an MBA type, and Shriver just loved all those charts I'd bring in there. Berry was big on charts. He had milestone charts about how we were going to get this reorganization done. Then he'd come in there with charts about how much we'd gotten completed, we're 70% complete on this, 50% complete. And even though I thought some of those contained a high degree of B.S., Joe seemed to like that stuff so I used Berry a lot. He was very good, and he went on then to live through all of the HCFA reorganizations under different administrators and he only retired I'd say, maybe 7, 8 years ago. And then he became, I think, an administrator in the state of Virginia. You'd have to track John Berry down. Talk to John Berry. Talk to Anne Marie Hummel. She is now up

in the front office of HCFA and has worked for various administrators. She's had her career, since leaving me, 15 years with me in different capacities, she's had her career at HCFA.

BERKOWITZ: OK, so we can get her at HCFA.

WORTMAN: She's in Washington, although she's increasingly spending more time in Baltimore. Anne Marie Hummel, one of my closest friends in government and a trusted compatriot, is Hummel. Now you've got to remember with these old pals of mine they're gonna laugh about some of the same anecdotes I've told you about.

BERKOWITZ: That's terrific.

WORTMAN: Some of them are rich in their mind about how Tierney tried to undermine me one way or another. Another person who was with me in these different efforts and who's in town is Dave Weinman. His associate, Pat Schoeni, also a product of HCFA, was in charge of public affairs there at one point under some administrators. But Dave was with me at SRS and with HCFA and has interesting perspectives on organizations.

BERKOWITZ: Where would we find him today?

WORTMAN: He's in Alexandria, Virginia. Dave Weinman, Keith Weikel, another chap who's sort of followed HCFA and who was with me at the start is Larry McDonough who is recently been deposed as the Medicaid administrator in the San Francisco regional office, for reasons I don't fully understand. But McDonough was one of my loyalists from OEO. Dave was too. Whenever I undertook major tasks in government, like refugees, I tried to collect some of these loyalists of mine that I could depend on. And Dave and Larry had been with me, as has Anne Marie, on a lot of special assignments. And Sammie, if you want to talk to her. Sammie would not be a kind of person who would be into the program rationales or organizational rationales. She would be, by her very nature as a wonderful human being, into the people and how they interplayed.

BERKOWITZ: And where is she these days?

WORTMAN: She's in Ocean View, Maryland.

BERKOWITZ: Terrific.

WORTMAN: If you want to hear anecdotes about LBJ she can even get into that.

BERKOWITZ: Terrific. Well, thank you very, very much. ###

Interview with Dr. Brian Biles, MD

Washington, D.C. on October 9, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: October 9th and I am here in Washington, D.C. with Brian Biles. You have had a pretty long career in health care. One of the things that separate you from others in this field of health services research is that you actually are a doctor. I understand you went to the University of Kansas. Did you grow up in Kansas, too?

BILES: That is correct. I grew up in western Kansas and my undergraduate degree is from the University of Kansas, in political science. Then I attended the University of Kansas medical school in Kansas City. As I was finishing medical school in 1970, a physician—Dr. Bill Roy—ran for Congress from the Topeka district. This was the Cambodia-Kent State year. So that year I did medical school clerkships in the summer and took my time off in the fall and worked on this campaign. When Dr. Roy was elected, I came to Washington with him as his legislative assistant. That was in January 1971. I worked with Dr. Roy in the House for four years. He then ran for the Senate in '74. He ran against Bob Dole and, as we all know, did not win.

BERKOWITZ: So what did you do then?

BILES: After the election, I had a chance to work in the Senate with the subcommittee that we had been meeting with on HMO and other health legislation. This was Senator Kennedy's subcommittee.

BERKOWITZ: And it was a subcommittee of Labor and Public Welfare?

BILES: Yes, the Committee on Labor and Public Welfare.

BERKOWITZ: It's still called Labor and Public Welfare?

BILES: Well, the full committee now has this cute name HELP: Health, Education, Labor and Pensions.

BERKOWITZ: But then it was called Labor and Public Welfare. And Kennedy was?

BILES: The chair of the health subcommittee.

BERKOWITZ: Yes, and Harrison Williams was still chair.

BILES: Yes, Harrison P. Williams was chair of the full committee.

BERKOWITZ: I see. So you never practiced?

BILES: Right.

BERKOWITZ: Was that a conscious decision? At some point you said, "No, I'm just going to be a policy guy?"

BILES: Not initially. After four years working for Dr. Roy, when he lost the senate race, I was going to go back and do pediatrics. But Senator Kennedy's staff director called. And of course in 1974 if you had a choice between being a pediatric intern and working on health issues with Senator Kennedy... And 1974, was the time when there was active consideration of national health insurance, universal coverage.

BERKOWITZ: So that was the time of the Kennedy—Mills bill, actually? Just right then?

BILES: It was just after the end of Kennedy–Mills. The closest the Congress ever came to enacting universal coverage was right in the end of '74. I started with Senator Kennedy in '75. And everyone, of course, was very hopeful. If we came that close in '74, then '75 and '76 would be even more promising.

BERKOWITZ: Right, because the Watergate class had come in—

BILES: Yes. There was a Democratic sweep in November '74.

BERKOWITZ: A lot of people thought actually it was a better strategy to wait till 1975 or 1976. Turns out it wasn't.

BILES: Yes, it wasn't. There was a recession. Most of the health insurance focus in those two years was on the uninsured. And then Jimmy Carter was elected and after that Ronald Reagan.

BERKOWITZ: So was it Stan Jones that you were working for?

BILES: The staff director was Lee Goldman. Lee, Stan, a physician from Boston named Phil Caper, and myself were the four staffers for that period.

BERKOWITZ: So that's also a committee that had to kind of thread its way with Senate Committee on Finance of course. Kind of tricky, wasn't it, because the finance committee thought it had jurisdiction over health insurance?

BILES: And of course Jay Constantine worked for the Senate Finance Committee.

BERKOWITZ: And he has a reputation as an aggressive kind of guy.

BILES: The Kennedy Subcommittee had jurisdiction over the authorized, appropriated health programs. And the appropriations subcommittee was a guy named Harley Dirks, who was also pretty assertive. 8217 So the Kennedy Subcommittee worked with both Finance and the appropriations committees. I know we worked with Finance on the first HMO initiative.

BERKOWITZ: That was around 1972–73?

BILES: The first HMO Act was considered in '72 and '73. But this was a continuation of the efforts to develop and expand HMOs. Sen. Kennedy was very supportive of the prepaid group practices that had been renamed HMOs. The question was Medicare payment to HMOs. The Finance staff made it very clear that this was Finance's jurisdiction. Of course the thing that we now know is that, between the Medicare amendments in HR 1 in '72 and the first reconciliation bill in 1980, there was no legislation actually passed in the Medicare area. So these discussions were, from today's perspective, more rhetorical than real.

BERKOWITZ: There was that moment though in 1974, I guess, when people thought that national health insurance was going to happen.

BILES: It was the glorious moment.

BERKOWITZ: Yes.

BILES: And you may have the reports of Stan Jones for Senator Kennedy, Bill Fullerton for Wilbur Mills and the House Ways and Means, and Stu Altman from the Nixon Administration meeting. The story goes that they met at St. Mark's Church.

BERKOWITZ: And also Robert Ball was involved.

BILES: Yes, but not in the technical meetings. There was a terrific group at the Social Security Administration, Bob Ball and Irv Wolkstein. And of course Bill Fullerton has been at Social Security and was part of that group.

BERKOWITZ: I see. That's interesting. So how long were you with Senator Kennedy?

BILES: I was there two years and then started with the Carter Administration. I was with ASPE in HEW on day one.

BERKOWITZ: HEW (Health, Education, and Welfare) as it was then called.

BILES: HEW. The new Secretary was (Joseph) Califano.

BERKOWITZ: The Assistant Secretary for Planning and Evaluation was Henry Aaron?

BILES: Henry Aaron was the Assistant Secretary and the Karen Davis was the Deputy Assistant Secretary for Health.

BERKOWITZ: Had you known Karen Davis before this?

BILES: One of the things that the Carter Administration was noted for was that they actually set up a transition work group before the election. This is how I first began to work with the Carter people. And we'd worked some with Davis on health issues with the transition group.

BERKOWITZ: Who was in charge of that? Was it Joe Onek?

BILES: Joe Onek actually came to lead the health efforts after the election. The transition work before the election was managed by Jack Watson who was a lawyer.

BERKOWITZ: From Georgia.

BILES: Yes, from one of the large Atlanta firms.

BERKOWITZ: He was pretty close to the president.

BILES: Yes, he was close to President Carter. He later served in the White House as Secretary to the Cabinet. The transition work group was off to the side before the election. It was very small.

BERKOWITZ: I see. So now Henry Aaron was an economist and he was interested in welfare reform I know, which of course was a big concern in 1977.

BILES: Right.

BERKOWITZ: So did he let Davis kind of run the health operation?

BILES: Yes. At Brookings before they came to the department, Aaron and Davis had worked together. They had been colleagues. You are correct that Aaron was mostly interested in welfare and Karen was very interested in health. There was active development of a welfare reform proposal that took a lot of time. So there was some latitude for Davis on health issues. Of course Califano and the Undersecretary Hale Champion were very much involved in everything. So it wasn't that Davis and the health staff were

independent, it was just that she worked a little more directly with Califano and Champion because of Aaron's interest and expertise on welfare reform. The welfare reform legislation was actually developed on a fast track and introduced in the Congress in 1977.

BERKOWITZ: One of the things I have heard about Califano, as secretary was that he liked to work with lawyers a lot—

BILES: Yes.

BERKOWITZ: —rather than these economist types like Davis or Aaron and that the lawyers made a lot of decisions.

BILES: There was a whole crew of really first-class special assistants. There was Bruce Wolff in particular. But there were you're right - they were mostly lawyers. But the one that who particularly worked in the health area was Bruce Wolff. David Calkins who worked on health issues was a physician.

BERKOWITZ: I see. And did you work on hospital cost containment?

BILES: Yes. I had worked on cost containment with both Roy and Kennedy. We worked on cost containment, health planning, state rate setting and then national cost containment throughout that era. And so that's particularly what I worked on when I was at the Department.

BERKOWITZ: One of the things that I have never quite understood is that Carter is President at the time of deregulation and so on, and Kennedy, Senator Kennedy, also had an interest in this subject. But then, on the other hand, this hospital cost containment bill is a very heavily regulatory structure and it is odd that they would kind of coexist. There are different philosophies of government at work here.

BILES: Well, I helped with the drafting of some of the memos early in the transition period. The issue goes to the heart of a debate which we had in the past: Which came first, cost containment or universal coverage? And the argument in the beginning of the Carter Administration was that it was necessary to pass cost containment to make the health system affordable for universal coverage.

BERKOWITZ: In other words, you couldn't institute this health insurance thing without getting the increase in the costs of health care down?

BILES: That's right in 1977. And that is where we were again in 2002. As you know, health insurance costs were increased by 12 percent in 2002. The cost estimates to provide universal coverage were very high in the out-years. And this was the key issue that the Clinton Administration faced in

1993. My view was that this is a big part of the reason that the Clinton health insurance policy got so weird in 1993; it was based on an effort to control costs with a sleight-of-hand. Ira Magaziner and his team didn't want to have high cost estimates but they didn't want to be accused of being heavy-handed regulators. It was and is always the same issue. If you think about cost containment in the Carter era of 1977 on, it was not very long after the Nixon Cost of Living Council anti-inflation program in 1970–74. We now know the COLC was run by Rumsfeld and Cheney. Rumsfeld who had been in Congress from Illinois was the head of the Cost of Living Council and Cheney was his senior assistant. Stuart Altman was the chief of the health program at the COLC. He was loaned to the COLC by HEW where he was the Deputy Assistant Secretary for health policy.

BERKOWITZ: So Nixon had already instituted these price and wage controls?

BILES: Yes. There were four phases from 1970 on with a special focus on health in each phase. It was always, energy and health, something and health. There was a special set of polices to limit health care cost increases in each phase of this anti-inflation program. And at that time, even the AHA actually supported a program to set hospital rates.

The overall reason was to control future costs so you could move on to a reasonably-priced, or at least arguably reasonably-priced, national health insurance program. But it was also an era in which there were both national health care cost controls and a number of states: Maryland, New York, New Jersey, Connecticut, Massachusetts, Rhode and Washington. It was after the Carter proposal was defeated—

BERKOWITZ: Are you talking about hospital cost containment?

BILES: Hospital cost containment, which would have been in '77 and '78 and with the final vote in '79.

BERKOWITZ: I see. So how long did you stay in the Carter Administration?

BILES: I was there two years. Dr. Roy ran for the other Kansas Senate seat, which was vacant since Sen. Pearson was retiring. On Labor Day, he was the favorite to win.

BERKOWITZ: But Nancy Kassebaum—

BILES: Nancy Kassebaum won the primary—a five-way Republican primary—with 30-some percent of the vote and she proved to be a very attractive candidate.

BERKOWITZ: She had those Alfred Landon roots.

BILES: Yes. The Landon name—she ran as Nancy Landon Kassebaum—was very much revered in Kansas in 1978.

BERKOWITZ: I see. So at ASPE were you also working on DRGs (diagnosis related groups)? Were you funding things for DRGs?

BILES: I worked—given the issues that I had worked on previously— more directly on the cost containment legislation. I spent most of my time at ASPE doing that.

BERKOWITZ: Which was a frontline political issue?

BILES: Yes. And DRGs were in the background then. They became a focus somewhat later—and most of the work was done at HCFA (Health Care Financing Administration).

BERKOWITZ: Yes, HCFA was established right after Jimmy Carter got there in 1977.

BILES: Cliff Gauss—who was later the head of AHCPR (Agency for Health Care Policy and Research) under Clinton—headed the Medicare health financing R&D unit in the SSA research agency. Cliff and his unit worked on the health care cost issue back to the time of Dr. Roy and the health planning legislation that was enacted in early January '75. The health planning bill authorized federal support for six state experimental programs on hospital rate-setting. That was a Public Health Service and not a Medicare program. But Cliff over in SSA managed to be assigned to administer that particular program. When Cliff switched from SSA to be the policy chief in the new HCFA with the first HCFA administrator—Bob Derzon, he brought those projects with him. So it was HCFA staff that developed the DRGs through their work with New Jersey and the other states. They worked on this steadily, not only through the Carter Administration, but in the early days of the new Reagan Administration.

BERKOWITZ: It seems that ASPE played an interesting role in HEW. For example, it did the negative income tax experiments which had started in the OEO and was intended as the research arm of the department. But always it seems that there were these other agencies within the department that were engaged in research. For example, wasn't the national health insurance experiment centered in ASPE?

BILES: Right. The RAND experiment that Joe Newhouse directed ran 10 plus years. They were only two to three years into it at the beginning of Carter. There were discussions early in the Carter era about whether it should be

ended. It was very expensive and had some Republican elements to it. But the decision was made not to terminate it, and so it continued and became, as we all know, a pillar of health services research and health policy.

BERKOWITZ: But, as you mention, work on the DRGs was done in HCFA, which I guess illustrates the peculiarities of politics and history.

BILES: You had both rivalry among the different HEW offices and people moving back and forth between them. Peter Fox, who had been the number two to Stu Altman in ASPE under Nixon-Ford, goes on to be the head of the research shop at HCFA. And then my wife...

BERKOWITZ: Who is Diane Rowland?

BILES: Yes, Diane Rowland. She moved from being special assistant to Len Schaeffer who followed Derzon as the Administrator of HCFA—to become deputy with Karen Davis in ASPE. Individuals moved back and forth. But there were meetings in which the different offices favored very different policies.

BERKOWITZ: Yes, it's interesting. And they wear different hats at different times. So you worked at ASPE for two years and then went on to the State of Maryland?

BILES: I actually then went to Kansas and worked on Dr. Roy's campaign.

BERKOWITZ: Dr. Roy's campaign. Which would have been now what year are we talking, '78?

BILES: Yes, 1978. After that campaign, I went to Johns Hopkins and worked on a master's in public health. At Hopkins I worked with Carl Schramm on research on hospital rate-setting. We published a set of articles that demonstrated that the state hospital rate setting programs had been effective in restraining the increase in costs.

In 1980 I joined the staff of the House Commerce Subcommittee on Health and Environment. Representative (Henry) Waxman D-California had become the new chair of the Commerce Health Subcommittee. I worked with the Health Subcommittee from ‘80 to the end of ‘83.

BERKOWITZ: He got to be the chair of that health subcommittee then or earlier?

BILES: Paul Rogers retired in '78 and Waxman became chair in ‘79. Waxman, who was well down the seniority list, ran for chair against a long-time member of the committee named Richardson Pryor. Pryor was a low-

key former judge from North Carolina. Mr. Waxman worked hard and was selected mostly on the allegation that Pryor's family had ties to the drug industry and also, because he was from North Carolina, he wouldn't be strong on tobacco issues.

BERKOWITZ: And this was somehow involved with Representative Philip Burton and California politics?

BILES: Well, it involved the California delegation and intra-House battles. Waxman became chair in January of '79. And I joined the staff in January of '80.

BERKOWITZ: And what was your position?

BILES: One of the professional staff members. I had responsibility for health planning and HMOs that I had worked on when Dr. Roy was a member of the Commerce health subcommittee. I also had responsibility for NIH reauthorization and eventually worked on the first organ transplant legislation. The organ transplant bill was co-sponsored by Waxman and (Albert) Gore. Gore was in the House and was then running for the Senate in Tennessee in '84.

BERKOWITZ: Interesting.

BILES: This became the Gore-Waxman legislation. John Dingell (D-Michigan) was the chair of the full committee.

BERKOWITZ: So I would imagine that Congressman Dingell wanted to keep control of what was going on.

BILES: It was interesting—this was House politics. Dingell had been a subcommittee chairman when the full committee chairman was an individual who was not a terribly strong leader. Harley Staggers from West Virginia was the full committee chairman. Dingell had led the subcommittee chairmen in essentially a barons' revolt with the result that the staff and the budgets were decentralized to the subcommittees. Subsequently, when Dingell ascended to become full committee chairman, the staff and budgets really remained with the subcommittees. During this era, Waxman had 10 professional-level staff in health and environment and the full committee had three or four.

BERKOWITZ: That's interesting. So that was a big staff.

BILES: Yes, it was very big. It was large enough that on any issue there was two staff assigned. It was a very active staff. The jurisdiction included not only the authorized health programs that I worked on, but also Medicaid,

the Food and Drug Administration, clean air act and other environmental issues. There was a famous Dingell-Waxman controversy on clean air. Waxman, from Los Angeles, as the subcommittee chair, initiated legislation with strong clean air policies. But then the bill went to the full committee where Dingell, from Detroit, was very concerned about automobile issues.

BERKOWITZ: It's interesting that Dingell and Paul Rogers both had fathers who served in Congress. And Dingell's father was a major proponent of national health insurance.

BILES: Right. During this era, there were people on the Waxman staff for clean air and environmental people who were very much in conflict with the Dingell staff. But the health people, because of, as you said, the Dingell positions on health, generally got along well with the Dingell staff. And on health issues, Dingell would generally support the Waxman positions.

BERKOWITZ: I see, I see. So you did work with Waxman until sometime in 1983?

BILES: Until the end of '83. Then I went to Maryland.

BERKOWITZ: So you were with Waxman when the 1983 legislation came in?

BILES: Actually the DRGs, which were part of the 1983 Social Security rescue legislation, were developed by Ways and Means. On the point of jurisdiction, in that era the Waxman subcommittee had the responsibility for the HMO development grants program. The Committee subcommittee was more supportive of the expansion of HMOs than Ways and Means. The Ways and Means staff was not pleased to have Commerce suggest that there should be a Medicare policy on HMOs.

BERKOWITZ: That's interesting, interesting. So then you went to the State of Maryland at that point. And you already had been at Hopkins. I guess you had contacts there.

BILES: Yes.

BERKOWITZ: Working in the department of mental health? Is that correct?

BILES: Well, it was the Department of Health and Mental Hygiene. So the Department managed Medicaid, traditional public health, mental health, mental retardation, and the environment. It had clean air and the toxics portion of environmental programs. In Maryland, there was state rate-setting for hospitals and a strong health planning program.

BERKOWITZ: Which had ties back to the Johns Hopkins program—

BILES: That's right.

BERKOWITZ: —that Carl Schramm was involved in.

BILES: Exactly. Schramm was the person that I actually had written the papers with when I was a student there. He was the vice-chair of the State Hospital Cost Review Commission.

BERKOWITZ: I see, I see. So you were involved in the state hospital rate-setting movement.

BILES: Yes, Maryland had a hospital rate-setting program. It's the only one left in the nation.

BERKOWITZ: Who was the governor of Maryland at the time?

BILES: Harry Hughes. In 1986, he was heir apparent to a Maryland Senate seat. But Maryland had state-chartered savings and loans.

BERKOWITZ: Old Court Federal Savings.

BILES: Yes. It was the beginning of what was later the whole national savings and loan problem. The state-chartered savings and loans were insolvent. They were lightly regulated and had made many bad loans. There were lines outside the building with people withdrawing their savings as fast at they could. So Hughes went from being a successful governor and favorite for the Senate seat to being discredited. It was too bad. In the health area, he was a very good governor.

BERKOWITZ: So I guess Barbara Mikulski ended up with that seat.

BILES: Mikulski. And so Mikulski went from the House. She was initially thought to be a long shot.

BERKOWITZ: I see. That's interesting. So you then come back to House at Ways and Means, right?

BILES: To Ways and Means.

BERKOWITZ: To the subcommittee on health?

BILES: The subcommittee on health, which was chaired by Pete Stark.

BERKOWITZ: From California also, right?

BILES: From California. And he had become the subcommittee chairman the previous year. In '85 there had been a realignment of Subcommittee chairs on Ways and Means. At the beginning of each Congress the process starts at the top—in terms of seniority—and goes down. Congressman Jake Pickle, who was more senior, had been the chair of the Social Security subcommittee. They had passed the Social Security legislation.

BERKOWITZ: In '83.

BILES: In '83. So at the beginning of the new congress in '85 they came to Mr. Pickle. And he decided that nothing was going to happen on Social Security in 83 or 84—or probably for years to come. So he decided to take the oversight subcommittee. And then that bumped Rangel who then decided to select the special tax subcommittee, and that bumped Mr. Stark, who had been chairing the tax subcommittee. So Mr. Stark chose to become chair of the health subcommittee. He had never been on the health subcommittee and had no particular experience working on health issues. But it was the most interesting alternative. So he took health. He was more senior on the full committee than (Andy) Jacobs who had chaired the health subcommittee for the previous 4 years.

BERKOWITZ: From Indiana.

BILES: From Indiana, who had been—

BERKOWITZ: Who was married to Martha Keyes for a while?

BILES: Yes, who was from Dr. Roy's old district in northeastern Kansas.

BERKOWITZ: Ah, from Kansas. That's right.

BILES: From Kansas. She succeeded Dr. Roy in the House district when he ran for the Senate in '74.

BERKOWITZ: And she also, by the way, was involved in the Social Security legislation in 1983.

BILES: Right.

BERKOWITZ: Yes, interesting. Okay, so then you became the head of the subcommittee staff?

BILES: The subcommittee staff director.

BERKOWITZ: And you got that job because you knew Stark?

BILES: No, it was Ken Bowler. The way the Ways and Means full committee staff was organized; there was usually one person, the staff director, who focused on taxes and trade and then a second person, the deputy director, who focused on Medicare, Social Security and welfare. At that time the deputy was Ken Bowler.

BERKOWITZ: Yes, Ken Bowler

BILES: He had a Ph.D. from Wisconsin and was an expert on welfare policies.

BERKOWITZ: Political scientist type, yes.

BILES: A political scientist. He had first worked on Capitol Hill as an APSA fellow

BERKOWITZ: Wrote the book about Nixon's Family Assistance Plan.

BILES: Yes. Ken Bowler had the assignment of finding a new staff director who would work with the new subcommittee chair, Mr. Stark. I had worked with Ken back when I was staff on the Kennedy subcommittee. He had been staff for Congressman Corman from California. The labor national health insurance bill during the early 70's was the Kennedy-Corman bill. We had been in meetings together and so when it was his responsibility to identify possible new staff directors, he called and asked if I knew anyone who would be interested. It was the final year of Governor Hughes' term so I was interested. In 1986 I started working at Ways and Means with Ken and the new subcommittee chair, Pete Stark.

BERKOWITZ: I have one general question that reflects my ignorance of this subject. This is a field by this time when you get to be the staff director of the subcommittee that is incredibly technical in terms of Medicare. And now you are doing Medicare because you are on Ways and Means.

BILES: Right.

BERKOWITZ: And they talk about things like, well, Medicare gave this advantage to the teaching hospitals or Medicare gave them costs plus this and that. How would you possibly be able to do this? Did you have a technical staff that was able to design and revise all of these formulas?

BILES: The subcommittee staff worked together as a team on three levels. First was overall coordination. As the staff director, my job was, most specifically, to work with Mr. Stark, Ken Bowler, the full Committee staff, and Chairman Rostenkowski as the overall coordinator so they understood the issues and the options on health issues before the committee. I also

communicated frequently with the subcommittee minority staff director Chip Kahn. He worked with Congressman Gradison who was the ranking Republican on the subcommittee. Second, working on Medicare and health policy, the subcommittee had three expert, very experienced staff people. David Abernethy, who covered hospital issues, had been the director of the planning and evaluation office in the New York State health department. There he had been heavily involved with the New York state hospital rate-setting program. He had written a book on hospital rate-setting with his colleagues. On physician issues, Jamie Reuter, who had a Ph.D. from Hopkins, had worked on physician and other Medicare issues at the CRS for five years. And long-term care and beneficiary issues were handled by Tricia Newman, who also had a Ph.D. from Hopkins and had worked with Jerry Anderson there. She had also previously worked with the Senate Aging committee when John Rother had been the staff director. The subcommittee staff was extremely knowledgeable on the technical details of Medicare and the health care system. But they were also policy-oriented and understood the political factors at play on any issue. They could do the pros and cons, deal with the groups. But first of all, they were very skilled technically.

BERKOWITZ: And they were able to like call people from HCFA and stuff—

BILES: Yes, that's right.

BERKOWITZ: —to run things for them.

BILES: That was the third level. Beyond the subcommittee staff itself, we worked very extensively with the Congressional staff offices. In Medicare at that time these were the special Commissions—ProPAC and PPRC—and the Congressional Research Service of the Library of Congress, the Congressional Budget Office, and the General Accounting Office. The subcommittee heavily relied on their expertise and analytic work. ProPAC was chaired by Stu Altman who had been the Deputy Assistant Sectary at planning and evaluation at HEW in the Nixon administration.

BERKOWITZ: And ProPAC stands for?

BILES: The Prospective Payment Assessment Commission.

BERKOWITZ: Okay.

BILES: ProPAC focused on the hospital DRG system. It was set up in the '83 legislation to monitor the implementation of the DRG prospective payment system. PPRC was the Physician Payment Advisory Commission and it was chaired by Dr. Phil Lee. Dr. Lee had been Assistant Secretary for Health at

HEW in the Johnson administration. PPRC was established in '85 to design the physician RBRVS.

BERKOWITZ: Resource Based Relative Value Scale.

BILES: Yes. The PPRC and its work were proposed by (Senator Robert) Dole, (Senator David) Durenberger and (Senator Lloyd) Bentsen with a view to make Medicare payments more equitable for primary care physicians in rural areas.

BERKOWITZ: I see. Can I ask another question?

BILES: Sure.

BERKOWITZ: This is a real outsider's question. So this stuff about these DRG things and all this stuff is about trying to minimize the deviation. This was in regs or in a law?

BILES: Both. Clearly the law in 1983 had a lot of detail. As a broader point, some HCFA administrators had complained about the level of detail in the Medicare legislation over the years. Well, the detail in the Medicare legislation was often required for CBO scoring.

BERKOWITZ: Scoring, yes.

BILES: Almost all of the Medicare legislation since 1981 had been part of a Federal deficit reduction bill—generally named the Omnibus Budget Reconciliation Act of the particular year: OBRA 93, OBRA 90. The purpose of the Medicare provisions of these bills is to reduce Medicare spending from the level projected under previous law. So CBO staff reviews all of the proposed OBRA bill language. They read the draft legislation and say, "Is there any way that the administration, under predictably intense pressure from the provider groups, could avoid making tough, cost-reducing decisions?" And the CBO staff insisted on very specific details in the law that made it impossible for HCFA and the administration to decide not implement the tough policies necessary to reduce Medicare costs.

There was a lot of detail in the Medicare sections of the reconciliation bills, year after year. The Subcommittee staff like David Abernethy and Jamie Reuter—with analysis from the ProPAC and PPRC staff—could draft the very detailed language that CBO needed to score the bill as achieving savings. They could have done this because they understood the details in exquisite detail. ProPAC and PPRC were very important in this.

BERKOWITZ: They had technical staff, too.

BILES: Led by Don Young at ProPAC and Paul Ginsberg at PPRC.

BERKOWITZ: Who were real techie types?

BILES: Excellent technical analysts. They also included Kathy Langwell and her colleagues at CBO. CBO had the cost estimating staff that scored the bills. But CBO also had a policy analysis group that did broader analysis and then could provide analysis of options and advice. GAO had a team led by Janet Shikles. On new technology issues, there was OTA with a staff led by Clyde Behney and Roger Herdman. The CRS health staff was directed by Janet Kline with Richard Price and Jennifer O'Sullivan working full time on Medicare.

So there were all of these Congressional staff offices with individuals who really supported the work of the congressional committees.

I think particularly Ways and Means worked all of these offices because our subcommittee members spent more time on the details of legislation than the Senators on the Finance Committee. We had more days of hearings and spent more time on the mark-up of the legislation. And again, Abernethy, Reuter and Neuman were so technically skilled. I'm sure we used the analysis of the Congressional staff offices more. And then of course there was the HCFA staff. The administration at that point was led by Reagan, then Bush. But most of the time if we were dealing at the technical level, Tom Ault and others from Baltimore would provide technical assistance. Tom Ault was really the HCFA DRG person who worked with Abernethy.

BERKOWITZ: I see. So it's interesting that there is this congressional ability to do this incredibly detailed, complicated stuff. Let me ask you about the catastrophic legislation. That's one thing I'm supposed to ask people about. That was on your watch, right?

BILES: It was, from beginning to end.

BERKOWITZ: From beginning to end. So, you are working now with Stark as your—

BILES: Pete Stark from California was the chair of the subcommittee between 1986 and 1989 when the catastrophic coverage legislation was enacted and then repealed.

BERKOWITZ: What are your perceptions? One story is that this was a routine kind of thing and there was an effort by Secretary Bowen to make a mark. They hadn't done much and they were going to do something. This was sort of innocuous legislation. And then it came to Congress. Congress said that's a good idea but we ought to add X, Y, or Z, whatever, kind of

make a Democratic imprint into this. And that's how we got that catastrophic legislation. Is that correct?

BILES: Yes, if you go back you do find it starts in 1986 with HHS Secretary Bowen. He was a family physician before he was governor of Indiana. The story was that his wife had been ill and then died and so he had a personal sense of the importance of health care and health insurance. So he wanted the Reagan Administration to do something in the health area. He wanted to do something regarding the uninsured, especially to respond to the high costs of catastrophic care. There was an earlier proposal by Senator Russell Long for catastrophic coverage in the 70s, during the Nixon-Kennedy discussion of national health insurance in 1972–74. Catastrophic coverage is a less costly way to approach universal coverage. But in the Reagan Administration it got scaled back from everyone in America to just improving the coverage for the Medicare population—those over 65 and disabled.

So—and I think this does lead all the way to the end and repeal—it just expanded the government-financed, government-managed Medicare health care program. Would you have thought that was a priority for the Reagan administration?

BERKOWITZ: No.

BILES: No. That's right. But the Bowen proposal for catastrophic coverage for Medicare hit the White House the same time as the Ollie North and the Iran Contra scandal. You've heard this story. The White House was anxious to sort of change the topic—

BERKOWITZ: The tone of the discussion.

BILES: —the tone. And so they announced they were for this. And that was back in late '85. It was in the State of the Union speech in January of '86 that Reagan was going to study the issue and propose a new program in early '87. At that time the subcommittee worked in a very bipartisan way. Stark and Gradison worked very closely together on legislation during this whole period, including the catastrophic coverage bill. The Ways and Means committees usually began to mark-up a bill with what is called the chairman's mark. It was the chair's view of what the bill should be—at least for initial discussion.

During this era, the Ways and Means Health Subcommittee always started with a Stark-Gradison bipartisan mark for work by the subcommittee. When Reagan in '86 indicated in the State of the Union that a catastrophic coverage proposal was coming in '87, Stark and Gradison start working together to develop their ideas and that of their colleagues on the

subcommittee. Chip Kahn was the minority staff director. There was a series of hearings. A great advantage to Stark and Gradison during this whole period is they are both very analytic. Stark is an MBA banker. Gradison is an MBA banker. As senior members of Ways and Means, they work on taxes. They are very quantitative, very analytic. And they were both in very secure districts at home. So they had time and they were both always willing to take time for hearings on health issues. The hearing would have three panels, about six witnesses, and last about two hours. The Subcommittee would hold one or two a hearings a week. The Subcommittee members would also do breakfast briefings, lunch briefings. During '86 there was a long set of hearings, briefings, meetings and discussions about catastrophic coverage. The Subcommittee members led by Stark and Gradison started putting together the elements of a joint proposal.

After the election, in January of '87—

BERKOWITZ: '87, that's right. The administration proposal was ready by February of 1987.

BILES: Yes. And this is in real contrast with what happened under Clinton in '93. In '87 the administration says this is our proposal. And by this point, Stark, Gradison and the entire subcommittee had been working on the whole range of Medicare catastrophic coverage issues for a year. In early '87 they immediately introduced a Stark-Gradison bill co-sponsored by many subcommittee members and they held formal legislative hearings. Secretary Bowen testified.

The subcommittee scheduled the mark-up on the legislation. The subcommittee marked-up this bill in April and reported it out of full committee by May. It was very early in the two-year cycle.

During this period, we began to see the financing issues emerge that eventually lead to the repeal in '89. The Democrats considered the financing, which was set as an increase in the Medicare Part B premium. It was roughly five dollars per month as a flat premium. It would be the same no matter what the beneficiary's income.

The benefits were also pretty limited—just a simple annual cap on total Part A and B out-of-pocket expenses. Rep. Claude Pepper thought that there should be a long-term care benefit added to the bill. So the Democrats wanted to do more in the way of benefits and they also started looking at progressive financing. Then the Joint Tax staff reported that the only way to collect progressive, income-related revenues would be through the income tax. So they developed an income-related premium, which was clearly an income tax surtax, for people over 65 and disabled on Medicare.

BERKOWITZ: How did Stark feel about that?

BILES: He's a tax expert.

BERKOWITZ: So it makes sense to him.

BILES: And he's a liberal, so he supports progressive taxation. It was set up so that the flat premium that everybody paid was minimal—a few dollars per month.

BERKOWITZ: Right. But why wouldn't these people say, "Well, gee, why don't we just do it by general revenues?"

BILES: Well, it's again that period — and we may be back to that period now in 2004—with large Federal deficits.

BERKOWITZ: And you couldn't do it.

BILES: The House had adopted the Gramm-Rudman polices. It was called pay-go. No legislation could come to the floor of the House—it would be subject to a budget point of order—if it didn't carry its own financing, if it wasn't budget neutral. So Gramm-Rudman turned every benefits bill into a tax bill. Every bill had to pay for itself.

Reagan had in '87, and maybe even today, taught the American people that paying taxes was certainly at least unnecessary, if not un-American. And not only did the legislation need to be budget-neutral with taxes to cover benefits over five years, it had to be budget-neutral in every single year. And this led to the taxes had to apply in year one but benefits—begin until year two. This is because income taxes levied in one year aren't actually collected until January to April 15 of the following year. So if this was really going to be budget-neutral in terms of outlays, the tax revenues didn't arrive until the second year. So the taxes had to be effective in '89 but the benefits couldn't begin until calendar '90. That was one of the things that were unpopular with the elderly.

BERKOWITZ: But the other alternative is to raise the payroll tax.

BILES: Increase the payroll tax.

BERKOWITZ: That would have been okay under these pay-go rules, except it would have meant raising the—

BILES: The payroll taxes had been increased with the fix Social Security package in 1983. That was after the Greenspan Commission. It was bipartisan.

BERKOWITZ: Right.

BILES: Everyone agreed that it wasn't possible to use general revenues. And it wasn't possible to increase the payroll tax.

BERKOWITZ: Right.

BILES: In '89, the subcommittee staff worked through more than 100 options of reducing benefits, increasing co-pays, deductibles, and every conceivable tax option. But every option that was designed, somebody—

BERKOWITZ: Had a problem.

BILES: —in this effort to get the votes of 50 percent of the Committee, you just couldn't get there.

BERKOWITZ: I see. So that's interesting. So what about the prescription drug part of all this?

BILES: Well, the prescription drug benefit was added by the Commerce Committee. There was shared jurisdiction with Commerce. A drug benefit began to be discussed in the early part of '87 in Ways and Means. It was really raised, certainly in any serious way, by AARP.

It was raised two ways. One is on the "we need more benefits in the bill." Claude Pepper, who had been chairman of Aging, was the chair of the Rules Committee and the bill had to go through Rules. Chairman Pepper said, "The co-pays and deductible benefits of the president's proposal aren't enough. There should be a Medicare nursing home benefit. That should be added to the bill." Prescription drugs were a cheaper addition than long-coverage for nursing home and long-term care. The CBO estimates for nursing home and long-term care were really high. But Pepper said the bill has to provide more than just limits on co-pays and deductibles. The AARP staff then began to report that if they were going to sell the bill with their members as an important improvement to Medicare the AARP team was led by John Rother—it had to have broader benefits. They said if we're going to sell it, particularly if we've got to sell either an increase in the flat Part B type premium or certainly any of the income related income tax-related based premiums the benefits must be more than just limits on co-pays and deductibles. And so Pepper and AARP together led to the consideration of the prescription drug benefit. The Commerce Committee subcommittee was chaired by Henry Waxman. Commerce, that was going to consider the bill second following Ways and Means, had jurisdiction over FDA legislation. The Waxman staff had been working on FDA and drug issues since 1979. So the Commerce staff designed the Rx drug benefit and added it in Commerce.

The bill was then subsequently referred back to Ways and Means where the revenues to finance the drug benefit were the added. When these two bills had been reported by the two committees, Speaker Wright then convened an unusual House-House conference committee—like a conference with the Senate. He convened a Ways and Means-Commerce conference committee to put together a joint bill with Chairman Pepper's people looming in the background. This produced a Rostenkowski-Dingell joint amendment as a substitute for the committee reported bills. The rule, when the bill came to the floor, substituted the Rostenkowski-Dingell amendment as the original text and that became the bill that was debated on the House floor and adopted in the House and passed.

BERKOWITZ: Oh, that's interesting. Now, about (Chairman Don) Rostenkowski, did he have strong feelings about this one way or the other or is he just—it's not his thing?

BILES: Well, yes and no. Ken Bowler was the deputy staff director of the full committee and he was there and was clearly involved. He played a key role in the big issues. Bowler understood the tax issues and was being briefed by the tax people. And, of course, once the issues involved Wright and Pepper and Dingell, Chairman Rostenkowski was the person.

BERKOWITZ: He is the Ways and Means Committee.

BILES: Yes, he was and there's no question he was. In a meeting with Rostenkowski and anyone else, he was good about asking for views and on technical issues referring to his lieutenants. But if he was there and the question is, "Are we going to do X? Are we going to do Y? And how does this work politically?" he was clearly in charge for Ways and Means.

BERKOWITZ: So then the bill passed the House and went to the Senate.

BILES: Yes, the bill was considered by the House in mid 87 and sent to the Senate. The Senate didn't take it up until early in 1988. The Senate bill was relatively similar to the House bill.

BERKOWITZ: Then there was a conference.

BILES: Yes. But it was not too contentious. There two sides reached agreement and sent the final agreement to President Reagan. The support in the House and the Senate on final passage was bipartisan and overwhelming majorities in favor on both sides. This was the largest domestic policy initiative during the entire Reagan eight year era. It was enacted in the summer of 1988.

BERKOWITZ: Well, 1983 Social Security...

BILES: ...that's a fair point. That was in the final year of the Reagan administration. And it was signed with a Rose Garden ceremony on July 1, 1988.

BERKOWITZ: But then the program gets repealed in '89.

BILES: Yes. Then in '87 and '88 the catastrophic coverage program passed in the House with 300-plus votes and the Senate with 80-plus votes. So it was very bipartisan. But the seeds of the repeal effort were evident from the beginning. If you go back as early as '87, there was a conference at the Carter Center in Atlanta after the Committee had reported the bill. The tax-based premium approach was mentioned and the elderly in the audience were clearly very hostile. So there was always that issue. But then the question is: Where did the active, nationwide opposition come from? There were various stories.

There was generally the report that the opposition was funded by the drug companies. This view was pretty well known. But we never had any confirmed indication, no solid evidence that this was the case. Maybe it was, but there was never any proof. The most interesting story I heard was that there was a campaign firm in Los Angeles and the staff– it was in late '98 after the election and so off-season for a campaign firm—was sitting around the conference table musing, "What can we do to be paid till the next election?" They said, "Well, maybe we could get people to send money. You know this Medicare catastrophic thing seems to be controversial. There is this tax on the elderly issue." Then they linked up with this previously not well known—minimally-existent group—the Committee to Preserve Social Security and Medicare with James Roosevelt as the spokesman.

In any case, the Committee led by Roosevelt began. And they pushed and pushed. This was the first factor that led to the repeal. The Committee did national direct mail and other advertising urging the elderly to oppose the program. At that time, the general view in Washington was that the program was secure with 300 votes in the House, 80 votes in the Senate. The House and Senate majority and minority leaders, the chairs in the House and the Senate, and the new President (Bush) all supported the program in early '89. Programs with broad support like that don't get repealed.

BERKOWITZ: Especially in the Social Security program.

BILES: Yes. But once things began to roll, House members got more and more elderly asking hostile questions in town meetings. There were even meetings in neighborhoods where, no one—virtually no one—in the room paid any Federal income tax because their incomes were so low tax. So they would not have paid the tax-based premium at all.

So they were going to get the benefits including prescription and not pay very much at all because the monthly Part B premium had been kept very low. But they were all led to believe they were going to pay up to $800 a year. So there was this low level, from a congressional perspective, almost inaudible kind of drumbeat all across the nation.

But there was little active support for the program. Nobody actually was out there advertising in favor of the program explaining to the elderly why it was a good deal for so many of them. AARP, to their credit, never crumbled, never failed. But they couldn't afford a nationwide education campaign. Neither AAPR nor anyone else had a big national, you should really be for this campaign. So there was no opposition to the opposition. And then I think the second thing that happened was that in Congress, the non-health committee members began to question their support for the catastrophic coverage program. This started with both the Democrats and the Republicans.

The Democrats—this was the members not on the health committees who had not worked for three years on the catastrophic program—said, frankly our priority isn't to give more benefits to the elderly who already have Medicare. We are really for assisting all the people who are uninsured under 65. And if the elderly are going to be ungrateful, they said, "Why should we go to town meeting after town meeting and get flak from the elderly about something we think we did to help them?" The Democrat non-health committee members said, "This was never our idea or priority." And then the Republican members said, adding a benefit to a government-financed and managed Medicare health insurance program is not our priority. "Why are we for this? Why do we want to go to town meetings and defend an expansion of government based health insurance?" So on both sides, the non-health committee members hedged their support for the program. These were certainly not the Rostenkowski-Stark-Gradison-Bentsen-Dole-Waxman-Dingell health care leaders. The leaders at that time in both the House and Senate and both the Democrats and Republicans continued to support the program. And President Bush was very good all the way through.

BERKOWITZ: But of course he didn't sign it.

BILES: No. That was '89 and Reagan had signed in '88. Bush had been vice-president. But the senior health officials back in the new Bush Administration understood the program and supported it.

BERKOWITZ: Maybe if Bush had signed it would have been different.

BILES: Well, he sent a strong letter. And he had been on Ways and Means so he had long-standing ties to Rostenkowski.

So the support started to crumble from, the outside or the back benches, however you want to describe it, from the bottom up.

And in the end on the final votes, Rostenkowski and the leadership all voted against repeal. And in the end Rostenkowski let other members manage the repeal. The repeal language mainly preserved the Medicaid provisions. That is where the Medicaid QMB program comes from. It also preserved some of the long-term care, particularly home health benefits. It also established what was later known as the Pepper Commission that considered options for universal health insurance and long–term care coverage.

BERKOWITZ: I see. Thank you. I think that's a good place to stop and that gives a good perspective on that. I appreciate that.

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Interview with Shelia Burke

Washington, D.C. on September 19, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: September 19th and I am here in the Castle Building of Smithsonian Institution with Sheila Burke who is the undersecretary of the Smithsonian. And I wanted to ask you about your career before you were the undersecretary of the Smithsonian. And I know that you have a long association with Robert Dole.

BURKE: Yes.

BERKOWITZ: And I know he was involved in the Finance Committee, as were you. So I was wondering how that all started.

BURKE: Of course.

BERKOWITZ: How did you come to Washington?

BURKE: I came to Washington in 1977 and I was hired to be a legislative assistant for Dole. I had come to know people in Washington because I was working with the student nurses. I am a nurse by training and practice and had been quite active in the student association and had gone to work for them and handled student rights and government relations. They were concerned with issues like Title 7 funding and things of that nature. When approached about a job in Senator Dole's office, I was intrigued and interested in considering a change in jobs. At the same time, I was thinking about going home to California to graduate school but people here in D.C. that I had come to know said, "You ought to interview with Dole. He's looking for a health person." I had no clue who Dole was. I was born and raised in San Francisco, in a liberal Democratic family. No clue who he was, paid no particular attention to him. I generally voted Democratic in all elections, so he hadn't been someone I had really heard of in the past.

However, I thought it would be interesting to come to D.C. for a year. I came down from New York, I interviewed with him, and he said he didn't care if I was a Democrat or a Republican, he wanted somebody who had been a provider, who had actually taken care of patients.

At the time, he was a junior member of the Senate Finance Committee. Russell Long (D-Louisiana) was chairman. Carl Curtis (R-Nebraska) was the ranking Republican. Dole was about fourth down in seniority but he was

the—he was the ranking Republican on the health subcommittee with Herman Talmadge (D-Georgia) as the chairman.

At the time, I didn't know a great deal about the Medicare and Medicaid laws—hadn't been particularly involved. But Jim Mongan, a physician, was on the committee staff at the time. Senator Dole felt strongly that he wanted the Republicans similarly to have someone with a health background. As a side note, Jim, who became a good friend, is now the head of Partners, a major health plan in Massachusetts. He went on to do some wonderful things after he left the Committee. And so I went to work for Dole, given all of that, and remained with him for almost 20 years. I was on the personal staff with him for six months and he then surprisingly became the ranking Republican on the full committee because all the Senators senior to him—Cliff Hansen (R-Wyoming) and Carl Curtis—chose to retire.

And so he moved up to become the ranking Republican on the Senate Finance Committee, ultimately becoming chairman when the Senate went Republican. I began with Dole doing health policy and moved to the Finance Committee with him, ultimately becoming deputy staff director of Senate Finance, and ultimately oversaw the staff responsible for all the social welfare programs in the Committee's jurisdiction. But my primary interest and issues were largely Medicare, Medicaid, maternal and child health, all the health care financing issues. I went to the leader's office when he became leader in 1985 and became chief of staff in 1986 where I remained for 10 years until he left the Senate in 1996. I really had a great view of the Senate having served on a personal staff, a committee staff and then the leadership. So that's what got me there.

BERKOWITZ: And Dole was the head of the Finance Committee from 1981?

BURKE: That's correct. He became the ranking Republican in 1978 and then chairman when the Senate went Republican in 1981. That's exactly right.

BERKOWITZ: So from 1981–1985 you were on the majority staff of the Senate Finance Committee?

BURKE: Yes.

BERKOWITZ: Okay, let me ask you a question about that then. The other person I know that worked for Dole in this field is Carolyn Weaver.

BURKE: Yes. She handled Social Security. She would have joined Dole's staff after he went to Finance. And so it would have been—it would have been in the early '80s would be my guess when Carolyn came on board, because she was there when we did the 1983 Social Security reform.

BERKOWITZ: She strikes me as kind of a different person. I mean in the sense that she really is ideological and so on.

BURKE: And academic.

BERKOWITZ: So the Senator had both on his staff.

BURKE: He did. I perhaps was the most moderate of his staff. I was probably certainly the only Democrat at the time. Many of his other staff were in fact far more conservative. But it varied.

When I first went on his personal staff, there was a woman who handled welfare and food stamps for him who ultimately helped negotiate the original food stamps legislation with Senator McGovern (D-South Dakota). Mary Wheat. So Mary was from Kansas, a wonderful woman and also something of a moderate. Dole has a history of having kind of a mixed staff, which I think is to his credit.

I mean, I think he surrounded himself with people of lots of different backgrounds, which was quite good. But you're absolutely right. Carolyn and I were certainly ideologically very different and had very different backgrounds. She was clearly an academic where I was trained as a nurse.

BERKOWITZ: And Dole also has a reputation of being a very competent senator with a competent staff.

BURKE: He is.

BERKOWITZ: And I know in 1983 he was actually on the Social Security rescue commission.

BURKE: Yes, he was.

BERKOWITZ: —that did the Social Security reform and was considered a very key player by the White House and by the House leadership.

BURKE: Well, he and Moynihan I think at the end of the day, you know, I think both had an enormous impact on what we were able to do. And I think it was because of their standing with their colleagues that people were able to ultimately work out an agreement.

BERKOWITZ: And I know that Robert Ball has a lot of respect for Dole.

BURKE: Yes, yes.

BERKOWITZ: Which is not true of all Republicans.

BURKE: Dole certainly held Bob Ball in high regard. There are a lot of, I think, good feelings between the two of them.

BERKOWITZ: So I know you were involved in DRG legislation—

BURKE: Yes.

BERKOWITZ: —which was part of the package in 1983 for the Social Security reform.

BURKE: Yes.

BERKOWITZ: Do you have any memories of the start of Diagnosis Related Groups that come to mind?

BURKE: Oh, vivid.

BERKOWITZ: One of the questions, of course, is how it got to be put onto that legislation.

BURKE: We were driven by what vehicles were available. I mean, one of the challenges for Finance was always waiting for a tax vehicle or waiting for some vehicle out of the House that would allow us to move these things forward. The Medicare program began to experience difficulties almost right after it was created in terms of far exceeding anyone's expectations in utilization and cost. And so even as early as '67 and '68 we began to see some real tensions around the financing of the program.

One of the things certainly that we began to see in the late '70s was this rapid escalation in health care costs. And there was a real interest, particularly on the hospital side, because that was the biggest piece of the program, trying to get a handle on what we ought to be doing. The program had been historically based on a sort of Blue Cross/Blue Shield model or Aetna model, which essentially involved having us pay costs. And what we began to see was, not surprisingly, behaviors that reflected the fact that the more you did, the more you got reimbursed. There were also huge variations in cost depending on where you were in the country. We began to look seriously at ways of paying that created incentives for cost reductions and created uniformity based on what you were doing, rather than where you were.

There were real issues around whether or not this formula, this essentially 300+—or whatever it was categories, would allow us to begin to get some control on what was a serious cost issue but also this increasing awareness of the disparity, the differences in care between the different parts of the country. The work that Jack Wennberg had done out at Dartmouth and a

variety of others had begun to look at ways to begin to address these issues. We had already moved from cost-based reimbursement to the 223 system which paid people basically on the size of the institution.

The question was whether we could begin to translate this experience into something different. The sense was the DRGs held the promise of beginning to put some discipline into the program and also allowed us to begin to look at things in a more consistent way. So that was what got us to moving in that direction. Having said that, it was not a simple process. I mean, there were an enormous range of issues that had to be dealt with, not the least of which were the beginning of an understanding of the differences in institutional settings and what impact that had on utilization, what you could distinguish between a teaching hospital and a non-teaching hospital and how you looked at outliers.

When you looked at behaviors, where were the extremes? It's sort of the low end and the high end. How did you adjust for those? Originally we constructed both a cost and a day outlier so that you had some way to deal with the fact that there were some cases that were just, you know way out of sync. The acknowledgment of the graduate medical education issues, the fact that it presented and resulted in additional costs because of the presence of interns, and the acknowledgment that that was something we felt was important for us to continue to finance through Medicare. So all of those things began to spill out of the conversations around DRGs. There were all the sort of weird little, you know, carve-outs. You know, you wanted to carve out a particular county or how accurately we were in being able adjust for labor costs, you know, what were the input prices? And today many of the same questions remain. I sit on MEDPAC and we are still struggling to try and figure out what it is that we know and whether we can do a better job and refine it. But it was the earliest attempt to try and get at volume as well as cost issues.

BERKOWITZ: MEDPAC stands for—?

BURKE: The Medicare Payment Advisory Commission.

BERKOWITZ: Okay. So it was all very technical, this stuff about DRGs—

BURKE: Yes, yes.

BERKOWITZ: —and so on. At what level did someone like Senator Dole engage this discussion?

BURKE: Well, the members at the time were less involved in what is in fact a remarkably technical issue—they were really more involved in setting the

basic policies and examining the impact of any shift in payments. It was a conceptual argument in the sense that they wanted to try to get a handle on costs, and they wanted to make more sense out of how we paid. Why should it cost you differently and why should length of stay be different in Los Angeles than it is in Chicago or Miami or New York?

So the members really looked at it at that level, whereas the staff were buried in the unbelievable details. Brian Luce, who was at the department at the time, was critical to our efforts and I remember fondly to this day the hours we spent at the Finance Committee around the table with bags of M&Ms as we tried to figure out all these weird little things. Like: What do you do about carve-outs? What do you do about lengths of stay? What do you do about hospitals that are atypical in your service mix, rehab hospitals, for example, children's hospitals? Of course, the decision was to pull them out. But all of those things had to be done and much of it was done with the members having a great say conceptually but with the staff really having to sort out the details. Now, that has begun to change and you see members getting more involved in sort of the minutiae, you know, carving out particular hospitals, districts, all those kinds of issues. But as a general matter, the interesting [thing] about Finance is that they are confronted with extraordinarily complicated topics from tax to trade and Social Security to Medicare. And the social welfare stuff is sometimes a little overwhelming in the sense of their not particularly wanting to get involved in the minutiae. They just want to know how it's going to work and who is it going to affect.

BERKOWITZ: And it's also not clear to me that there's an obvious Republican and Democratic point. I can see that there would be a point of view—

BURKE: There wasn't. And it's a very interesting point that you raise. There is to the extent that you get into the big fights over social welfare financing and things of that nature where you do have ideological differences. But when it comes down to sort of the figuring out many of these kinds of issues that faced us regarding how to pay for services, it is rare that it is a partisan issue. Now, drug coverage, though, in the current debate is obviously one issue that has become highly politicized. But as a general matter, we found that the staffs worked very closely both on a bicameral as well as a bipartisan basis, where you were sort of given a puzzle and the issue is to solve the puzzle. Everybody would sit around and solve the puzzle. You didn't have the kind of politics of R's and D's that you would see around Medicaid or welfare or some of the other issues.

BERKOWITZ: And Social Security.

BURKE: Social Security is known as the 3rd rail of politics. Battles over funding and benefits certainly get partisan at times.

BERKOWITZ: Right. So let me get then to this other thing I have been asked to look into a little bit, which is the Medicare Catastrophic Coverage Act of 1988. By then you were not at Finance, right?

BURKE: I was the chief of staff to the majority leader.

BERKOWITZ: But you must have heard buzz about this.

BURKE: Oh, Dole was still on the Finance Committee, as was Senator Mitchell (D-Maine), the Democrats leader. Dole and Mitchell were both sitting on the committee and they were both leaders. And so it wasn't that we heard inklings, we were smack in the middle of it.

BERKOWITZ: And who had your job on the Finance Committee at that point?

BURKE: Probably—that's a good question. Ed Mihalski or Julie James. I don't recall who it was, actually.

BERKOWITZ: And this would have been after 1986.

BURKE: This was '88'.

BERKOWITZ: So the Republicans are a minority now.

BURKE: Julie James might have been there. Ed Mihalski replaced me at Finance when Packwood became chair and then ranking. So it would have been Packwood, so it probably was—Julie James, Ed Mihalski would be my guess.

BERKOWITZ: And how does Ed Mihalski spell his name?

BURKE: M-I-H-A-L-S-K-I. He's currently at Lilly. Ed was my deputy. And so when Dole went to the leadership, Packwood became chair or ranking and Ed remained and ultimately became staff director and did the health stuff. Julie James was there. I don't honestly remember who specifically in '88, but those people were likely involved.

BERKOWITZ: So in 1988 as this catastrophic legislation takes shape, it starts out, as far as I understand, in the Reagan administration.

BURKE: Yes, it does. Secretary Otis Bowen and his assistant Tom Burke.

BERKOWITZ: Is Otis Bowen alive, by the way?

BURKE: I don't know, actually. It's a good question. I don't have a clue.

BERKOWITZ: You haven't seen him?

BURKE: No, no, not in years. I don't think I have seen him since he left.

BERKOWITZ: When he left Washington he kind of left Washington.

BURKE: Yes.

BERKOWITZ: I see.

BURKE: Yes.

BERKOWITZ: And Tom Burke is dead.

BURKE: Is he?

BERKOWITZ: I think so.

BURKE: I don't know, actually.

BERKOWITZ: Maybe I'm just assuming but I think. At any rate, what kind of stuff were you picking up about this?

BURKE: Well, health care was not high on the Reagan agenda. I mean, it was a topic that they didn't have any particular interest in getting in the middle of. And there was some sensitivity on, I think, Republicans' parts that it really was second tier in terms of the White House. I think they were tied up at the time—and I may have my dates off a little bit—but I think they were—Iran-Contra was maybe around that time, so they were certainly distracted. And I think Bowen had decided this was going to be kind of his issue. He described at the time the history his wife had had and the challenges they had had in terms of her illness. He kind of took the bull by the horns without any great interest or involvement on the part of the White House, at least that's how it's reported, and he decided to kind of move this forward. And no one sort of checked him in the sense of saying no. And then what occurred was what you would have expected to have occurred, which is the opportunity presented itself for a Medicare bill with a lot of things that had been sort of held in abeyance and waiting for an opportunity.

BERKOWITZ: It's like 1983 again.

BURKE: Exactly. And it just became something of a free for all in terms of everyone trying to get involved and get a piece of the action. There then, as you might imagine, ensued a whole series of negotiations over what people

would support. And everyone took the opportunity to add on the things that they cared most deeply about.

There was also, of course, all the issues around financing and how one would add a new benefit. And, you know, when the White House finally got involved the sort of sensitivity to what this would do in terms of the trust fund, but also in terms of finances generally. And so we began with these sort of convoluted series of attempts to try and create a financing mechanism. In retrospect, the mistakes that were made across the board are legendary in terms of judgment calls—who was involved, who wasn't, the AARP getting involved and kind of buying in and, not bringing anybody with them, the Roosevelt group that sort of came up out of nowhere and this became their cause celebre. But it was clearly originally initiated by Otis Bowen and largely ignored in the Reagan White House and spun out of control pretty quickly.

BERKOWITZ: How did Dole feel about the sort of Christmas tree aspect of the bill?

BURKE: Well, it wasn't terribly unusual and we tended to find this kind of thing with Medicare.

BERKOWITZ: That was 1988.

BURKE: Yes.

BERKOWITZ: So it was worse than 1983 in the sense it was an election year.

BURKE: Again, you had come to kind of expect that around these issues. We had begun sort of looking at and experiencing, you know, what started out as TEFRA and DEFRA and then OBRA and then COBRA, and then you had this whole series of reconciliation bills, so this lumping together of all sorts of stuff. And really during that period of time most Medicare legislation had been reconciliation-related, so everything was sort of constructed around the budget. This was the first sort of break loose is my sort of vague recollection. And so everybody saw it as a shot at, you know, moving ahead on their agenda.

BERKOWITZ: Was prescription drugs on Senator Dole's agenda or something he proposed?

BURKE: It was an issue that people had raised. And obviously it had been of concern even then in terms of the exposure of the elderly. And we began to see the pattern of their out-of-pocket expenses being driven largely by

pharmaceuticals except where they were covered by Medicaid. You knew this was a big issue.

It was also an issue, even at the time, that we all struggled with in terms of cost. And even then, the inability to do any reasonable cost estimates with any kind of predictability of what the actual utilization would be had everybody terrified in terms of what the exposure was to be. It's certainly one that, we struggle with even today trying to figure out how the hell will this—much will it really cost? What will people do? How do you finance it? What do you do with the Medicare program generally?

BERKOWITZ: What is your feeling about the CBO (Congressional Budget Office) in debates like this? Do you think they were partisan in the sense that it makes a difference that the Democrats were in control and that changed estimates.

BURKE: At the time?

BERKOWITZ: If the Republicans had been in control, estimates would have been different. Or is that not true?

BURKE: You know, I think it ebbs and flows. It depends on the leadership at OMB, or CBO rather. You know, I think there have been times when they have been more partisan than others. There are a lot of people who think that CBO was unreasonable—was unfair during health care reform. I think Bob did exactly what he should have done. I think people worked damned hard at being—at being balanced. You know, it would be too simple to simply blame it on partisan politics. I just don't believe that. I mean, I think there are fundamental differences in estimating and fundamental differences in philosophy about utilization and all the things that impact on cost estimates.

It was clearly a big issue at the time in terms of how people cost things out between CBO and HHS (the Department of Health and Human Services). But, you know, as a general matter I think they do try to be honest. There are exceptions to that we could all find. But I don't—I don't instinctively think they are, you know, the cause of all evil.

BERKOWITZ: So basically people just don't know what's going to happen when there's a prescription drug benefit put in?

BURKE: No, no. You don't know today.

BERKOWITZ: Right.

BURKE: I mean, we're spending huge amounts of time and assets trying to figure it out and the cost estimates are—you know, today it's 300, tomorrow it's 600.

BERKOWITZ: Right. A little bit like the disability rolls, isn't it?

BURKE: Yes

BERKOWITZ: Very volatile and affected by lots of things you can't predict.

BURKE: You just don't know what kind of demands you're going to create. There's just no way to know with any real certainty.

BERKOWITZ: Right. Let me try one more idea on you. Then I'll ask you about the repeal. One thing that occurred to me is that this was a field of very technical—as you say, it was all done in these reconciliation acts, very hard to explain.

BURKE: Uh-huh.

BERKOWITZ: And they would say things like we want to get at this to be so that they are getting, you know, so much here, so much there, so much in academic...

BURKE: Right.

BERKOWITZ: But when the actual legislation, quite complex to get—

BURKE: Right.

BERKOWITZ: —at that idea so that when they started tinkering with the financing for this catastrophic thing, it was in that tradition. It was looking at numbers and spreadsheets and therefore, their political sensibilities were dulled in some sense.

BURKE: Yes, in some sense. I mean, I can also give you examples. I remember vividly the conversation before the Finance Committee about the coverage of mycotic toenails, which the members became quite involved in.

BERKOWITZ: Really?

BURKE: So it really—I mean, we can all think of ridiculous examples. In the context of catastrophic, the members really were looking at the big picture issues. And, you know, they were certainly sensitive to wanting to go home with having done something, having moved something ahead. A number of them were concerned about the increasing concerns about the elderly and

out-of-pocket expenses and being impoverished. So I think it's not that they were uncaring about the broad question or picture. But they did tend not to get involved in the minutiae to a large extent, although there were members who did.

The exceptions are people like Dave Durenberger, who used to throw himself into minutiae, you know. So there are exceptions to that rule. But as a general matter, the members look at these in sort of broad context. Does it do something for my constituents? How much is it going to cost? Can we afford it? And then they basically say work out how you're going to finance it. The concept though that the members did agree to, which was critical in catastrophic, was that it would be a shared financing, that it was not going to be a new entitlement in the sense of a fully financed federal benefit. And that was a conscious decision. So they didn't come upon that as a surprise. I mean, they didn't suddenly wake up and go, "Oh, my gosh. There's a premium involved here?" I mean, that was clearly a policy decision. So—and that's generally how it goes, or did at least when I was there, was you would get a policy direction and then you would be sent off to try and figure out how to achieve it.

BERKOWITZ: But is there a difference in the sense that if you do a DRG formula you are going to have quick feed-back from the health care providers but whereas with something like the Catastrophic Act the situation is a little more diffuse?

BURKE: Well, it is and it isn't. We found out pretty quickly that it wasn't, that Roosevelt was able to successfully get everybody to be terrified about what their exposure would be. We found with health care reform that, you know, the Harry and Louise stirred up everybody's anxieties about what they were going to lose.

So, you know, members do follow those kinds of things. And notwithstanding the minutiae of how you draft it, they followed the sort of general trends and—

BERKOWITZ: I guess the point I was kind of probing here is that for something like whether there should be a DRG for rehabilitation you can talk to people inside the Beltway and so on. Whereas in this case, as with general health care, when it's a big diffuse thing, it's going to affect both sides. There's not that same communication.

BURKE: Yes. That's correct.

BERKOWITZ: It's not so discrete.

BURKE: There isn't the clarity.

BERKOWITZ: Yes.

BURKE: There isn't the kind of clarity in people's views. And it was clear that this was quite diffuse in terms of people's knowledge and understanding. Obviously, in retrospect we realized that there was no real comprehension of what was occurring. It's much more difficult to get a consensus around what it is that people want you to do.

BERKOWITZ: Right. And so how did you begin to hear about concerns over the Catastrophic Act—this is now 1989, I guess—after late 1988. Did you begin to get letters in Senator Dole's office?

BURKE: Yes, we did slowly begin to get some letters. It was really the members themselves that began to hear it when they went home. John McCain (R-Arizona) obviously was critical in that. And really, it is McCain who began to stir the fires and who had heard from his constituents. And we began to hear from constituents as well as the news went out about what was going on and the fact that there was going to be a cost. AARP hadn't really inoculated us. I mean, they hadn't gotten their troops all signed up. So it was that you began to see an action, you know, sort of the dance of legislation that the public sort of responded, and said, "What is this?" And it was the absence of clarity, the absence of information that helped bring it down. We hadn't bought in key constituencies and that let the Roosevelt group basically drive the agenda.

BERKOWITZ: And you are talking about James Roosevelt—

BURKE: Yes.

BERKOWITZ: —and his organization—

BURKE: Yes.

BERKOWITZ: —to save Social Security or whatever it was called.

BURKE: Whatever it was at the time, right. Martha McSteen was involved.

BERKOWITZ: And she must have been somebody that Senator Dole knew or had known when she was Commissioner of Social Security.

BURKE: Very well. You bet.

BERKOWITZ: And was not considered a kook.

BURKE: No, no, no, not at all. I mean, these guys were all caught by surprise at the vehemence of the response. I mean, you know, the sort of vision we all had of (Congressman Dan) Rostenkowski being chased down the street.

BERKOWITZ: I think it was August of 1989

BURKE: Yes. It was just horrible. Nobody wanted to have that happen when they were home greeting constituents. What you began to hear as early as that spring was that things were beginning to heat up. And McCain and others were really beginning to push hard to try and deal with it.

BERKOWITZ: So did the leadership make an explicit decision: Okay, we're going to let this thing go? Or was there a period of saying, well, no, why don't we try to finesse it, save it in some way or—

BURKE: You mean when the ultimate vote was taken?

BERKOWITZ: As this thing played it out over 1989 there were a couple of kind of iterations of it.

BURKE: Yes, there were.

BERKOWITZ: Perhaps some people thought that maybe we should change the financing.

BURKE: I think early on there were attempts to try and keep it alive, but the view was that it really would help some people, that it was salvageable. It became clear over time that it just wasn't, that we weren't going to be able to work out anything with McCain that he was satisfied with or that the groups were satisfied with in terms of an alternative financing. But it clearly built up over time, and it was in some ways not unlike health care reform in that having delivered the message and having done so on a fairly free and open environment in the sense that the proponents weren't positioned to really deal with the opponents' statements, claims, public relations, and were caught basically on a reactive mode rather than having anticipated it and sort of laid the groundwork for people to accept this method of financing in exchange for a benefit. You had a scenario where essentially we were playing catch-up. You know, they were out there. They had delivered the message. And people's instincts were to believe the message that they were going to be disadvantaged.

BERKOWITZ: If the timing had been different and instead of President Bush there was President Reagan still, would that have changed things? Would the White House have then said, "No, we've got to keep this. We did this"?

BURKE: No, I'm not sure it would have. I think the White House at that point would have loved to have gotten rid of it as well. Certainly it wasn't Bush's problem when Bush came. I mean, it was something that had begun in the Reagan administration. I don't think you can assume that because it was a transition to Bush that it was disadvantaged. I don't think we know the answer to that. But it certainly wasn't on Bush's list.

BERKOWITZ: So let me ask you one last question. You had been in these high-level meetings on Medicare policy and in Washington things more generally. Do people talk about this still, say, "Gee, this catastrophic shows we can't do X or Y or Z?"

BURKE: Oh, yes. It has a tail that's unbelievable. Not as strong as it once was, and part of it's kind of been replaced by health care reform. It became the new disaster. But catastrophic is still regarded with some awe because of the speed with which the reversal occurred. I mean, Christ, it takes us that long to pass a bill, let alone to pass it and reverse it. It's just unheard of, the complete absence of a strategy that would have anticipated and dealt with the issues that arose.
There are still lessons that catastrophic taught us. But I think health care reform is probably the more recent example of a similar kind of response .

BERKOWITZ: Good. Thank you very much.

BURKE: You're very welcome.

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Interview with David Durenberger

March 31, 2004
Interviewed by Edward Berkowitz

BERKOWITZ: Today is March 31st and I'm talking with Senator David Durenberger who is in his office, I think, Minneapolis?

DURENBERGER: Yes.

BERKOWITZ: And Minneapolis it's snowing in Minneapolis?

DURENBERGER: No. God, are you kidding, Ed?

BERKOWITZ: Is it done with that?

DURENBERGER: Yes.

BERKOWITZ: That's good.

DURENBERGER: There's still ice on some of the lakes.

BERKOWITZ: Okay. I'm speaking from my office here in Washington, D.C. And I want to ask you a little bit about yourself and about health care. First things first. I see you were born in Saint Cloud, and I should know where that is, Saint Cloud. But what part of the state is that in?

DURENBERGER: It's 72 miles northwest of the Twin Cities and it's known to people outside Saint Cloud as Lake Wobegon.

BERKOWITZ: Oh, really?

DURENBERGER: Yes.

BERKOWITZ: That's where Garrison Keillor grew up?

DURENBERGER: No, he grew up in Anoka, which is a suburb of Minneapolis. But he went up there to work on the very first expansion of a campus radio station, which is now American Public Radio. And the rest is history. He moved up there from the University of Minnesota's radio station because he got a little job as an announcer at this KSJN, which was an on-campus radio station run by a student by the name of Bill Kling, who is currently the president of American Public Radio.

BERKOWITZ: Really?

DURENBERGER: The engineer was my brother.

BERKOWITZ: Really?

DURENBERGER: Who currently is the engineer for Victory Sports, a broadcast channel for the Minnesota Twins?

BERKOWITZ: That's excellent. So that's…

DURENBERGER: More than you wanted to know.

BERKOWITZ: Well, I knew there's a college there. I knew that. Now you grew up in that area, more or less?

DURENBERGER: I did.

BERKOWITZ: And went to school there. And then you went to St. John's University, I see. Is that the St. John's that I know or is it a different one?

DURENBERGER: No, it's a Catholic University founded in 1858 on the site of a Benedictine monastery. And it has a prep school, a college, a university, graduate school, liturgical center, a bunch of other things like that.

BERKOWITZ: I see.

DURENBERGER: The largest monastic manuscript library in the world.

BERKOWITZ: Really?

DURENBERGER: Yes.

BERKOWITZ: So I know that you went into the army and that you also went to law school, looks like about the same time. Maybe that was part of being in the army that you got to go to law school? Or was that separate?

DURENBERGER: I went in the army with a regular army commission in 1956 out of the ROTC program and could only stay in for six months because there were too many officers in the army at the end of the Korean War. So I came out and served six additional years in the active army reserve.

BERKOWITZ: I see.

DURENBERGER: And it was while I was in the reserves that I went to law school.

BERKOWITZ: I see. So now I know also that you worked as an assistant to one of the governors in Minnesota. So I guess my next question would be that how did you get into politics as a thing to do?

DURENBERGER: A small law firm of three or four people when I joined it. Was headed by Harold LeVander, who became the governor in 1967. Prior to that, Harold Stassen was a senior partner in that same firm.

BERKOWITZ: He's also from Minnesota, I guess.

DURENBERGER: Yes, another partner was a former congressman from the Fourth Congressional District. So there was a tradition of one of those people always being in politics. And when LeVander ran in 1966 I worked for him and he got elected.

BERKOWITZ: I see.

DURENBERGER: And I became the chief of staff.

BERKOWITZ: So when you started in Minnesota politics was there still the Democratic Farmers Labor Party?

DURENBERGER: Yes, it's always been the DFL. The Republicans became the Independent Republicans after Watergate. And I don't know whether they have dropped that or not. In the legislature the governor and the lieutenant governor were elected as Democrats and Republicans but the legislature ran as Conservatives and Liberals. And the Liberals had never controlled the state senate in the history of the state from 1858 until 1970 when for the first time they ran as Democrats and became a majority. And there were famous Democratic state senators like Wendell Anderson, later governor and US Senator. But anyway, they were Liberals and Conservatives until 1970.

BERKOWITZ: I see. And you were always a Republican?

DURENBERGER: Yes.

BERKOWITZ: Is there a particular reason?

DURENBERGER: Yes, my parents were Republican. I hung out with Republicans, I guess. I grew up that way. And all of my professional associations in law and so forth were with Republicans.

BERKOWITZ: At a time I guess when Hubert Humphrey was a pretty dominant figure.

DURENBERGER: Yes. And Gene McCarthy, who also went to St. John's.

BERKOWITZ: Oh, really?

DURENBERGER: He was a good friend of my father's. In fact, he coached hockey and studied to be a Catholic Priest. My father was athletic director and Gene was a hockey coach for a couple of years.

BERKOWITZ: That's interesting.

DURENBERGER: And McCarthy met a girl by the name of Abigail Foley down at St. Catherine's College, so he switched down to the Twin Cities and lost his vocation for the priesthood in the process and married her. They are since separated, as you know.

BERKOWITZ: Yes. So your career and Hubert Humphrey's are somewhat intertwined. He was a senator twice, I guess. He was a senator, then had to stop because he became vice president. And then he became Senator again until he died. And that seat was filled by his wife for a little bit, perhaps, after he was.

DURENBERGER: She was appointed in January of '78 after his death. In '76 when Mondale became vice president there was a vacancy in the Senate to which Wendell Anderson appointed himself by vacating the office and having his lieutenant governor, Rudy Perpich, become the governor. And the governor appointed Anderson to the Senate.

Then when Hubert died, 9, 10 months later, Perpich appointed Muriel to the seat. And in April 1978 she announced she didn't want to run. So in the general election in November, I left the race for governor, in which I was running against Al Quie for the Republican endorsement, and ran instead for the Senate. And I won only because in the Democratic primary that year Bob Short, who had once been the owner of the Washington Senators and took them to Arlington, Texas where they became the Texas Rangers, defeated former Congressman Don Fraser in the primary election.

BERKOWITZ: I see. So then you were a senator. Was that your first elected office?

DURENBERGER: Yes.

BERKOWITZ: Wow. That's very unusual, isn't it?

DURENBERGER: Well, Rudy Boschwitz was elected the same way, the same time. Two Republicans got elected in Minnesota. He was the first Jew. I was

the first Catholic. And both of us got to the Senate on our first tries for elective office.

BERKOWITZ: I see. So this seat that you had was Humphrey's seat and that is when was the last time that he ran, do you know?

DURENBERGER: He ran last in 1976 for senator.

BERKOWITZ: And was he already sick?

DURENBERGER: Yes, but nobody could talk about it. Well, it was mentioned by the Republicans but it was never mentioned by any of the newspapers. The media would not talk about the fact that Hubert was dying.

BERKOWITZ: Right. Because I remember very vividly in Jimmy Carter's inaugural in 1977 he was on television. He looked just awful. And I guess he was already quite sick by then

DURENBERGER: Yes. But nobody would write about it. And today... you know, John Kerry's tendon surgery.

BERKOWITZ: Things have changed a little bit, those standards, haven't they? So you get to the Senate then a little bit before your class then, right? In 1978?

DURENBERGER: Because I got the balance of Hubert's term. My class was the class of '76. So I'm coming in with the class of '78 but I'm really in the class of '76.

BERKOWITZ: Right.

DURENBERGER: So there were 20 of us. I think there were 9 Republicans and 11 Democrats. And there are not too many people left of that class.

BERKOWITZ: Right. Did it ever make a difference that you had that little bit extra seniority?

DURENBERGER: Yes. I was 80th in seniority the day I took office.

BERKOWITZ: And that made actually a difference?

DURENBERGER: I got on the Finance Committee.

BERKOWITZ: I see. Actually, that was going to be my next question. You got on the Finance Committee immediately, like beginning in 1979?

DURENBERGER: Yes.

BERKOWITZ: With that Congress?

DURENBERGER: Right.

BERKOWITZ: And Mondale was also on the Finance Committee at one time.

DURENBERGER: Both Mondale and McCarthy had been on there for some period of their service.

BERKOWITZ: So was this the Minnesota seat?

DURENBERGER: No.

BERKOWITZ: So how did it happen that you got on Finance?

DURENBERGER: There was a vacancy. Republicans choose differently. The Democrats have a different process from the Republicans. Republicans have to go strictly by seniority. I was the 80th one to choose, and everybody ahead of me chose some committee they were already on. But nobody else chose to switch to the Finance Committee from wherever they had their sinecures. So I was it.

BERKOWITZ: I see. And I guess Russell Long is chairman at the time, right?

DURENBERGER: Right.

BERKOWITZ: And the ranking at the time, who was that, the ranking Republican on Finance?

DURENBERGER: Bob Dole

BERKOWITZ: So you get quickly to the Senate Finance Committee. Did you start out with the notion that my brief is going to be health care from the beginning?

DURENBERGER: Right. From the beginning.

BERKOWITZ: Is that because you had experience in the field?

DURENBERGER: From about 1972 on I was chairing a project in Minnesota on behalf of big employers, which is now called the Business Health Care Action Group. We started this project to get employers to provide choices for their employees as a way to get employees better informed about the costs and choices that they had to make in health care. So among my mentors were Paul Ellwood and Walter McClure.

I don't know if you know about the Citizens League of Minneapolis-Saint Paul. It's a 52-year-old organization. It's unique in the country, pretty much, on citizen-sponsored public policy issues. We created charter schools. We created the Metropolitan Council, a bunch of things like that. We created the concepts and somebody else implemented them.

BERKOWITZ: I see. And this is part of that. I see. The Finance Committee always had subcommittees. Is that correct?

DURENBERGER: Yes, but they didn't do markup like many other committees did.

BERKOWITZ: But not like the Ways and Means.

DURENBERGER: The only thing the Finance Committee was, as a chair, if I were ranking on the Health Subcommittee all we could do was have hearings.

BERKOWITZ: I see. But then legislation was always by the full committee.

DURENBERGER: Yes.

BERKOWITZ: I see. That's interesting especially since they cover so much in that committee. So as you get your focus now on national health care, because you are from Minnesota does it make a difference that the Mayo Clinic is in your state in terms of the way you see health care issues? Is there a kind of a Minnesota point of view?

DURENBERGER: Yes, but it isn't the Mayo Clinic as much as it is HMOs and multi-specialty group practice. Social HMOs were invented out here. A whole lot of things like that got invented here in Minnesota. Minnesota, as you know, is the most insured state in the country. We're at 4.9 percent uninsured in any given year. It's the progressive approach to health system reform and health financing reform that really propelled me. Obviously, there are things you can learn from Mayo.

BERKOWITZ: I think I'm losing you here on the connection. Can you hold on just one sec? And so this is a continuation of the interview with Senator Durenberger. We were talking about that you are on the Finance Committee and that health care is one of your briefs on the committee and that Minnesota had a reputation as a progressive state in terms of creative and effective health care finance. As you got swept up in the politics of Medicare and Medicaid and from a national point of view in the Senate, I was curious in particular about your memory of the catastrophic legislation at the end of the 1980s, just to jump ahead a little bit. Now, that seems to be something you were a supporter of, helped to develop. Am I right about that?

DURENBERGER: Yes.

BERKOWITZ: And I saw somewhere that you were on a committee with the fellow who was the secretary of HEW, who was a doctor: Dr. Bowen.

DURENBERGER: Yes, Bowen at Reagan's suggestion. I think Reagan had it in a State of the Union message in '87. So Bowen appointed a committee of I don't know how many people: 16 or 12 or something like that. And I was the one person from the Congress that was on the committee to try to redesign the Medicare benefit for catastrophic coverage.

BERKOWITZ: And is that something that you came to kind of de novo or did you have opinions about that?

DURENBERGER: I imagine it was Bowen and others inside HHS at the time. In the 1980s HHS could still shape health policy, rather than having health policy come out of the White House. The concern was, by the mid-'70s the Medicare benefit was not keeping up with the changes in the way people sought to buy insurance. So, it started with the idea that you needed somehow or other to design a catastrophic benefit, which we did. And while we were at it, of course, we then had the pressure to include some kind of long-term care and some form a drug benefit. That's not where we started. We didn't start with the drug benefit and we didn't start with long-term care. We started with how to design a catastrophic benefit. And once we got into that there was pressure was there from the AARP and lots of other people to come up with some additional benefits. While trying to restructure the benefits or put in more appropriate benefits we were asked to consider drugs and long-term care.

BERKOWITZ: As I understand it that was pretty much the Democrats who were pushing those things.

DURENBERGER: Yes.

BERKOWITZ: Whereas the catastrophic idea was Dr. Bowen's idea. Why, I don't know. Do you know?

DURENBERGER: No. I don't remember. The guy that engineered it, who was his chief of staff, died also.

BERKOWITZ: Right. Why do you think that was identified as a priority? I mean, just looking at it as an outsider it doesn't seem like that would have been one of the first needs one would identify, the catastrophic, the idea being that you could just run out of patient days or your expenses would be too much afterward?

DURENBERGER: If you fast-forward it to the present time and you look at it in the context of a drug benefit or any other benefit, but just look at it in terms of focusing on drugs, you would end up designing a different kind of a drug benefit. Two problems they had this year were, number one, they had only $400 billion to work with, and number two, they had the drug industry, which would not allow Republicans to pass a drug bill unless it had in it a prohibition against negotiating drug prices. So then they're stuck with that. But I think the idea of how can you have a health insurance plan like Medicare or anything else that doesn't have in it a kind of a catastrophic feature had been around for a long time.

BERKOWITZ: Right. Senator Long I guess was one of the proponents.

DURENBERGER: Probably, yes.

BERKOWITZ: And Senator Ribicoff, too.

DURENBERGER: Of course he was. That's right. You reminded me of that. That's right.

BERKOWITZ: But I have always been curious about how many people, you know, actually would be affected by these catastrophic issues.

DURENBERGER: I don't know. Maybe not as many as today but certainly there are a lot today.

BERKOWITZ: So in 1988 that law gets passed with the drug benefit and with a little bit of long-term care and I believe hospice care and of course catastrophic. And of course it gets repealed very quickly. Is that something you saw first-hand? Did you come back to Minnesota, and people say, aw, geez, this tax is killing them?

DURENBERGER: It wasn't a problem except in isolated cases in Minnesota. There were two problems with the catastrophic bill. Number one, we never laid any political groundwork for it, so the general public wasn't aware we were doing it. But the second one was that we knew when we passed it that the conflict between having a mandate for the drug benefit in other words, you had to take the drug benefit, plus an income test would get us in trouble with the double and triple-dippers. I mean, all the people who were either federal employees or DOD military retirees, all that sort of stuff would end up being forced to pay twice. Once for their retiree plan and another time for their Medicare plan. So they are the ones that killed it. They got John McCain to be the champion in Arizona. The Florida guys were a little less, you know, out front. But they were there. But wherever you could spot large concentrations of military and particularly military retirees, they were the

problem. Lloyd Bentsen acknowledged before we ever passed it that this was going to be a problem. And I always remember him as having promised to find a fix for it. But we never did. Congress found a fix this time by making it not a mandatory program so people are not supposed to complain about having an income-related benefit over $80,000.

BERKOWITZ: When you were making laws in this period of time, who were your allies? Did you have anybody?

DURENBERGER: About half the committee knew enough about these kinds of issues to participate, usually deferred to leadership. And the leadership would come from the brightest bulbs on the committee, which I became over time. I obviously didn't start that way.

Guys like Packwood and Dole were way ahead of me. But over time it was Packwood and Dole and Chafee and John Heinz and me and eventually Grassley caught onto some of it. And many capable Democrats. And You know, that sort of thing.

BERKOWITZ: Was Dole good at it?

DURENBERGER: Sheila [Burke] did it all. But Bob could handle it quite well.

BERKOWITZ: He's a very capable guy I guess.

DURENBERGER: Right.

BERKOWITZ: Okay, so the catastrophic got repealed. I assume you—did you vote against the repeal?

DURENBERGER: Yes. At one point we had 46 votes against repeal, but we couldn't get past 46 votes so we ended up with 35.

BERKOWITZ: One of which was yours.

DURENBERGER: Yes.

BERKOWITZ: But it didn't seem to hurt you too much, huh, that vote? That was never held against you.

DURENBERGER: Because most people didn't know anything about it. It was a phenomenon. It was a big deal to a relatively small group of the elderly and it was no big deal to the vast majority of them who would have benefited.

BERKOWITZ: Right.

DURENBERGER: If AARP had spent the $20 million, you know, adjusted for inflation, they spent this year selling that program it would never have been repealed.

BERKOWITZ: I noticed that as I'm sure you have there are ads on television now trying to explain that it's still your Medicare and so on. I guess that must be a direct descendant of that 1988's.

DURENBERGER: Somebody told me if you dial 1-800-MEDICARE and ask questions about MMA, you have to use a prompt. Two words are the prompt: Medicare Improvement.

BERKOWITZ: They are trying to reinforce the message there. So you were in the Senate, too, when it changed over to Republican, right? Is that correct?

DURENBERGER: 1980 election.

BERKOWITZ: So did that change your life?

DURENBERGER: Yes, we got to be in charge. We got to be responsible. We got to set the agenda. We had to work with a Republican president.

BERKOWITZ: What did that mean for you though in terms of your work on the Finance Committee and so on?

DURENBERGER: I was busier than I had been before.

BERKOWITZ: Did you have more staff after that, for example?

DURENBERGER: No, it doesn't make any difference on staff. The only committee that I was on that it made any difference on staff was Government Affairs. But you don't have any more because the chair and the vice and the ranking member own all the staff. They don't give you anything. But obviously Bob Dole would care about health policy and Sheila Burke was assigned to do his health policy. So Sheila would work with my staff as the chairman of the Health Subcommittee all the time.

BERKOWITZ: I see. Who was your staff stalwart at that time?

DURENBERGER: At that time it was John Tillotson, who is now out in Napa Valley someplace.

BERKOWITZ: When did Chip Kahn come to work for you? It was later.

DURENBERGER: 1984

BERKOWITZ: And he became one of the real principal staff figures on health, right? Is that correct?

DURENBERGER: Yes. Kathy Means, Helen Darling and other people like that have been on the Hill with me.

BERKOWITZ: There was a time you were in the majority there in the 1980s for a while and you're getting a lot of seniority as time goes on. Did you have an agenda yourself with regard to Medicare?

DURENBERGER: No, I think in our day because it was non-partisan the agenda was really driven by health services research and it was driven by really smart people inside HHS. There were a lot of good examples out in the country, people doing demonstrations. There was a lot of activity in the country from which we learned. Obviously the DRGs and all that sort of stuff came out of New Jersey and wherever it was and Hsiao's shop up at Harvard. There was a lot of paying attention to folks who were innovating in health care delivery and particularly doing innovations with Medicaid or Medicare.

BERKOWITZ: I see. So that's a very upbeat view. So the Finance Committee members are leaders in the Senate?

DURENBERGER: And Ways and Means pretty well operated the same way except they had Stark on Part A, and Waxman of Energy and Commerce, on Part B, who usually wanted it to come out their way regardless of what the research was saying. Henry Waxman would never give up on he hates managed care, you know.

BERKOWITZ: But the Finance Committee are stewards of the Medicare program, is a way you might put it.

DURENBERGER: Right.

BERKOWITZ: Okay. And they're just trying to figure out, okay, we don't want it to go bankrupt. We want it to be as good as possible. And that's a kind of an honest way of portraying what's going on. It's so technical. So an idea like DRGs is research-driven in some sense.

DURENBERGER: Yes. I went up to Harvard two or three or four times, you know, to visit with Hsiao. When I was in Boston for some reason, I'd go over. I taught a class for him one day and we were actually actively interested. John Heinz did the same thing. You know, people did that in those days. I mean, they went out and they looked at the social HMOs. They looked at whatever were the experiments in the country. Members actually made the time to go look at some of these sorts of things in those days.

BERKOWITZ: But when you would institute something like DRGs after 1983 didn't you get immediately calls from I don't know, the University of Minnesota Hospital saying, "This is killing us"?

DURENBERGER: Yes. There was always that sort of thing.

BERKOWITZ: So how did you reconcile those two things? On the one hand you're trying just to do innovative stuff. But, on the other hand there are people that are affected by these payments that Medicare is making and they are going to pressure you?

DURENBERGER: Mostly in this story it's not Minnesota but it's DeBakey in Houston. In '83 at somebody's invitation I was down at Texas Medical Center giving a lecture to their board of trustees. And while I had never met DeBakey I recognized him because he had his scrubs on. He was in the very front row. He was listening to me patiently explain what a DRG is and all that sort of thing. And after everybody else asked their questions he put his hand up and he said basically he said and I don't want to be quoted on this, but I mean he said, This is a bunch of bullshit. I mean, I've served on commissions all over the world, you know, and this is not going to work, period.
And, you know, what I'm thinking, of course, is how the guy from Lake Wobegon got on with the most famous heart surgeon in the world. So, you have that disagreement all the time. Certainly in medicine, where you are dealing with people who are incredibly opinionated and they are opinionated, as in the DeBakey case, about something they don't deserve to be opinionated about. But obviously I was not smarter about his business than he was about mine. So you worked together to figure out, what's going to provide the right incentives for this system to change. And sometimes that's done on an individual basis. I mean, you would talk about the Mayo Clinic or specialty group practice. There are people in various cities in Minnesota who were ahead of their time. And so I had the advantage of being able to go home, talk to some smart doc, who was a pioneer in his field, and say, "These docs are saying this. What do you say?" And he would say, "Well, here's why they say what they say. But, you know, doesn't this make more sense?" and then he would lay it out for me.

BERKOWITZ: Let me ask you, I don't want to take up too much of your time, but you were in the Senate for the introduction of President Clinton's health care reform, Did you have your own bill?

DURENBERGER: Obviously it had a lot of stuff that we had been developing in a bipartisan way over the years. Some of it came out of the old Pepper Commission, such as the employer mandates. There were changes in tax subsidies. You know, there's a lot of stuff that we had collected over time

that was nonpartisan. And that became the base. I mean, the problem with the Clinton bill is they insisted on building all of their spending into their savings. And you can't do that in a disaggregated system. And the other problem obviously was political, and that is that they never invited Dole and Durenberger and all the rest of us the first time we ever got invited to be part of the process was on May 17th, which was after the first hundred days had expired. And that was the first time any of us ever got invited into the White House to talk about this.

BERKOWITZ: Why do you think that is? Did they just see you as the enemy?

DURENBERGER: I don't know. No, I doubt that. I mean Walt Zellman told my staff a year later when they were still thinking we were going to pass the bill in '94 "All we got to do is get Durenberger and Chafee and we'll pass this bill." And my staff said, "You know, you must be deaf because those guys have been telling you for a year now that if it doesn't get 80 votes, it doesn't pass." I mean, you're not going to do health system reform with 51 votes. Forget it.

BERKOWITZ: Right, right, right. Maybe that's a problem when something comes from the White House.

DURENBERGER: It's a big problem.

BERKOWITZ: Well, listen, thank you so much. It's good insight. We will send you the transcript and appreciate your time very much, Senator.

DURENBERGER: You bet.

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Interview with Charles N. Kahn, III

Washington, D.C. on August 22, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: August 22nd, 2002 and I am here in Washington, D.C. in the office of Charles N. Kahn, III, Chip Kahn. And I want to ask him some questions about his life. I guess the first thing that leaps out at somebody who looks at your vita is that you worked on Newt Gingrich's campaign in the 1970s. How did that come about?

KAHN: Well, when I was a high school student in 1968, I wanted to work in a political campaign. And actually my mother went to a League of Women Voters meeting and met Jackie Gingrich, Newt's first wife, who was a neighbor of a friend of my mother's. And it turned out that Newt, who was a graduate student at Tulane in modern European history was also chairing the Rockefeller for President Committee in Louisiana. And from that my mother came back and gave me Newt's name. Jackie had given her their number. And I called Newt and worked that summer of '68 in the campaign for Rockefeller.

And then obviously he didn't get the nomination; Nixon did. But I kept up with Newt. And during the period from '68 through '74 I went to college up here at Johns Hopkins and Newt eventually finished his dissertation and his Ph.D. work and went to West Georgia—to teach at West Georgia College, which is in Carrollton, Georgia. When I was a sophomore at Hopkins, I got a car. I would stop off in Carrollton and I worked in the summers in Carrollton—in '72 doing a project for Newt on state governmental issues. In '73 I worked in the summer for him, sort of setting up the campaign in '74. And then I finished at Hopkins in December of 1973, although I didn't graduate till '74 and went and started work on the campaign. And it was—we just had this sort of older/younger brother relationship and I ran the campaign in '74 and we got 49–1/2 percent. It was pretty close. Newt was teaching sort of—even though he was a history professor, he was teaching in some kind of environmental affairs department because he taught this future course. And so he had sort of sprouted out into futurism by the early '70s. And his candidacy against a 10 and an 11-term incumbent—a 10-term incumbent in '74 and an 11-term incumbent in '76, a guy named Jack Flint pitted a college professor who was Republican and conservative on some issues and more perceived as being more moderate on others against a Bourbon Democrat in two races in which we came very close. History beat Newt both times and '74 was Nixon because Newt was so close and he hadn't had ...

BERKOWITZ: That was a very hard year for Republicans.

KAHN: Yes. And he came within, you know, half a percent of winning. And I guess the most noteworthy contribution I made in '74 was I was the one that decided Newt should do television. So I went and borrowed a bunch of money and provided most of the money for our television that year, although we did raise $75,000—which was a lot for a college professor who was running for Congress in 1974. I went back to New Orleans—I'm from New Orleans—in '76 and worked in the mayor's office for Moon Landreu for a year.

BERKOWITZ: Who was a Democrat, right?

KAHN: Who was a Democrat. But I had worked—in 1969 I had worked in Moon Landreu's campaign for mayor because there really wasn't much of a Republican party or Republican activity in New Orleans. And I had had a relationship with and liked him and knew a bunch of people who were working with him.

So I helped. I worked in his campaign in '69 and then in '75 I worked as a mayor's assistant and did different kinds of projects related to urban development and tax issues for him for a year. And then I went back in '76 and ran Newt's second campaign.

And the second campaign was much larger. But again, that was the year Carter was running. And so—

BERKOWITZ: And he was from Georgia.

KAHN: And he was from Georgia and he got like 75 or 80 percent of the vote in Georgia. And we were very close again. Newt finally won in '78 and my contribution that year was to get Dino Cedar, who was a Louisiana advertising guy to come in and do Newt's television that year. But I was somewhat involved in the campaign in '78.

But by then I had gone to graduate school at Tulane in health administration and the School of Public Health at Tulane, and so I ended up getting a master's in health administration and finished that. Well, I finished my didactic, two-year didactic in June of '79. And that's when I came up here.

And rather than doing my residency for that degree—and you had to do a year of residency—at a hospital, which I considered doing, I really still wanted to be a policy person and work in Washington. So I came up and worked for Richard Knapp for a year at the Association of American Medical Colleges, teaching hospital department, as an administrative intern.

And that's what got me kicked off here in Washington. So then that year a guy named Jim Bentley, who now works at American Hospital Association, was working on a major project to look at the effect of DRGs on teaching hospitals. And this was sort of in the midst of the beginning of the New Jersey DRG project.

I also did experience when I was at AAMC the big issue that year was the last battle over Carter cost containment.

BERKOWITZ: And again, that would have been 1979?

KAHN: That would have been June of '79 to June of '80.

BERKOWITZ: Let's back up just a second. And you got interested in health care why? Was it a family thing?

KAHN: I got interested in health care for a couple of different reasons. One, I actually went back to New Orleans after Newt lost in '76 and started working in a mayoral campaign and became convinced that after a short time that I wasn't going to make my livelihood off of politics even though I enjoyed it a great deal.

Second, I had an interest in health care and there was a program at Tulane, a management program. And I had some interest in hospitals. And, to be frank, there was Public Health Service money. So the first year I got full tuition, a stipend, and I had an assistantship which wasn't, you know, a fortune. But it meant that I could go at least one year for free and the next year was well funded.

So there was a financial incentive. And I wanted to get a professional degree and I had become convinced because part of me still wanted to work in Congress and work in policy that I had to find an area that I was interested in that I could have some expertise in.

So I, for a whole lot of reasons with conversations with a lot of people, I gravitated towards health and made a decision and have basically since 1977—fall—been in health when I started the program at Tulane.

Funny connection to my mother. It turned out the head of the program, which I didn't know when I went to see him—a guy named Walter Burnett—was also—

BERKOWITZ: Burnett?

KAHN: Burnett.

BERKOWITZ: How does he spell his name?

KAHN: B-U-R-N-E-T-T, and he was at Tulane. Now he is semi-retired, but also with Thorpe. He does some stuff with Thorpe at Emory. It turned out my mother had run for the state legislature and his wife had managed my mother's campaign. But I was out of town during all those periods and didn't know the connections.

And anyway, Walter is very close with my mother. So everything seems to always go back to my mother. I mean, actually, I'm a Republican, I'm convinced, because of my mother, because my mother is a yellow-dog Democrat.

And on the one hand I got interested in public policy I think because she dragged me when I was seven years old. She was big on the League of Women Voters. I mean, I went to the state legislature when she was lobbying on things when I was seven years old, I can remember. So I got interested in government and policy through her.

But I guess I ended up being enough of a contrarian that I ended up being a Republican when she is such a dyed-in-the-wool Democrat. I now can give you all the philosophical reasons why I'm a Republican. But, you know, sometimes these things develop for reasons other than ideology.

BERKOWITZ: Did your family know the Boggs family or was it a different circle?

KAHN: My mother knew Lindy Boggs and Hale Boggs and was involved in some of Lindy's campaigns. And my mother was a Democrat State Central Committee member in Orleans—no, in the state, State Central Committee. And then she was in Orleans Parish, too. So she was very involved in politics.

I guess by the time I got involved in New Orleans I did have a lot of Democratic politics involvement. Actually, the last campaign I worked on down there was in a Democratic primary for the son of Delceps [phonetic] Morrison, who had been there. He didn't win and that was when Dutch Moriel won.

BERKOWITZ: Dutch?

KAHN: Dutch Moriel was the first black mayor in New Orleans. But anyway, so I had these deep roots, these deep political roots. And I can remember coming up and seeing Hale Boggs when—must have been '64, I think my mother and I came up here, or '66.

BERKOWITZ: '64 I think is when Lyndon Johnson made a speech at New Orleans during the campaign.

KAHN: Yeah, I sort of have some memory of that. But I came up here and we visited with Hale Boggs in the majority leader's office. So I have always been involved in politics in one way or another my whole life, basically. And you don't see many 16-year-olds going out and working in campaigns.

BERKOWITZ: I know you worked for the Association of American Medical Colleges.

KAHN: Right.

BERKOWITZ: But I'm interested in your Congressional career.

KAHN: Well, what happened was, once I got up here I became bound and determined to work on Capitol Hill. I mean, that had always been an ambition but it became—it became my, you know, sort of personal mandate. When I finished the year at AAMC I was not successful in getting a job on the Hill.

So I went to work, which ended up for three years at the Association of University Programs and Health Administration. During that whole time I was working at AUPHA I was trying to get a job on the Hill. I was working on a Kellogg-funded project to develop financial management curriculum for health administration graduate programs.

And two people who were involved in that program,

J.B. Silvers from Case Western and Hugh Long from Tulane ended up being on PROPAC eventually because of me. Hugh Long was a professor of mine at Tulane but I got to know J.B. because of that project. So even the early days led to some things that had an effect on Medicare later on.

But during that period I actually had an interview—I guess it must have been '81—with Pete Singleton from the Ways and Means Committee, who was the minority staff director, for their job; and I didn't get it.

And then—I can't remember which year it was, but one of those years I also had an interview with Dave Durenberger and I didn't get that job either. And Newt helped me get that interview actually. That was after Newt had been elected to Congress. And I interviewed with a lot of other people.

And I can remember walking the halls at one point even pre-'80 when I was at AAMC and going to see Jay Constantine and trying to get advice about

finding a job. I did everything I could. And by '83, I had given up. I just thought I was never going to get a job on Capitol Hill.

And I just saw that Judy Buckelew was leaving Senator Dan Quayle (Republican-Indiana). So I called Newt Gingrich's A.A. (administrative assistant) and I said, "Could you call over there and find out whether or not that job is wired?" And he called back and said no.

And I went in and saw a guy named Bob Gutman who was an interesting guy who actually had worked at CRS and the Labor Department for many years, and was senior policy guy for Dan Quayle. And he was actually the guy that did the Job Training Partnership Act. Bob Gutman is a brilliant, brilliant guy. And he was my first mentor on the Hill because he ultimately hired me.

And so I went to work for him for a year and I worked for Quayle for a year. And I would say it was a learning process for me. It was when the Republicans were in the majority in the Senate.

So my main involvement was in the (1983)DRG Act there was a very small rural referral center provision that basically only affected one or two hospitals. And one of the issues that has been an ongoing concern in Medicare with hospitals has been this geographic issue of hospitals—where they were close to cities, in counties close to cities that were rural counties not part of MSAs (metropolitan statistical areas), or for other idiosyncratic reasons where their labor markets were more like urban MSAs than not, even though they may not have been in an MSA.

So I guess my claim to fame at that point was that for Dan Quayle I was the one that negotiated the first major expansion, which ended up being hundreds of hospitals, of the rural referral center provision which had a particular effect on Indiana because you tended in Indiana to have a number of small cities.

BERKOWITZ: Like Lafayette, Indiana?

KAHN: Yeah, that were not MSAs and had major hospitals and usually had—I can't remember where Cummins was. But they had—these big companies that would have big plants.

BERKOWITZ: Columbus, Indiana?

KAHN: Maybe. Actually, I think it was. And that was one of the hospitals. But anyway, the point is that because of the geographic nature of Indiana and the way it had grown economically you had, I don't know, six or eight hospitals that were really hurt by DRGs because they were rural, rurally

located, but not rural. And anyway, that was one of my first big plunges on Medicare.

BERKOWITZ: Was Quayle one of the Senators elected in 1980?

KAHN: Yes, and he was one of the few Republicans who in '86 was reelected.

BERKOWITZ: Was Senator Quayle on the Finance Committee?

KAHN: No, that was my point. He was not on Finance. He was on—they called it the Labor and Human Resources Committee.

BERKOWITZ: Yes, I know. The one that Senator Harrison Williams (D-New Jersey) once headed.

KAHN: It's the health committee now.

BERKOWITZ: Right.

KAHN: And Senator Orrin Hatch (R-Utah) was chair at the time. And when Orrin Hatch became chair they did away with the health subcommittee. And so there was no health subcommittee. But Dan Quayle had decided he wanted to be a health senator and was going to spend a lot of time on health.

And we—I was involved in health planning a great deal because that was under the jurisdiction of the committee—tried to come up with legislation to save health planning, actually. If you remember, it died around then but there wasn't much interest in saving it.

He also had a bill that I did for him which passed that envisioned some kind of public/private effort with the IOM (Institute of Medicine) regarding technology assessment. And it never went anywhere. If you remember, when Reagan came in they basically got rid of the technology assessment effort. There was a national center for technology assessment.

And at that point I think they were sorry they did it in time. The device industry and other industries didn't want the government playing that role so they blew it up. And that didn't mean the function wasn't important. And so we tried to find another way to do it.

That whole stuff about technology assessment at that point in a sense was a precursor to this whole quality outcomes thing that is still in vogue. So that's what I worked on for Dan Quayle. We tried to get into medical liability. We had a hearing on it, but it really didn't take.

BERKOWITZ: And you passed along to what?

KAHN: Well, then I worked for him for a year. And John Tilletson, who had worked for Dave Durenberger, and in TEFRA (the Tax Equity and Financial Responsibility Act).

BERKOWITZ: And TEFRA was 1982?

KAHN: Yeah, and John had worked very hard on TEFRA. There was the provision that made the demonstrations into the risk contract program and set up the HMO program that went into effect in April '85. And that was one of Dave's babies.

BERKOWITZ: Now, just tell a bit more about—that was a Medicare provision?

KAHN: Right. Medicare prior to April '85 didn't pay for HMOs. Well, I shouldn't say that. There was some cost reimbursement to HMOs, but it was not a capitated payment. And it was an awkward kind of payment. It didn't go away until '97 I think or something.

But it basically meant Medicare didn't really pay. I mean, it kept people in HMOs if they were already covered by HMOs, but it paid cost. It was not really an HMO. It didn't, say, pay a premium. And they had the demonstration—I can't remember when this started—in the late '70s or early '80s of four HMOs.

And then it was in TEFRA that the risk program was set up. And it was April '85 when it went into effect. So, I mean, that was what led ultimately to Medicare plus choice in the '95 bill which I worked on and the '97 bill which actually passed.

BERKOWITZ: That's interesting because when Medicare was started, that was one of the things that was discussed and HMOs were kind of excluded from the program.

KAHN: Well, in '65, though. the only HMOs you had were Kaiser and the Group Health of Washington and Minnesota. I mean, as far as the AMA was concerned they were still some kind of sinful malpractice to have doctors working there.

BERKOWITZ: Right. But it's interesting that Wilbur Cohen and Nelson Cruikshank both belonged to Group Health here in Washington. Interesting connections. But they didn't want to help them in 1965, they wanted to pass that bill.

KAHN: Right. But it really wasn't until Ellwood sort of pushed it with the Nixon administration.

BERKOWITZ: After 1973?

KAHN: Well, actually it was in '70 or '71 that you have that paragraph in the President's budget or his statement to Congress, you know, calling for HMOs which led to the HMO Act. But that's where Medicare made the turn, in TEFRA.

Dave Durenberger obviously was very involved in health and had a number of big projects. The two projects that he had that I think were part of his agenda that actually didn't play out until '95 in the way that I influenced the design of the '95 bill and the '97 BBA bill—

BERKOWITZ: Which stands for?

KAHN: The Balanced Budget Act.

BERKOWITZ: The Balanced Budget Act.

KAHN: What Dave wanted to do was have a total bundle payment on the fee for service side and then have the HMO alternative. And this dream of the bundle payment, you know, grew out of the DRG notion. I am convinced that it was a flawed notion, that prospective payment.

And what prospective payment has ended up being is a set of fee schedules, with really the only one that I think you have good evidence that it changed incentives appropriately was DRGs. Other than that, I think the rest of them have been just a disaster or not that helpful. But there became a reform imperative of fee for service that started with—well, actually it goes back to TEFRA in a sense because the per diem—

(Off the record).

BERKOWITZ: This is a continuation of the interview with Chip Kahn. You are talking about TEFRA.

KAHN: Right. In TEFRA you had the per diem limits. And in a sense, they were so horrendous in terms of how they were going to affect hospitals that they drove the hospitals into being willing to accept DRGs. But from the standpoint of Dave Durenberger and a cadre of members of Congress—and Sheila Burke I think was a part of this, too, although I don't know how well she conceptualized it,—Dave and these others had a notion that they wanted to use Medicare as a change agent. And rather than the cost containment approach where you have broad-based government intervention, they

wanted to use Medicare and as the big purchaser to have a payment scheme or schemes that were designed to align the incentives for providers appropriately.

At the same time, they also wanted to save money on Medicare. And this gets into the whole problem that has been there since the beginning of the '80s through the '97 bill and everything that came after the '97 bill, which was this mixed agenda of wanting to derive change in the health care system through payment reform on the fee for service side, and at the same time having at various times over that period these mandates from budget bills to reduce the growth in Medicare spending.

And sometimes there was congruence between policy changes and this mandate to reduce the growth in spending. And other times it didn't work too well. But it has been an ongoing issue and problem. But the notion was—and it sort of began with the hospital and SNF benefit that—

BERKOWITZ: Skilled nursing facilities.

KAHN: Skilled nursing facility benefit that would come after the hospital benefit. At that point, remember, the SNF benefit was only connected back to a hospitalization.

BERKOWITZ: In Medicare.

KAHN: In Medicare. The idea was to create a bundle payment. And at times I think there was even a thought and there are some people who still are devotees of this—which I think turned out analytically to be ridiculous—was to include the doctor payment into this global payment.

Now, the reason that the doctor payment didn't work was because actually the correlation between the doctor payments and DRGs works better than even the correlation between hospital costs and DRGs. But the dilemma is that structurally the doctors—although there are exceptions—don't work for the hospital.

So if you are going to create a bundle payment, who are you going to pay? And, you know, you have a physician portion of it. You don't have a structure that can figure out how to pay the doctor in any way that the doctors could possibly live with.

BERKOWITZ: Let me see if I understand this. The bundle payment would mean that if I have bladder cancer and I go into the hospital and I come out of the hospital at the end, for that episode there would be one bundle payment for my treatment.

KAHN: Right. There would be a payment for each DRG. So for DRG 10 there would be a payment. And idealistically, I suppose, the payment would go to the hospital, let's say, because you've got to—and this is where it all breaks down. And then that payment would cover that entire episode of illness for everything related to that DRG.

BERKOWITZ: Including the pathologist's report and the surgeon's report.

KAHN: And any care—aftercare, whether it's home health or SNF care. And the idea was that on fee for service we can't replicate the HMO. With the HMO you are basically doing the same thing, in a sense.

I'm saying for you I am going to give a premium to somebody and that is a bundle payment for all your services. But the idea behind this was to bundle everything around this episode of illness.

BERKOWITZ: And which would have meant combining Part A and Part B in a sense.

KAHN: Right. But you know, that is a red herring because with the HMO program—the risk contracts and then the HMO program—A and B are together. I mean, this whole notion that a lot of the reformists talk about, we've got to combine A and B, is ridiculous.

I mean, it's done every day in the premium that is paid for HMOs. That's not the big deal. The big deal is that we have a health care system in which the SNFs and the home health agencies, particularly now after a lot of the problems with fraud and abuse, are not part of the hospital. The doctors, the pathologists may be contracted to the hospital but—and maybe the anesthesiologist aren't.

BERKOWITZ: And the surgeon and then the operation—

KAHN: And the surgeon isn't and we can go on and on and on about complexities.

BERKOWITZ: Furthermore, the surgeon will see the patient with bladder cancer in his office; he'll see him at the hospital.

KAHN: I think that is one of the reasons that it drove—not that Dave wasn't a devotee of HMOs anyway—but it drove the real reformers, you know, to have this vision. And Bill Roper and Glen Hackbarth had it, too, when he became HCFA administrator, of trying to convert the program into some set of health plans. And now we talk about it in terms of FEHBP. That wasn't really articulated that way in the '80s.

BERKOWITZ: What does that stand for, FEHBP?

KAHN: The Federal Employees Health Benefits Program.

BERKOWITZ: Oh, the thing that federal employees use for their health insurance.

KAHN: Right. I mean, this notion of competing health plans goes all the way back to TEFRA for Medicare. And it's been articulated and examples in other parts of the health care system of where it works are used to argue for it. But I think it partly developed because ideologically there were members of Congress who have a market imperative.

And I think if they were coldly analytical, which they generally are not, they would have concluded that on the fee for service side this ain't going to work. I mean, and look where it led in fee for service. I mean, it led to a fee schedule.

I was there. I was basically there except for '93 and '94 and after—in '98 I was there almost—other than the DRG. Jeez, I was there every major step of change. And it's mind-boggling the intellectual gymnastics people did. I mean, the—and here, I mean, I have a real bugaboo about the RBRVS, the resource based relative value scales.

BERKOWITZ: Which is the mechanism that pays doctors in Medicare.

KAHN: Doctors. I mean, I think it's the worst. I think it's just—it's a crock. But it's based on the notion—I mean, it was pushed by the internists and the family practitioners and by the non-procedurists because of a perceived and probably real inequity. And they would argue a set of incentives that are different.

It was based on all this work by Hsiao from Harvard. That was where he got groups together that sort of decided what the relative value of various services should be or shouldn't be.

And it was adopted as part of this reform imperative when the RBRVS fee schedule had absolutely nothing to do with changing payment reform, I mean, changing and using reform to try to better align incentives for more efficient services. And, I mean, at first it didn't end up that way because the non-proceduralists weren't happy with where they ended up.

BERKOWITZ: The non what?

KAHN: The non-proceduralists were not happy with where they ended up.

BERKOWITZ: So you are saying that this was not a good thing, this—

KAHN: Was not a good thing. But I'm making another point, which is that they began with this concept of trying to unify the payment so that providers—so that the payment could be better rationalized. And instead what we ended up was atomizing even worse in some ways the fee-for-service payment scheme as we ended up taking each piece of it.

And Dave and I started that in '86. And now it's—you know, every year it's a problem when they try to do a regulation.

But the flaw is that when you try to convert some kind of system based on charges or some kind of prevailing charge program, whether it's a hospital service—I mean, a physician service or some other kind of service and put it into a fee schedule, you don't do the beautiful thing conceptually that DRGs do.

DRGs, amazingly I think, have worked because they were able to divide up the world into these diagnosis-related groupings in such a way that actually fit with some set of bundled cost that gave hospitals what I think over time has been a relatively positive incentive to reduce length of stay and focus care and focus resources and be efficient with resources.

I can go through all of the other areas, whether it's home health or SNF or doctors or outpatient hospital, you know, or labs. And when we try to take a concept but then face a reality, we got screwed up consistently.

BERKOWITZ: I see. Interesting. Let me ask you about your career again.

KAHN: Right.

BERKOWITZ: How did you get over to the House side, which happened in August of 1986?

KAHN: Right. There were a lot of things I did during the two years I worked for Dave.

BERKOWITZ: Sounds like you learned a lot about health care policy in that period of time.

KAHN: In some ways it was very exciting. And we were doing a bill a day—a bill a week. And any concept you want to deal with, and, I mean, you could sort of name it. And for COBRA and OBRA (Omnibus Budget Reconciliation Act) '86, Dave Durenberger was dominating the agenda-setting and I was doing all the work for him.

But at the end of '86, or at some point in '86 as I was learning all this, something happened and I realized that I was in the wrong place. And I guess it must have been OBRA '86 where it really struck home because I was working for Dave Durenberger on his personal staff and we controlled the process pretty much through committee.

He was chairman of the Health Subcommittee on Finance although the Health Subcommittee on Finance wasn't then and is not now a legislating subcommittee. It is an important position and it gave him sort of a focal point. So he had hearings and then when it came to mark-ups, which were all done in full committee, he sort of—

BERKOWITZ: He had an influential voice on health.

KAHN: And he set the agenda with—I mean, Sheila Burke was the staff person when Senator Robert Dole (R-Kansas) was chair. And then when Dole left to become majority leader she went to work for Dole there. And then Ed Mihalski was the chief health person for (Senator Bill) Packwood (R-Oregon)

BERKOWITZ: How do you spell that name, Mihalski?

KAHN: M-I-H-A-L-S—I can look it up for you.

BERKOWITZ: He's not one of the people on our list to interview.

KAHN: Oh, Ed is a very quiet guy. He was at GAO. He was Sheila's number two. Sheila took over in '81 when Dole was chair.

Anyway, but I realized that—and in OBRA '86 it just hit home, although things are different today than they were back then. I mean, in those days the committee staff controlled the bills on the floor and they controlled the conference even if your member was a conferee. And they controlled all the drafting. And personal staff did not go to that final drafting.

So with all the work I did on COBRA, when it was finally drafted I wasn't there. On the OBRA '86, all the work I did on it, when it was finally drafted I wasn't there. And that was frustrating. And so John—John Kern—well, you know, this is interesting, one thing I forgot to say.

I got the Dave Durenberger job in June of '84. And remember I said I had applied for a job with Ways and Means some years before. John Kern had gotten that job. And just as John Tilletson had come to me and suggested that I go work for Durenberger, John Kern had decided to retire from the Ways and Means Committee minority staff. So he came to me and said, "Would you like to apply for my job?" So all of a sudden I went in and was at an interview by Pete Singleton again. And so the other job I didn't get I

ultimately got. And the reason that I did it, and people thought I was crazy at the time because that was before the '86 election and the Republicans were in the majority. So I was leaving a majority member to go work for the lowly minority in the House. And there wasn't any likelihood a minority was going to become a majority in the House. That happened years later.

But (Representative) Bill Gradison (R-Ohio) was the ranking minority member on the health subcommittee and Representative Pete Stark (R-California) had then become chair of the health subcommittee. And Pete and Bill had a special relationship which gets to catastrophic ultimately, and other things.

And at that time Brian Biles was coming on as staff director because Pete had gotten rid of the old Ways and Means people. The fellow who was there—I think it was Pete Rettig—was a good guy but he wasn't Pete's kind of guy. He was an old-fashioned, manage-the-program kind of bureaucrat and Pete wanted somebody who was going to shake things up. And so that's where Brian Biles comes into it. I have a very good relationship with Brian. And actually that was the other piece that I didn't understand. When I went over there, because of the Pete-Bill relationship, Brian allowed me and actually Brian and I in the years that we were there together, set the agenda for the committee. We decided who were going to be witnesses.

And Brian and I were colleagues at a level that was not replicated as far as I know anyplace else in the Republican-Democratic relationship on other committees. But key was—for me was the rubber hits the road at committee staff. It's the committee staff that monitors the process that at the end of the day is basically with the members obviously deciding what's in the bill. And that's why I went, and that started my Ways and Means career, which was from July of '86 until I left in—

BERKOWITZ: 1993?

KAHN: Yeah, and I'm trying to remember whether it was March or April of '93.

BERKOWITZ: It says April on your vita.

KAHN: Yeah, I think it was—I might have actually left in March, a few weeks before I started at—I think I started—in April I started at—

BERKOWITZ: HIAA (the Health Insurance Association of America)?

KAHN: HIAA.

BERKOWITZ: With Gradison.

KAHN: With Gradison. And then I worked there for two years I basically ran the place. And then when the Republicans won, Bill Archer asked me to come back. And so I was staff director on the Health Subcommittee for '95, '96, '97 when we did BBA '95.

BERKOWITZ: Which again is the Balanced Budget Act.

KAHN: And the Health Insurance Accountability Act in '96. And the Balanced Budget Act '97. The things I feel in terms of my career, the high points policy-wise really were the catastrophic legislation and then these BBAs because I think conceptually the BBA '95 was—was an incredible intellectual construct. It was an—and its remnant, I mean, we had laid the track for BBA '97 but it—BBA '97 didn't hang together as well.

Now, would it have worked? I don't know, obviously, BBA '97 didn't work so I don't think BBA '95 would have either. But from my vantage point—it was such an experience, that bill. That bill was an amazing bill. And that was the bill in which the committees were totally subverted. And Newt Gingrich basically set up a health task force of Ways and Means and Commerce and Newt was the chairman of Medicare for that development of BBA '95. And it was just an incredible process.

BERKOWITZ: So why don't we say this is the end of part 1 of our interview.

KAHN: Okay.

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Interview with Patricia Neuman

Washington, D.C. on August 27, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: August 27th.

NEUMAN: Twenty-seventh.

BERKOWITZ: And I am here in Washington, D.C. at the offices of the Henry J. Kaiser Family Foundation with—is it Patricia Neuman?

NEUMAN: It is Patricia Neuman.

BERKOWITZ: Patricia Neuman, spelled N-E-U-M-A-N, the last name. And she works here at the Kaiser Family Foundation but has done a number of things in health care research. So I guess that's the first question. How did you get into this particular field?

NEUMAN: Well, I had an interest in public policy that merged with my interest in aging issues. Years ago I was living in England and had the opportunity to work in the House of Commons. I got very interested in parliamentary procedure and how public policy is developed. And I continued that interest in college where I was—

BERKOWITZ: Where did you go to college?

NEUMAN: I went to Wesleyan. I was a history major and worked at the Connecticut General Assembly in my junior year and moved to Washington after I graduated.

BERKOWITZ: What year was that, if I may ask?

NEUMAN: 1981.

BERKOWITZ: 1981, okay.

NEUMAN: And when I moved to Washington I was interested in having a job in public policy related to aging. And that was all I knew. And I wrote lots of letters and said, "I'm a history major and I can write and do research, you know. Hand me that job." And of course it was—it's very difficult to come to Washington and get a job.

BERKOWITZ: Especially, as I well know, 1981 is particularly hard with the change in administration and such.

NEUMAN: It wasn't exactly a time when social policy issues were a high priority. But I was lucky and I contacted many people. Most of them told me it would be impossible to get a good job because I wanted to work in the Congress. I ended up interning for Claude Pepper

BERKOWITZ: Claude Pepper, who was the Democratic Congressman from Florida.

NEUMAN: Who was the Congressman from Florida and who was the chairman of the House Aging Committee at the time. I spent a few months being a full-time intern in the House Aging Committee office where I had a lot of fun, got to know people who were in that field, and used that internship as a launch pad to look for full-time jobs.

BERKOWITZ: Was John Rother there?

NEUMAN: John Rother was at the Senate Aging Committee at the time.

BERKOWITZ: That's right.

NEUMAN: After a few months, I moved to the Senate Aging Committee as a legislative correspondent. John Rother was the staff director. Larry Atkins was doing Social Security working on the commission with Senator (John) Heinz (R-Pennsylvania). Frank McArdle was doing disability policy and other retirement issues. Ann Langley, Barbara Krimgold and Beth Fuchs worked on health issues. So it was that whole cadre of really great people I had an opportunity to work for. I started as a legislative correspondent and worked my way up and got to a point where I had to make a substantive decision about whether I wanted to do income security issues in aging or health care issues. And for a variety of reasons I moved toward the health and long-term care side of the work in the Aging Committee.

BERKOWITZ: How did you meet John Rother?

NEUMAN: Looking for jobs. I interviewed with a lot of people. I interviewed with everybody I could find because I was eager to get a job on the Hill. There was an opening at Senate Aging and John gave me a call. And that was that. I stayed there for three years.

The Republicans were in the majority, so I served with the majority staff, staffing the Aging Committee and working with the Finance Committee staff on health care issues. Senator Heinz, Chair of the Aging Committee, was a member of Senate Finance at that time.

BERKOWITZ: So you worked on health care. That's an interesting period of time. So this was 1981 or 1982?

NEUMAN: 1982 through '85'.

BERKOWITZ: So you were there for those disability investigations that led to legislation in 1984 that Senator Heinz was very involved in.

NEUMAN: That's right. And I was there during the Social Security Commission's reporting of its findings.

BERKOWITZ: On which both Pepper and Heinz were members, actually.

NEUMAN: Right. Of course, I was very junior at the time so while I was there I was an observer of other people's major efforts.

BERKOWITZ: But your focus was beginning to switch to health care.

NEUMAN: Yes, it was. And in part it was because I met with the senior professional committee staff and I told them that I felt I needed to make a decision because I wanted to get more substantively engaged. And I talked to them about what they were doing in the areas of income and health. And my inclinations were more toward health care.

BERKOWITZ: So this is the year, of course, when DRGs (Diagnosis Related Groups) come into that same legislation.

NEUMAN: One of the more memorable hearings that I worked on with Senator Heinz was on the issue of patients being discharged sicker and quicker, as a potential result of the DRG system.

BERKOWITZ: What was Heinz's view about that? Or did he have one?

NEUMAN: I think he had a view. He was certainly supportive of the DRG system but was interested in the effects on beneficiaries. He actually was a great advocate for beneficiaries in his capacity as chair of the Aging Committee—which in hindsight isn't quite so surprising as he was a moderate Republican. I remember, in particular, a Medicare home health issue that he spent a lot of time working on. This issue on the definition of intermittent care and the homebound requirement has recently resurfaced.

BERKOWITZ: And the home what?

NEUMAN: Homebound requirement.

BERKOWITZ: Homebound requirement.

NEUMAN: This is an issue that Bob Dole has recently been outspoken about, pertaining to the effect of Medicare’s homebound requirements on people

who need home health services and whether it's too restrictive, especially for adults with disabilities. This is a particularly important issue now with the disability community. Younger Medicare beneficiaries receive some home health services but have been restricted from receiving additional services because of the homebound requirement. That also was an issue in the early 1980s when I was working for the Aging Committee and Senator Heinz. And we actually became quite involved at that point the nuance was redefining both homebound and intermittent care.

BERKOWITZ: Let me see if I can understand. So this homebound issue has to do with the fact that if you're going to get Medicare it has these—the skilled nursing facility and other benefits—it has to be attached to spells of illness. To get continuing care you had to be homebound and be very sick. Is that the idea?

NEUMAN: To get home health care you do not have to have been in a hospital unlike the skilled nursing facility benefit where you have to be in a hospital for three days in the prior period proceeding the need for a skilled nursing facility stay.

For home health, you are required to have skilled care needs but it is unrelated to an episode of care in a hospital or a nursing home. You might need skilled nursing care, you might need physical therapy—the type of care provided by what is called a skilled care provider. And you also have to meet the homebound definition. There have been changes over the years of what homebound actually means. Some of the interpretations that have received attention in the press involve people who have been able to pull it together and use all their family resources to go to church, for example. Once they are able to go to church on Sunday, then it may be determined that they don't meet the homebound requirement because they can actually get out of the house.

BERKOWITZ: And something like attendant care is not covered under that.

NEUMAN: Attendant care is not generally covered under—

BERKOWITZ: But that's the sort of way that one could extend if you were thinking about disability.

NEUMAN: And the home care issue for people with disabilities is quite important. So now people with disabilities use limited home health services and some have been denied home health care altogether.

BERKOWITZ: Under Medicare.

NEUMAN: Under Medicare. People who are on SSDI who qualify for Medicare—

BERKOWITZ: Who waited and qualified—

NEUMAN: —who waited now qualified. And there are more than five million people who are under 65, who may not be able to get home health services because they are able to get out of their house.

BERKOWITZ: That's interesting because it's one of these examples of one of these sort of self-defeating rules which, when they are applied to disability, make no sense at all.

NEUMAN: Make no sense at all. So what people are doing is succeeding from a disability perspective because they are doing something to promote their independence. They have equipment that enables them to get out of the house. And when they do so, they are denied the services that help them maintain their independence.

It's interesting to me that that the homebound requirement was an issue in the early 1980s and has resurfaced again in large part due to the disability community's energy on this issue, with Bob Dole as its spokesperson this year.

BERKOWITZ: That is interesting. So I'm going to try to think about Senator Heinz. Did he run for office in 1982? I think he might have.

NEUMAN: Yes, he won by a large margin that election.

BERKOWITZ: So he was running in 1982. And when did he die? He had that—he had the helicopter crash. Was that in the 1990s sometime?

NEUMAN: He died in April of 1991. I was working at the Ways and Means Committee at the time.

BERKOWITZ: I was also curious whether he had a hospital that he was particularly close to. Was there a family hospital?

NEUMAN: I didn't do reimbursement issues for him so I don't recall there being any kind of pigeon-holing of specific hospitals. I mean, I wouldn't be surprised, but I don't recall him doing that. And our work at the Aging Committee mostly focused on bringing out broad issues. He actually liked—not surprisingly, he liked to get a lot of attention in the press. And so we thought about the creative issues that would capture the interests of the press. But what was impressive about him was, once he took hold of an issue and he took it on as his own, he really fought hard for it. And this

home health issue was a great example of it. I don't remember what the particular debate was, but it wasn't anything related to home health care and he decided he would do an amendment on the floor where we would modify the definition of intermittent care. And it was a 3 o'clock in the morning kind of an irrelevant amendment that they are able to do on the Senate side. He was pretty dogged on the subject. And if you've seen him on different subjects, he can be pretty dogged.

BERKOWITZ: Right, another contemporary example from this same period of time that he worked on concerned the status of people who were mentally ill and on SSDI (Social Security Disability Insurance) or SSI (Supplemental Security Income).

NEUMAN: Right, right. Frank McArdle was the lead person on that. And, you know, it's kind of funny I can actually remember specific people who we dealt with. I remember actually a man who used to call and we would really get his whole life story. And it was just crazy because he did get kicked off the disability rolls for a while.

BERKOWITZ: But the thing about that committee, of course, is that it doesn't do legislation. So I guess your hearings then, more than most were—

NEUMAN: Bringing attention to issues.

BERKOWITZ: —like a story line to give in advance a lot of the time to demonstrate the injustice being done to the person with mental illness or whatever.

NEUMAN: Yeah. The Senate Aging Committee was and is a great platform for that type of activity because it enables you to stage a presentation of an issue in very effective and sometimes dramatic ways. And I have to say back then we liked to be a little dramatic in our presentation of issues. But the power of anecdotes is still fairly strong today. And so, while that was one platform for using different types of anecdotes for conveying information, anecdotes are pretty successful in today's environment.

BERKOWITZ: Absolutely.

NEUMAN: And, you know, if you think about what drives members, it's often one story that they hear, one interaction that just sticks with them.

BERKOWITZ: Right. As (Representative) Barber Conable (R-New York) used to say, "If it doesn't fit on a bumper sticker, it's not going to fly." And of course, at that time President Reagan was extremely moved by personal

anecdotes. So you're working with Senator Heinz and working in the Senate and then you go back to the House?

NEUMAN: No, I went to graduate school.

BERKOWITZ: Went to graduate school at (Johns) Hopkins.

NEUMAN: In 1985.

BERKOWITZ: To study about health care finance?

NEUMAN: I went to get a master's in health finance in the Department of Health Policy Management at the School of Public Health.

BERKOWITZ: Who was the head of that in those days?

NEUMAN: Karen Davis. One of the reasons I went to Hopkins was Karen. She had testified before the Committee and I was very impressed with her ability to synthesize research and present facts in a way that came across very effectively. There were not many witnesses that could do a good job of that. I was attracted to her way of communicating about those policy issues.

BERKOWITZ: So did you end up studying with her or with someone else?

NEUMAN: I did study with her. She was chair of the department so she didn't have that much time but she was on my departmental committee when I moved to the doctoral program. But she didn't teach that much because she was chair. My dissertation advisor was Jerry Anderson.

BERKOWITZ: Jerry Anderson who had been at ASPE (the Assistant Secretary for Planning and Evaluation in the Department of Health and Human Services)?

NEUMAN: He was at ASPE, right.

BERKOWITZ: He was an economist.

NEUMAN: Actually, he was not formally trained as an economist.

BERKOWITZ: That's right. He's one of the many people who says that he invented DRGs.

NEUMAN: He is definitely in the group of people that worked on the DRGs.

BERKOWITZ: You had a lot of background in economics then? Wasn't David Salkever over there, too, at the time?

NEUMAN: Yes. I didn't get a degree in economics but I worked with many of the economists, such as Richard Frank.

BERKOWITZ: He is a nice fellow, actually.

NEUMAN: He's a lovely fellow.

BERKOWITZ: So you were in that building that was across from the hospital?

NEUMAN: Hampton House.

BERKOWITZ: Yes, I see. So you did that full-time for a while?

NEUMAN: I did that full-time. I really left in '85 because I thought if I'm going to do public policy I really need to get grounded in the field and I actually need to spend some time reading literature and reading and learning this stuff. And then after my master's I felt like I hadn't quite gotten enough and so I just stayed for the doctoral program and was ABD (all but dissertation) in 1989 when Brian Biles called me from the Ways and Means Committee to see if I would be interested in working on the health subcommittee. So I stayed at Hopkins. I worked there. I did the master's, did doctoral classes, and then moved.

BERKOWITZ: So ABD.

NEUMAN: I was ABD.

BERKOWITZ: Did you ever finish?

NEUMAN: Yes, I did. In 1993.

BERKOWITZ: What was your dissertation about?

NEUMAN: The effect of home health services on patient outcomes in Medicare.

BERKOWITZ: I see. And what was your finding? Does it have a positive effect.

NEUMAN: Actually, it did not have a demonstrable effect, although for certain patients with certain types of health problems, skilled rehab needs, there is a suggestion of an effect—meaning 90 percent confidence, not 95.

BERKOWITZ: I see. So it's a typical economist's story.

NEUMAN: These are people who are discharged to hospitals in Baltimore and then we followed them for 120 days after they were discharged from one of three hospitals at a time. And we interviewed them monthly. Then we used multivariate analysis to look at the effect of home health services on patient outcomes and didn't find much of an effect.

BERKOWITZ: So was there a variable that was a good variable?

NEUMAN: Well, the variables were good. The model didn't explain as much change as we had hoped to see. The chairman of the Biostatistics Department was on my committee. He was actually very, very helpful on helping to explain what happens when you are using econometric models to assess human behavior. You use these fancy econometric models and you can't explain much variation. And that is what it is. So the process is valuable in making you a little bit skeptical about some research.

BERKOWITZ: That's right. Economics has that kind of conservative effect because it sort of points out how hard it is to change things.

NEUMAN: Right. It's quite hard to demonstrate an effect. It's a high bar. In this case it seemed to be a high bar. But it also means you have to have pretty sensitive measures of outcomes because it's very hard to capture all the differences within the human condition in order to assess the effect of one intervention on a particular outcome.

BERKOWITZ: I see. That's interesting. How about age as a variable?

NEUMAN: Really, the group of people for whom there seemed to be some suggested effect were people who could benefit from the skilled services that home health covers. Like we have—

(Interruption).

BERKOWITZ: Okay, this is a continuation of the interview with Patricia Neuman. And what were we just saying? We were just talking about Johns Hopkins—

NEUMAN: My dissertation.

BERKOWITZ: So in 1989 you got called back by Brian Biles.

NEUMAN: Who was staff director of the Ways and Means health subcommittee.

BERKOWITZ: And was that through Karen Davis?

NEUMAN: Well, you know, the people—there's a tight group of people in health policy. Brian had previously worked with Karen Davis, and of course Brian is married to Diane Rowland. And I had worked also with Diane at Hopkins. So I suspect he got my name from somebody in the group. And I vaguely knew him but I didn't know him very well.

BERKOWITZ: I see. So what was your brief on the House Ways and Means Committee? What was your area to cover?

NEUMAN: I went there to cover Medicare beneficiary issues and long-term care. And I was told that my main area was going to be issues related to the Medicare Catastrophic Coverage Act but that these issues were going to be very quiet for the next year or so because they had just enacted the Medicare catastrophic coverage program and there were going to be no hearings, no markups, no activity for the first year that I was at the committee. So I was told I would have that full year to read the law, become deeply knowledgeable about the intricacies of the law, the intent, how it will be implemented, but it might not be an exciting year for me because things could be quite quiet. So that was in the late winter—early spring of 1989.

BERKOWITZ: I see. So the Catastrophic Act of 1988 had been passed.

NEUMAN: That's right.

BERKOWITZ: The previous fall.

NEUMAN: Right.

BERKOWITZ: And now it's on the books and beginning to go into operation and beginning to pick up opposition.

NEUMAN: Right. And Chairman (Dan) Rostenkowski (D-Illinois) did not want to have any hearings. There would be no need for markups. Mine was going to be a very dull job at the committee.

BERKOWITZ: I see, I see. And that's interesting that you decide to go back to the Congress as opposed to academia or something else.

(Interruption).

BERKOWITZ: Okay, this is a continuation of the interview with Patricia Neuman. We were just talking about your arrival in 1989 at the Committee on Ways and Means and that you were assigned this catastrophic brief, which was expected to be quiet because legislation had just been passed.

NEUMAN: Right. Chairman Rostenkowski and Chairman (Senator Lloyd) Bentsen (D-Texas) both agreed that there would be no hearings, not any kind of activity. So I wanted a job in public policy and this was a remarkable opportunity. So I went thinking, well, I'll just work on my dissertation while I'm there. It will be quiet and I'll read the Catastrophic Coverage Act. But things didn't exactly turn out that way.

BERKOWITZ: I see. How did the line of reporting work for your job?

NEUMAN: I reported to Brian and Brian reported to Rob Leonard, who was staff director of the full Ways and Means Committee. And he reported to Chairman Rostenkowski. It's a funny kind of arrangement in Ways and Means because the staff of the subcommittees worked for the chairman of the full committee, Rostenkowski. But Pete Stark was chairman of the (health) subcommittee so we were also staff to the subcommittee chair and we spent a great deal of time staffing the subcommittee. But we also are employed by the chair of the full committee.

BERKOWITZ: So would you meet with Rostenkowski yourself ever?

NEUMAN: I met with him a few times over the years. I didn't meet with him often. But really, he was staffed primarily by Rob and a few people who worked in the main office, and Brian; and then after Brian left, David Abernethy.

BERKOWITZ: I see, I see. So what years were you were you working at the Ways and Means?

NEUMAN: I worked there from 1989 through the election, 1994.

BERKOWITZ: So the period of time that the Democrats were in the majority.

NEUMAN: So I worked on catastrophic and health care reform issues while I was there. I worked on the repeal of catastrophic. Actually, I worked on trying to prevent the repeal of catastrophic while I was there and then I worked on OBRA (Omnibus Budget Reconciliation Act) 89 and OBRA 90 and then on health care reform issues until 1994, for the Democrat majority.

BERKOWITZ: So let's talk about catastrophic then. What was your sense of it? When did you begin to realize this was going to be a controversial issue? How did that come onto your screen?

NEUMAN: It first came onto our screen—well, a few weeks after I got there, Brian and I discussed who would go out with Chairman Rostenkowski to the infamous town meeting.

BERKOWITZ: In Chicago.

NEUMAN: In Chicago, to staff him on issues related to catastrophic. And at the time I felt like I had only been there for a few weeks. I really didn't know enough about the substance to be much of a decent staff person on the issue. So Brian decided that he would go. After the famous lady jumped on the Chairman's car, we knew that we had a serious issue on our hands.

BERKOWITZ: What was your sense of that? Can you talk about that event? How does it relate to you?

NEUMAN: Well, I think everybody who was there was pretty shell-shocked because Chairman Rostenkowski at the time was pretty untouchable and it was a pretty dramatic event. At the time people still thought it was a really good piece of legislation, even though it wasn't as much as some had hoped for. But the people who had developed it, and I came to the Committee after the development and passage of the proposal, were very proud and felt that they had really delivered something that would be a great benefit to the senior population. It took a while for people to believe that the proposal that they thought was so good was not being well received. And there were several months where people were just putting together the pieces of—of trying to understand what the resistance was all about and what were the true sources of opposition. And some believed that if we could do a counter-propaganda initiative or just resist the opposition, then the opposition would go away. That turned out to be untrue.

BERKOWITZ: Let me ask you, what happened in Chicago at that hearing as far as you know with this lady? I've heard a number of different versions.

NEUMAN: As have I. And I wasn't there. What I pieced together was that this was something that was premeditated.

BERKOWITZ: There was a town meeting that he was holding or a—

NEUMAN:—a constituent's forum. And—

BERKOWITZ: Somewhere in Chicago.

NEUMAN: It was in his district. I heard many details from a reporter who covered the event for a local paper. I don't know if you are adding to your list, but Murray Jacobson, who is now with the News Hour, got his start at a small Chicago paper and was sent to sit at this town meeting by an editor who had a sense that something was going to happen. And as he tells the story, he waited and he waited and he waited. And Rostenkowski actually went into a back room for a while and there wasn't a lot of interaction. And he called his editor and said, "I'm out of here. There's no story here. There's

not even an event here." And then when he got up to leave the meeting and I'm not sure how much he interacted with the group that was there—that the lady jumped his car.

BERKOWITZ: The lady jumped on the hood of his car.

NEUMAN: There was also an issue of how his car was parked. And this story is relayed from Brian, who had worked for Senator Kennedy many years ago. Because his car was parked face in, which required them to back around and then pull out. And there's some discussion about had the car been parked in a way to expedite an exit that there might not have been an opportunity for so much drama. But it was because it was backed, because they had to turn around, that created a greater opportunity for a dramatic event.

BERKOWITZ: And there was a photographer there.

NEUMAN: There was a photographer there and so that picture has been replayed over and over and over again and was used as the anecdote to symbolize the opposition that was in theory at the grass roots level, where people were unhappy with the surtax, the supplemental premium and the—

BERKOWITZ: So that's why the lady jumped on the car, because she didn't want to have to pay more taxes. What was her grievance?

NEUMAN: It was in opposition to catastrophic. The main grievance that we heard was about the supplemental premium. And there were all the mass mailings going out telling seniors that they were going to have to pay $800 surtax, or it was a seniors-only tax.

BERKOWITZ: Mass mailing from?

NEUMAN: Well, there appeared to be several organizations that were sending alarmist mailings to seniors, but we working at the Ways and Means Committee were a little bit separated from what was actually going on out there. So, at the time, we didn’t fully appreciate the nature of the activity that was going on outside in the real world where there was apparently a lot of fund-raising activities going, in conjunction with these mass letter-writing campaigns, to get people to send in their $25 in opposition to a seniors-only tax. The letters raised fears that most seniors were going to have to pay $800, which was patently untrue. But we didn't really know where the opposition was coming from and we weren't fully aware of the extent of the direct mail activity that was going on. This would have been a very good subject for an investigative congressional hearing. So it actually had the appearance of being more grass roots than it may have actually have been.

BERKOWITZ: Yeah, I see. And also under this legislation, of course, not everybody paid this tax.

NEUMAN: No. That was the whole thing. Most people didn't pay the tax. And it was a graduated tax. But if you are being told that you are going to have to pay $800, even when only a small percentage of the seniors in the higher income brackets would be paying that amount, you might well get the impression that the catastrophic program would cost more than you could afford. And not everybody was asked to pay the surtax. The majority of seniors would have been asked to pay a monthly premium that was something like four dollars a month. So the crafters of the catastrophic coverage act did a pretty good job, in my view, of spreading the costs across a large number of people but in a very small way in terms of a four dollar premium, and then supplementing revenues with the supplemental premium. It was designed to be income-based financing. It has at least intellectual appeal. The program was enacted during a time of federal budget deficits so there were no general revenue contributions and all the funding had to be raised by the act itself.

BERKOWITZ: Do you think people understood that they were already paying in a sense for Part B a little bit even before the catastrophic act? Or maybe that doesn't appear to them to be a cost because it just gets deducted from their Social Security check and so it doesn't look real.

NEUMAN: Medicare is popular with seniors because it works and they don't have to think a lot about it. And so, you know, even if you look at knowledge surveys today you see that knowledge about Medicare is not so high. I mean, people know that Medicare—most people on Medicare know that it doesn't pay for prescription drugs and long-term care. But how they pay the premium or that it is deducted from their Social Security check is not something that most people would probably be able to articulate. And so if seniors are being told that they're going to have a huge increase in financial obligations to pay for a benefit that many people thought they didn't need, you start to understand where the opposition could materialize.

BERKOWITZ: So did Rostenkowski come back from Chicago and say, "I think we have to repeal this"?

NEUMAN: No, absolutely not.

BERKOWITZ: Tell me what happened.

NEUMAN: No, absolutely not. He came back. He was surprised, but there was no way that he wanted to repeal this thing. In fact, he was more resistant than ever. We weren't having hearings. He had communicated that

with Lloyd Bentsen. And the plan—you know, was to stick with the plan. We weren't having hearings. We weren't showing any vulnerability to those who were raising fears among seniors with misleading ads and mass mailings.

BERKOWITZ: So what happened?

NEUMAN: So then over the course of the summer CBO (Congressional Budget Office) revised its cost estimates for the nursing home provision and then the drug benefit. Senator Bentsen held a hearing of the Finance Committee where CBO released new information conveying that this program was growing way out of control, based on new data showing their estimates of the costs were substantially higher than they had estimated prior to enactment. That really set a different tone and really changed the feeling of many members and some staff.

For one thing, the act of holding a hearing signaled that Senator Bentsen was questioning the act itself. He was allowing skepticism to be aired in the public domain where before it had been quietly discussed between staffs of the two committees. Senator Bentsen was creating a forum for CBO and others to express skepticism about the catastrophic coverage act before it was fully implemented. And that had spillover effects because then not only was there public opposition of some magnitude that we couldn't quite measure, but there was also some concern among fiscal conservatives who thought that this was a program that was not only unpopular but also rising out of control.

This produced unexpected alliances on the House side. You had Representative Archer (R-Texas), who was a fiscal conservative and Representative Donnelly, who was a liberal from Massachusetts, coming together and saying, "This is it. This isn't going to work," Archer for fiscal reasons, Donnelly because he heard from seniors in his district that they didn't want it. And they were both on the Ways and Means committee. So things within the committee became pretty difficult. Bill Gradison was the ranking minority member and Chip Kahn was in a very difficult situation at the time because he was staffing Mr. Archer and Mr. Gradison and they took different positions on the repeal of catastrophic. Over the course of the summer, there was a very difficult process within the committee of trying to modify the Catastrophic Coverage Act in ways that would be more appealing to the members and to put off a stronger move to repeal the act. The effort proved ultimately to be unsuccessful.

BERKOWITZ: How could it be more appealing? What would you do?

NEUMAN: We developed a number of alternatives to modify the financing and benefits. The drug benefit was designed, for example, so that 16.8

percent of people would qualify for the benefit after meeting the deductible. Well, that's a number that can move. There were a number of other levers that could have been moved in order to make the program less expensive, which in turn could lower the supplemental premium or have fewer people pay the supplemental premium. I can't tell you how many amendments were considered by the Committee in an effort to avoid repealing the new program. And then there was a very lengthy process where the House attempted to oppose the move that Senator (John) McCain (R-Arizona) was leading in the Senate to repeal catastrophic.

BERKOWITZ: And by October the House voted to repeal.

NEUMAN: It was done. It was done.

BERKOWITZ: I see. Interesting because also it's a very interesting time to do it after an election like that.

NEUMAN: Right. People were angry. People were very angry and liberal members who in theory should have been for retaining catastrophic just had a bad feeling about it. You could sit down, talk to them, and explain the structure of the program. Some put mind over instinct and said, "In my mind, this is a good act. It will be good for people. The financing makes a lot of sense. We need to get a drug benefit in place." But there were others who went home and heard too many seniors saying, "I'm afraid of the supplemental premium." They felt they weren't doing their constituents any favors, by staving off what seemed like a very populist and successful movement to repeal the act.

BERKOWITZ: It was a little bit like the notch baby issue, which is somewhat in the same period of time, So did you find this discouraging, this whole episode?

NEUMAN: It was very interesting and for me it was less painful than I think it was for those who had crafted the legislation because I was less vested personally. I hadn't gone through all the negotiations to put the pieces together. But I did believe that it was a good piece of legislation and I think we would be in better shape today had the act passed, been modified and improved—particularly the drug benefit. I mean, it's just unbelievable that more than a decade later we're working on it again.

BERKOWITZ: So in other words, the window opened in a peculiar way in 1988 for various reasons.

NEUMAN: For various reasons. I mean, nobody intended for that to be a drug benefit. It was obviously not what (Secretary of Health and Human

Services Otis) Bowen had in mind. But there it was. It was enacted. I guess it was more the Democrats pushing to add on the drug benefit to the base proposal. And wouldn't that make a big difference in the course of public policy in the Medicare debate if the drug benefit had remained in place?

BERKOWITZ: Yes. So just to complete this story then, you stayed on the House Ways and Means Committee till 1994?

NEUMAN: Till the election of 1994.

BERKOWITZ: I guess that the staff just changed at that point?

NEUMAN: Much of the staff changed at that point. I could have stayed and worked on the minority side with the Ways and Means Committee. But at that point I also thought I had been there for five very interesting years and it was time to move on. And so I took a few months—I was actually on maternity leave at the time—to think about it. And this opportunity was created and I thought it would be a good place for me to go.

BERKOWITZ: By this opportunity, you mean the job with the Kaiser Foundation?

NEUMAN: The job at the Kaiser Family Foundation. I spoke with Diane Rowland, who was executive vice president and she thought that the foundation could develop a role in providing information in the area of Medicare. And so I was brought on to develop our portfolio related to Medicare. And for me it is a really great spot because it pulls together my interests in research and public policy and creates an effective platform for using data and analysis to address policy issues that are important to seniors and other beneficiaries. So what I have tried to do is support and conduct research that will bring to the forefront issues and challenges that affect people on Medicare through surveys, through focus groups, through data analysis so there can be an independent, objective voice to inform the debate related to the people who are on the Medicare program. And that's really my area of interest. We don't do much in the area of provider reimbursement issues. But we like to shine a light on issues that affect the lives of seniors and younger people with disabilities. And that's just a perfect, perfect opportunity for me because it's just where my interests lie.

BERKOWITZ: Great. I think it's a good note on which to end. Thank you.

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Interview with Wendell Primus

Washington, D.C. on August 14, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: —August 14th, 2002 and I am here in the office of Wendell PRIMUS: near Union Station and near Capitol Hill in Washington, D.C. I want to ask you a little about yourself, first of all. Did you grow up in rural Iowa?

PRIMUS: I grew up in North Central rural Iowa.

BERKOWITZ: How small was your town?

PRIMUS: My town was 3,000. I graduated in a high school class of 54 and I lived on a moderately-sized farm growing up with my parents.

BERKOWITZ: I see. And you went to college also in Iowa, right?

PRIMUS: Ames. Iowa State University, the Big 12 school, as opposed to the Big 10 school, the University of Iowa. And I went to Iowa State for my undergraduate as well as my graduate degree.

BERKOWITZ: How did you get interested in economics?

PRIMUS: I loved math—algebra, trigonometry, geometry, in high school. So I thought I was going to go to Iowa State and become a mathematician. But all of a sudden math changed from numbers to letters and it wasn't practical enough. And so I got disillusioned with being a mathematician. And I had done well and enjoyed several economics courses I took and that seemed much more relevant and practical so I switched my major over to economics and then had a computer science and math minor.

BERKOWITZ: I see. Iowa State is not the place where (Social Security actuary) Robert J Myers went, is it? He went to either Iowa or Iowa State which had an actuarial studies kind of program at one point. I guess maybe that was Iowa.

PRIMUS: Robert Myers received a Master's degree from the University of Iowa. And the other person who has been in social insurance that comes from Iowa State is Larry Thompson. He's an Iowa State graduate.

BERKOWITZ: And also an economist.

PRIMUS: And also an economist and also a leading expert on social insurance programs.

BERKOWITZ: Right. So you decided to stay on there and go to graduate school, and you eventually got a Ph.D. in 1975, I believe?

PRIMUS: Right.

BERKOWITZ: And what was your dissertation about?

PRIMUS: My dissertation was on the labor supply impacts of the negative income tax experiment on farm operators. This was actually the second major social experiment that was funded by the Office of Economic Opportunity, the OEO. And the first one was in New Jersey, covering urban sites. Then they said they wanted to also look at the implications of this in rural America. And so we had a site in North Carolina and a site in Iowa. And so most of the time I was in grad school I was also managing a staff of 30 to 40 data processing people, for lack of a better term. I mean, we were taking the interview and putting onto computer cards so that researchers could use the data. That was a very laborious process back in late 1960s. And I was basically in charge of that operation while going to graduate school. In retrospect, it was a lot of work.

BERKOWITZ: Was that a contract from OEO and then later, I guess, ASPE (the Assistant Secretary for Planning and Evaluation) to oversee the Iowa experiment, or to a consulting firm?

PRIMUS: Actually it was a grant to University of Wisconsin, the Institute for Research on Poverty. And then they selected the sites and one of the sites happened to be Iowa. And then they were trying to find computer facilities closer to the site where we had to process the monthly income form to send out checks from my office each month depending what the farmer's income was, following the rules of this experiment. And we had a control group and an experimental group. But it was probably more important in terms of my understanding social science than a lot of my graduate courses at Iowa State just in terms of how you collected information from families, the veracity of that information, the whole notion of a social experiment, and the research that took place.

BERKOWITZ: I see. Did you find a significant labor-supply effect, negative effects? Or is it more complicated?

PRIMS: It's a little more complicated, but yes, we did find a negative effect. But we expected that based on economics theory. And the question is: Compared to what? We improved those families' lives significantly, the ones that were in our experimental group.

I think we had almost no labor supply impact on the primary earner in the household. There were some impacts on whether the spouse or the secondary earner went into the labor force. But it's been a while since I reviewed or worked with this data.

BERKOWITZ: Right. Did that give you connections with some of the economists that were working on these things?

PRIMUS: Yes, very much so—Weisbrod and Harold Watts, Lee Bawden, Bob Haveman and others.

BERKOWITZ: I see. So then did you want to be an academic or did you want to be a social policy researcher, or both?

PRIMUS: I had three very interesting job offers when I came out of graduate school and they were quite different. One was in Ottawa, Canada, working for the national government. It was probably the highest-paid job offer, but it was working in Canadian government.

Then I had a very nice research position offer from SRI in Stanford, a beautiful location. And then I had the lowest paid job offer here from Georgetown University to be an assistant professor. I took the lowest-paid offer, mainly because I thought I needed to learn economics better. One clearly has to understand the subject matter when you teach it. And I also wanted to be in the nation's capital. At that point in my life I thought being a college prof was definitely the thing to do. So I came here to Washington, D.C. and have remained here ever since.

BERKOWITZ: Did you have contacts with, say, the Iowa Congressional delegation and (Senator) Harold Hughes or whoever would have been around in those days, or no, were you pretty much away from that?

PRIMUS: I was pretty much away from that. I was a very junior staffer when I first started to work on the Hill. What got me connected to the Hill was there was a big food stamp reform going on and there were allegations that there were too many strikers and students using the food stamp program.

And I was hired then by the Chairman of the House Agriculture Committee, (Representative) Tom Foley (D-Washington), to do a study. It was one of the first studies that was actually done by a Congressional committee where we got raw individual case files—the quality control form sent in from all the states. And this was confidential income and assets information on households. And that information was coded–put into computers—over in what is now the Gerald Ford Office Building.

And I was the one that kind of supervised that data collection job, and did an analysis of that data to determine the percentage of food stamp recipients that were strikers and students. In addition, we did many other analyses and eventually we reformed the standard deduction in food stamps at that time and eliminated the purchase requirement in the program. We kept the shelter deduction because food stamp families in with all of its implications primarily for northern states relative to southern states used the shelter deduction more frequently and had a larger deduction as well. There was a regional impact that my analysis uncovered which ensured that the shelter deduction was not eliminated. That was really my introduction to the Hill. My mentor at that time was John Kramer, who was Chairman of the Board of Directors here at the center.

BERKOWITZ: At the center here?

PRIMUS: Yes, for many years—

BERKOWITZ: Which is called the Center for—

PRIMUS: Yeah, I mean this is now—we've got to put the time frame here correctly. I was hired by the committee I think in '75. In '76 it was a part-time job while I was going, teaching at Georgetown.

BERKOWITZ: This is the—

PRIMUS: House Agricultural job.

BERKOWITZ: Right.

PRIMUS: And John Kramer at that time was kind of a special consultant to Tom Foley.

BERKOWITZ: Does he spell his name with a K or a C?

PRIMUS: K-R-A-M-E-R. He later became dean of law school at Tulane University. While he was working on the Hill, he was also dean of students at the Georgetown Law School. Anyway, he was a mentor. He had initially worked for Adam Clayton Powell, a powerful Democrat from New York. This institution was founded, the place I'm currently working, the Center on Budget and Policy Priorities, in 1981 by Bob Greenstein who in 1975 was the chief person on the outside that understood food stamps policy. Bob was the primary activist, if you will, on the outside. And we had meetings with members—Bob Bergland, who later became Secretary of Agriculture was one of the members of the Agriculture committee. It really was a wonderful introduction to Capitol Hill. Tom Foley remains, in my mind, an excellent example of a politician who both understood the policy as well as the

politics. I remember him chiding his agriculture members who obviously represented rural interests, saying, "We cannot make the farm bill too big because we have to pass it on the floor. We need 218 votes." Their inclination was obviously to assist their rural constituents and pass as big a farm bill as they possibly could. This was the log-rolling that took place between the food stamp program and the rural interests. Why would a person who represented inner city Chicago or New York vote for a farm bill whose primary effect would be to raise consumer food prices in their district?

BERKOWITZ: That's the original Dole-McGovern partnership on food stamps.

PRIMUS: Yes.

BERKOWITZ: Same dynamic.

PRIMUS: Same dynamic. So anyway, that was my learning experience, if you will, and that got me into the real public policy process. I watched and studied a master in Tom Foley. Another little vignette that I remember: When I came to the committee there had been major reforms in Congress. Three committee chairmen had just been ousted from their seats. One of them was Bob Poage (D-Texas), who had been chairman of the House Agricultural Committee for years. The Democrats had replaced him with a much younger Tom Foley. It was really interesting watching this elderly gentleman who had been chairman sit immediately to the right of Tom Foley, and just their interaction and how well Tom Foley treated him is something I will always remember.

BERKOWITZ: That's interesting. Was Foley already in leadership or did that come later?

PRIMUS: That came later.

BERKOWITZ: I see. So how did you get from there to Ways and Means?

PRIMUS: I continued to teach at Georgetown and then a job opening developed at the Ways and Means Committee and I applied for it. I learned about it since I was on Capitol Hill. And then Tom Foley put in a good word with Al Ullman (D-Oregon), the Chairman of the Ways and Means Committee. They were in adjoining districts. Tom Foley represented the eastern one-third, geographically, of Washington, and Al Ullman had taken over the reins at Ways and Means and I'm sure that Tom Foley put in a good word for me and that's how I landed at the Committee on Ways and Means. And my job initially—again, this is now the fall of '77. I worked on Food stamps reforms in 1975 and '76, primarily, and that was a part-time job.

Now I have a full-time job with the Committee on Ways and Means in the fall of '77. Carter had been elected in November of 1976 and welfare reform was one of the major issues, along with hospital cost containment. My job was primarily to be the chairman's person, Al Ullman's person, who I learned later—I now see this through different eyes—was a very conservative member of the House. His subcommittee chairman, Jim Corman—

BERKOWITZ: From California?

PRIMUS:—from California was a liberal Democrat and there was a lot of concern about—at least in the Ullman ranks—about what Corman would produce in terms of a welfare reform bill. And as a result Tip O'Neill, the Speaker of the time, appointed a mega-committee so that the consideration of welfare reform could be expedited. And so there was a special welfare committee created of which Jim Corman was chairman. But then three committee chairs—Tom Foley from the Agriculture Committee, Al Ullman from Ways and Means, and Carl Perkins from the Education and Labor Committee.

BERKOWITZ: From Kentucky, right?

PRIMUS: From Kentucky.

BERKOWITZ: From the education committee?

PRIMUS: From the education committee. There was representation on this committee from those three committees, including the Chairmen of those Committees. And Jim Corman was in charge. And the idea was that this committee hold hearings and go through the process of marking up a bill. And it wasn't quite clear when that committee then produced legislation, did it have to go back to the other three committees? Just exactly what was the status of that legislation? Finally, the Chairmen insisted that each for their Committee review the legislation.

BERKOWITZ: And you worked as staff to that for the chairman of the committee?

PRIMUS: Yes.

BERKOWITZ: I see. What about your economics duties? Did you also have statistical gathering duties and all that sort of thing, like the Green Book?

PRIMUS: That came later. I worked for Al Ullman then for four years on kind of unemployment insurance and welfare reform. And then in 1980 Al Ullman was defeated along with Jim Corman and that was all partially due to President Carter announcing very early that he had been defeated.

BERKOWITZ: Yes, they were both West Coast politicians and he conceded early. I remember that.

PRIMUS: That's right. In the case of Al Ullman, he lost by enough, and there were lots of other issues in his own campaign that the fact that President Carter announced early did not affect the outcome of his election. But in the case with Jim Corman the election was close enough that the early announcement could have made a difference. Voters left their places in line at the polls. But anyway, all of a sudden two very senior members including the chairman had been unelected. Dan Rostenkowski (D-Illinois) then was given the choice by Tip O'Neill of either being the Whip, which was an appointed position at the time, or being Chairman of the Ways and Means Committee. Well, much to everybody's surprise, he elected to remain Chairman of the Ways and Means Committee. And, you know, my job tenure was very much in doubt. But the major staff person of Dan Rostenkowski was John Salmon.

BERKOWITZ: Salmon? S-A-L-M-O-N?

PRIMUS: That's correct. And he retained me. And so then I became an economist on the full committee working for Dan Rostenkowski. And John then said, "I think we should do a Green Book. We should compile for members a brief description of each program that the committee has jurisdiction over, you know, the parameters of that program, the characteristics of whom the program serves, program trends, et cetera." And then with the help of the Congressional Research Service, the Congressional Budget Office and lots of administrative agencies who clearly when Congress or the chairman said supply the data, they said yes. And so, the work was really a compilation. And I was in an ideal position, even though I didn't realize it at the time, to do that. And so, slowly over time the book grew and became I think a resource for many individuals, including the research and academic communities.

BERKOWITZ: It reminds me a little bit of the statistical supplement to the Social Security Bulletin. Was that one of the places that you—one of the sources you consulted, one of the shops you consulted?

PRIMUS: Yes. HCFA (the Health Care Financing Administration) was another. Again, the Ways and Means Committee had jurisdiction over the Medicare program and also AFDC in those days. AFDC and SSI (Supplemental Security Income) eligibility determined Medicaid eligibility. So those programs were closely intertwined. And so not only did the Green Book cover the programs that were under the jurisdiction of the Committee on Ways and Means, it also covered programs in which the committee's programs interacted with or overlapped with programs from other

committees. And, you know, we also tried to explain in that document the difference in some of the eligibility rules and the overlap in the populations that were served by these different programs.

BERKOWITZ: What was the status of Medicaid in terms of Congressional committees in 1981? Was it still in Ways and Means?

PRIMUS: No. It was the fall of Wilbur Mills as chairman of the committee that changed which committee had jurisdiction over Medicaid. When Mills got into trouble, the Democratic caucus changed other things as well. The jurisdiction over Medicaid was changed and Medicaid was given over to the Energy and Commerce Committee, basically John Dingell (D-Michigan) and Henry Waxman (D-California). And the committee also lost sole jurisdiction of Medicare. It now shares jurisdiction with the Energy and Commerce Committee over Medicare Part B. The rules of the House changed so that the Ways and Means Committee had exclusive jurisdiction over any health program that was financed by payroll taxes and then the Committee shared jurisdiction over Medicare Part B and we lost jurisdiction over other health programs that was completely general fund-financed.

BERKOWITZ: I see. It's interesting because when HCFA was created in 1977 the idea was to unite the administration of Medicare and Medicaid at the same time, when the policy control was actually being fragmented between those two programs.

PRIMUS: In the Congress, yes.

BERKOWITZ: So it's interesting.

PRIMUS: That's true. I mean, the other major thing that happened to the Committee on Ways and Means was that Committee no longer functioned like the Democrat steering committee. Members of the Committee on Ways and Means made all the committee assignments.

BERKOWITZ: For Democrats.

PRIMUS: For Democrats. And that gave the committee special powers. But those things were eliminated when Wilbur Mills lost the chairmanship.

BERKOWITZ: Okay, now let me ask you about your understanding about Medicare. Medicare wasn't one of your initial specialties. And what I'm trying to get at is the relationship between Medicare and Gramm-Rudman, which I know you were involved in, how Medicare politics meshed with budgetary politics. Is there a way of getting at that story?

PRIMUS: Well, the way of getting to that story is that in 1980 I, in a very loose sense, started to be involved with reconciliation bills. In other words, the Congressional budget process which had been engineered, put into law in 1974 and created the Congressional Budget Office was just getting under way.

And the major event of 1980 in terms of the budget was that we had our first reconciliation bill. The Budget Committee instructed the powerful Ways and Means Committee and a couple of other committees to change laws so as to bring about ten (?) billion dollars of deficit reduction. That was new. That another committee was dictating to Ways and Means and the appropriations process through points of order and other budget enforcement tools I won't go into at the moment was quite novel. Then in 1981 David Stockman, OMB (Office of Management and Budget) director under the newly elected President Ronald Reagan, wanted to reduce government spending a lot. And rather than have each committee report its own bill—and remember, no committee wanted to cut programs under their jurisdiction. That was a given. So it was really the Budget Committee's job to issue spending reduction instructions and tell each committee that if we're going to reduce the deficit by $30 billion how much each committee had to contribute to that overall reduction in spending.

And so each committee was given an instruction in 1981 and the committee then had to report legislation back to the Budget Committee. And I oversaw that process at the staff level, as the committee members made the decisions. But just compiling the paper and working with the Congressional Budget Office to make sure that the legislative decision as scored by the Congressional Budget Office got us to a big enough score so that we complied with the reconciliation instruction. I took the responsibility of telling the Chairman when he had hit the goal, so to speak.

BERKOWITZ: Was all this legislation contained in OBRA, Omnibus Budge and Reconciliation Act of 1981?

PRIMUS: Right.

BERKOWITZ: That was a product of the whole Congress? I never quite understood that all the committees contributed and—

PRIMUS: Right. All the committees contributed. The bill was compiled at the Budget Committee and then it went to the Rules Committee. And one of the things I will always remember was the Democrats wanted to split the bill into six parts so that it was an up-and-down vote on each of these six major pieces. One of the pieces was Ways and Means. And I don't remember all the details, but another was the provisions that came out of the Energy and

Commerce Committee, et cetera. The sensitive cuts in OBRA with respect to Ways and Means Committee were some changes in the Social Security benefits, namely, the elimination of the minimum benefit and the elimination of student benefits primarily. I think those were the primary two amendments.

The thought was that if you had a vote on just those two provisions enough people wouldn't vote those policies into law. But if it was one part of a giant package and the question was, "Should we have $30 billion of deficit reduction?" that would pass. But if the question were more narrow, "Should the minimum benefit at Social Security be eliminated?" the answer might be no, we shouldn't eliminate the minimum benefit. So we tried to write a rule splitting the package into six parts. Remember, the Democrats controlled the House. It was a Republican president that was suggesting that all these budget cuts be made. And, you know, the Democratic chairman, Dan Rostenkowski (D-Illinois) said, "We have got to do deficit cutting." It was the details in question. The Democrats had an alternative way of reducing spending. But we lost the rule.

BERKOWITZ: As I recall, there was a separate vote on the student benefit and the minimum benefit. After OBRA was passed there was another vote.

PRIMUS: I think the vote you are remembering took place later. The Committee attempted to restore those benefits. Initially it was all stuck together as one package. So then, almost every year thereafter I think save one we had a reconciliation instruction. And it was those reconciliation instructions that really forced a lot of changes in Medicare law. We produced more legislative language in the 1980s relating to Medicare reimbursement. We completely revised the reimbursement system for hospitals. DRGs came into play. John Salmon had a lot to do with that, obviously operating under the direction of Dan Rostenkowski. Voluntary hospital cost containment had succeeded temporarily and then we had huge Medicare expenditure increases in the early '80s. DRGs had been experimented with in New Jersey.

And so, in the 1983 Social Security law there was a portion that dealt with the initial version of a prospective payment system. If I recall correctly, there were some changes in OBRA but they were quite modest in retrospect, dealing with maybe increases in co-pays or the deductible. Remember, we didn't really have a tool for lowering hospital reimbursement. I mean, it was a cost-reimbursement basis. There were very complex rules that said, okay, a hospital serves 20 percent of its patients through Medicare. And you would go through rules deciding what was Medicare's share of the cost of running that hospital. That was the notion. Medicare reimbursed its share of the cost of the insured Medicare patients. So how do you reduce a payment to the

hospital? Are you going to pay 96 cents on the dollar? And so initially we didn't change reimbursement. It wasn't until 1983 and then '84. Once you had a prospective payment system where there was built-in inflation rates, et cetera, you could then nick those inflation rates and reduce reimbursement and demand that hospitals lived within those budget constraints.

BERKOWITZ: Was there a Medicare provision in—was it TEFRA the second one, 1982? Was that the TEFRA Act?

PRIMUS: Yes.

BERKOWITZ: Did that have some instructions about essentially anticipating DRGs?

PRIMUS: Yes, I think you're right. We required a report of the secretary. But again, that's a little fuzzy. But, yes.

BERKOWITZ: And what was your role in the Medicare side of things? Any?

PRIMUS: Well, at that point, Medicare was in its own subcommittee on health. And only several members of the committee served on the subcommittees. Backing up for a just a minute, that was another thing that happened to the committee in 1974. The House told the Committee, "You shall have six subcommittees." Everything had always been done in committee of the whole. Now you actually had subcommittees, and so there was a subcommittee on health. Remember, I was working for Rostenkowski.

BERKOWITZ: Full committee.

PRIMUS: At the full committee. It was also understood that every staff member of Ways and Means on the majority side worked for the chairman. So the subcommittee staff directors had a very unique position. They had to serve two masters in some sense; clearly their boss was Dan Rostenkowski. But they were supposed to help the subcommittee chair write appropriate legislation. And sometimes that could create conflict because the subcommittee chair might have a different view of what was good policy or good politics compared to the committee chair. Nevertheless, my role was basically again getting the Green Book done, kind of supervising the paper process in three reconciliation bills, but not the actual production of the legislative language. Each subcommittee then worked with a legislative counsel to implement the decisions of its subcommittee. And my job was primarily compiler and—just help with the process.

BERKOWITZ: But, you know, they say that Wilbur Mills knew all the tax code and so on, and Social Security law. What about Rostenkowski? What was he like to work for?

PRIMUS: Rostenkowski really was one of the giants of the legislative process. His greatest strength was he knew what made people tick. He had spent many hours on the floor getting to know the members, what they were interested in and what they most cared about.

He had an intimate feel for what could pass and what couldn't pass. I think he would admit he was not a master of tax law and for that he depended on his staff. And he understood what the staff role was and what his role was. He was the boss and he understood politics.

And there was no doubt that he was in charge. There were times when a lobbyist would come with a complex line of argument and he would turn to me after and say, "That was a bunch of BS, wasn't it?"

He had an ability, even though he didn't know the details, to know when people were feeding him a line. He knew what the House wanted and what they could tolerate, unlike Al Ullman, who was very nice, but who let the Committee do its will, so to speak. And Rostenkowski was not letting the Committee do its will. He would often tell his staff—let's see what we can do to produce good law. And he had a lot of respect for staff and he really wanted to write good law. The Tax Reform Act of 1985 and '96, the 1983 Social Security amendments, the trade agreements. We did a lot of legislating under Ronald Reagan. And Dan Rostenkowski, in my mind, gets a lot of credit on that.

But occasionally he would throw his staff out of the room when he was going to have a political discussion with the Members. And so you knew where you stood with Dan Rostenkowski. He was definitely in charge. I can remember an experience later on in the late '80s when Tom Foley was in budget negotiations and the administration would send in its staff, the OMB director Dick Darman, and et cetera.

Dan Rostenkowski's view was everybody in the administrative branch of government is staff except the President. And so, he wanted his staff in the meetings with a Dick Darman. He thought Tom Foley made a mistake when he kicked the staff out. There were other times when it was appropriate in his mind just to have Member discussions. But when you got into technical details, he understood his strengths; he also understood his weaknesses.

BERKOWITZ: I see. Let me ask you again about Gramm-Rudman. Do you have any specific memories about Medicare provisions within Gramm-Rudman? I understand it's 1985, right? Originally?

PRIMUS: Right. I was heavily involved in Gramm-Rudman, mainly because of two facts. One is that Gramm-Rudman got attached to a debt bill. The Committee on Ways and Means still had jurisdiction over the debt legislation. So every time our public debt limit was exceeded we would have to raise it. And we would have to pass a resolution saying increase the public debt. Well, Phil Gramm (R-Texas) in the Senate, attached to that vehicle, which was a must-pass bill, the whole Gramm-Rudman legislation. Second, every other staffer at Ways and Means was tied up with a tax bill. This was '85/'86 tax reform act.

Since I was the budget person, I was assigned to take care of this budget process set of issues. So it was wonderful for me. Every other staffer involved with Dan Rostenkowski was writing the '85/'86 tax reforms. I was basically the committee's person on Gramm-Rudman.

And Tom Foley, my old boss, was nominated by Tip O'Neill to be the chief person—he was majority whip—on how the House was going to respond to this God-awful piece of legislation that was coming back at us from the Senate. That was really the most interesting two months of my life when I look back on it. I got called into a meeting on Gramm-Rudman in late September 1985. And for the next two months I think we worked 16-hour days to try to figure out what to do. And we would have Member meetings during the day and staff meetings at night or early morning to try to figure out what was really going on. There was a political dimension to this and a substantive dimension.

And trying to understand what we should do, all the nitty-gritty details of budgetary law, outlays, loans, appropriations, appropriated accounts versus entitlement accounts versus loan accounts, et cetera, how each account or program would be affected when you implemented this notion of reaching a certain deficit target by cutting everything across the board by a uniform amount. What did that mean? How do you actually translate that concept into law? What are the implications for military personnel, for building ships and other weapons systems? It was a fascinating exercise. And in that exercise I really appreciated the staff at the Appropriations Committee, the Budget Committee, the Rules Committee. There were five Committees of the House that were heavily involved in this legislation. I became the lead staffer from the House side. And so one of my unwritten rules was that for every entitlement law that was going to be impacted we were not going to give discretion to the Administrative branch of government. We were going to write into law how exactly, if there was a certain cut to be made, it was

going to be made in the Medicare program. And so, if there were so many dollars that needed to be cut from Medicare, the Secretary of HHS (Health and Human Services) wasn't going to be able to dictate how much the hospitals got cut versus the doctors versus clinical labs. We wrote into law exactly how those cuts were to take place.

BERKOWITZ: I see. That's interesting. So let me ask you then. So if this Gramm-Rudman is now by the middle of the '80s is in effect as a real fiscal stringency measure concerned about deficits, how did we ever get catastrophic health care legislation in that atmosphere by 1988?

PRIMUS: Which was an increase in the program. I guess there's two things. One was to get every reconciliation bill through, which is pain. Deficit cutting is pain—you are either cutting someone's services or benefits or raising someone's taxes.

There had to be a little sugar sometimes that went along with those painful parts of legislating. And, as part of a reconciliation instruction, we actually made some improvements in health programs. Henry Waxman was a master at it (and his staff). And almost all of those reconciliation bills had Medicaid expansions. And so the Republican president had to swallow, along with the deficit cutting, certain things that the Democrats wanted. We also did some restorations of the 1981 OBRA legislation. Primarily in '84 we got more of those items done. But back to catastrophic. If I recall correctly, Secretary (of Health and Human Services Otis) Bowen really wanted to improve Medicare's protection for catastrophic illness. And if you look at Medicare, it would cover almost entirely the first 60 days in the hospital except the first day and then the co-payment would go up.

The point was that if you were in the hospital 270 days you did not have very good protection under Medicare and it had led a lot of elderly individuals to buy Medigap type insurance. Wouldn't it be much easier just to have Medicare cover catastrophic illness? And you could do that with pretty small cost. It was a separate vehicle. It was not attached to reconciliation, if I recall correctly. But that was an initiative that made sense. And then the question was were we going to add prescription drug benefits, an issue that is still around today. We added a very modest drug benefit.

BERKOWITZ: What was Rostenkowski's view on that? Do you remember?

PRIMUS: It was fine with him. The one thing he insisted on and it grew out of a lot of the other work that we were doing at the time that showed the elderly were becoming the better-off part of society. And if we're cutting the deficits and services for everywhere else to reduce the deficit and then we

are providing this additional benefit for the elderly, both he and Ronald Reagan said the elderly should pay for it.

Also anyone who was elderly in 1988 enjoyed a windfall from Medicare. They had only had paid taxes from 1965 or 1966 when Medicare coverage was initially added. So you were getting this Medicare package and only had paid taxes 10 years. So the idea was that if we wanted to improve Medicare then the elderly were going to pay for this additional coverage. Remember many of the non-elderly had no health insurance whatsoever.

BERKOWITZ: Side two of the discussion with Wendell PRIMUS: on August 14, 2002, and you were just saying that when catastrophic passed, Congressman Rostenkowski thought that this is something that the elderly should have some budgetary responsibility for, some financial responsibility, should not look on it as a further windfall to the elderly.

PRIMUS: Right. And Ronald Reagan's program was small enough so it was completely financed by a flat increase in the Part B premium. The Democrats wanted a little better version of catastrophic and so to pay for it we didn't want to just finance it as a flat head tax the most regressive tax there is. We wanted to put a progressive premium on it.

And remember, the poorest elderly who were covered by Medicaid had their premium automatically picked up by the Medicaid program. We wanted then a graduated tax. And so we had a flat premium plus a progressive income related surcharge for the more well-off elderly. If you compared the value of the insurance, the additional insurance they were getting through catastrophic compared to that premium for the rich elderly, it was not close. The premiums were 3–5 times the value of the additional health insurance benefit. The way we looked at it is, you were getting the entire Medicare package and you had been getting a windfall, and therefore you were still getting a very good deal from Social Security and Medicare programs combined, thank you. Well, that isn't the way the wealthy elderly looked at it. They looked at the fact that they had to pay an $800 premium tax to get maybe $160 worth of insurance benefits. And they rebelled.

BERKOWITZ: Now, to pay this, did you pay it through your income tax?

PRIMUS: Yes.

BERKOWITZ: So it would be something that would show up on their income tax that they would pay. If you had made over a certain amount of money you would have to pay a certain amount of extra tax.

PRIMUS: That's right.

BERKOWITZ: It obviously couldn't have been a payroll tax because these people weren't working, and it wasn't a Part B increase either, right?

PRIMUS: Right, right.

BERKOWITZ: The part which they were paying out of their Social Security check. This was an income tax kind of.

PRIMUS: Right.

BERKOWITZ: Looked to them like income tax.

PRIMUS: Right.

BERKOWITZ: So to them it looked like they are paying higher taxes, I guess is how this would—

PRIMUS: Right.

BERKOWITZ: —basically look. And didn't anyone—I understand the argument about the fact that it's just an increase in the cost of Medicare, which is a good deal. But Rostenkowski, who was so smart, couldn't see that this was going to cause problems?

PRIMUS: I mean, maybe in retrospect.

BERKOWITZ: Everything is clear in retrospect, of course.

PRIMUS: Right. But we fundamentally thought the financing of it made sense. If you are asking the rest of the population to go through deficit cutting that nobody wanted. We could have fixed everything, especially when it came time to repeal it by instituting a very small tax and no one would feel a small tax on the entire population. He decided that was wrong. We were trying to take care of the elderly. And there is a large portion of the federal budget that is devoted to the elderly. So when we looked at the entire financing of our social insurance programs, he thought this was the right way to go and if the public didn't buy it, then we repeal the entire program. That's what we ended up doing a year later. Remember the elderly groups and the AARP supported the legislation. They thought it was the right thing to do as well If there could have been better marketing, a better explanation to the elderly, maybe it could have been saved. Another experience I will never forget is being invited by Sam Gibbons, who was number two on the committee.

BERKOWITZ: From Florida?

PRIMUS: From Florida, Tampa to a elderly retirement community in his district where there were 600 people in the audience. And it was our job—and they were all the wealthy elderly—to try to explain to them why they should be happy with this improvement in their Medicare program. We failed. I don't think we convinced a single one of them that day. I remember flying down to Tampa. We had charts and we had worked hard to—but we were completely ineffective and they wanted it repealed.

BERKOWITZ: I see.

PRIMUS: In retrospect it was clearly the financing and it was clearly the progressive premium that had sealed the fate of this legislation But I still think it was the right public choice decision to make, given what we know about incomes, given what we know where incomes were increasing and given some of the Social Security increases that had already happened, and given income inequality in America. The right place to finance this incremental benefit for the elderly was an income-related surcharge on the elderly. Perhaps we shouldn't have tied the financing quite so closely to the beneficiaries. Maybe we should have just increased elderly tax rates in some way and not tied the two together. But I think it was the right thing to do. It was an experience I'll never forget. And in retrospect, you're right, we could have paid for it with an increase in the tobacco tax or a very small increase in everybody's income tax. But I'm not so sure that was the right thing to do. If the elderly themselves and the wealthy elderly who had gotten a very good deal under Medicare and Social Security were unwilling to pay for it, then I think the question is why should the rest of society pay for it?

BERKOWITZ: A couple of other questions. This idea of hospital days, if you have more than a certain number of hospital days you pay a high co-pay or whatever. You would have to be nearly dead by 1988 to have more than 90 hospital days even. Isn't that right? By this time the DRGs had kicked in and the system was not allowing people to stay in the hospital so terribly long. So I'm curious what the data was about that. Did you look at it in terms of total out-of-pocket expenses somebody would have for Medicare for a year and try to reduce that?

PRIMUS: Yes. Kind of by definition the catastrophic was only affecting a very, very small proportion of Medicare beneficiaries.

You would have to be very sick person if you had to be in the hospital that long. But if you were in the hospital that long you had some very healthy out-of-pocket payments. And so a lot of elderly were buying Medigap policies. And I don't think they were getting a very good return on their dollar. It was more efficient to have Medicare provide that catastrophic

protection rather than forcing the elderly basically to buy a Medigap-type insurance.

BERKOWITZ: I guess someone like Ted Williams who died recently; he was apparently in the hospital for just months and months and months. So I guess there are situations in which you can somehow get in the hospital for that period of time and still be alive. Let me ask you about just a couple more questions on this theme. Can you remember who else Rostenkowski would have consulted with on this? Was Senator Bentsen a big player? Do you know anything about that kind of collaboration with other Congressmen or with the Senate?

PRIMUS: No. Rostenkowski talked to a number of his committee members. It wasn't just that he had made the decision that if we are going to improve benefits for the elderly that it should be financed by the elderly. The Members made the decision. And at the time I don't even recall that much controversy. I think the committee members were very united that this was a benefit for the elderly. Therefore, the elderly should pay. And it should be a progressive tax, an income-related premium. Bentsen went along with that. Senate Finance did a similar process. Under the Constitution Ways and Means always does things first, the people's House, so to speak. And then the Senate followed suit. The details varied but everybody had bought into this notion of a progressive tax on wealthy elderly to finance this improvement for the elderly. And it started with Ronald Reagan. It was a flat premium. It was the fact that the bill got expensive that made the flat tax inadequate. We wanted a progressive element, too. I'm sure there were amendments on it but I can't remember it being controversial at the time it was enacted.

BERKOWITZ: Do you remember the later controversy? Rostenkowski had personal experiences with the elderly protesting the law. Did that get back to you?

PRIMUS: Oh, yes. I think he was very unhappy with just why he was even put into that situation in the first place. He resisted doing that event. It was back home in Chicago. We knew we needed a public education campaign but in retrospect you can know lots of things. But no one predicted the photo op that actually happened.

BERKOWITZ: Can you describe what happened that day?

PRIMUS: Well, I wasn't there, but basically Rostenkowski was asked to make remarks to defend this Medicare improvement. And Rostenkowski can be arrogant at times. He was chairman of the Ways and Means Committee. And after you are told for 20 years how great you are, you begin to believe

it. He thought he had made the right decision. He was confident of that. I think some of that came across. There was also the term greedy geezer. I mean, I remember some members being just angry on the floor. And they said, "We will remember this." They were angry at the wealthy elderly for rejecting this legislation that was an improvement for most of the elderly.

Remember, the rest of the population, 14, 15 percent of them, didn't have any health insurance. This was an increment to the health insurance plan of the elderly. And so the thought was that if we were going to ask the general population to improve health coverage, we wanted to cover more of the uninsured. That was some of their thinking. And so the fact that elderly, who had done so well by government and so well by social insurance—any calculation at that point, you could look at how many taxes they paid and then look at the benefits of Medicare health insurance and their Social Security coverage, and it was like three to one. Everybody in the early generations of Social Security and Medicare came out ahead. That's less true today. I still think that if someone had done a better job of marketing or explaining to the public some of the thought processes, the legislation could have been saved. For the bulk of the elderly it was a very good deal's the additional benefits exceeded the cost. For most of them it was $160 of health insurance for a cost of $70. So for the majority of the elderly, the vast majority of the elderly, this was a good deal if you just compare the value of the insurance to their additional flat premium. But for a well-endowed part of the elderly, it was clearly not a good deal. If you viewed the legislation in a very narrow sense. And the wealthy elderly prevailed.

BERKOWITZ: Well, let me ask you just as a way of concluding then: Did this episode put a chill on national health insurance and so on? Or this is kind of an isolated incident that really reflects the budgetary politics of the 1980s?

PRIMUS: I'm not so sure of the implications it had. I think it had some implications. Personally, I dropped out of the health care world and concentrated more on child support and welfare.

BERKOWITZ: What year was that that you became the staff director of your own subcommittee? In 19—?

PRIMUS: '91.

BERKOWITZ: '91

PRIMUS: And this had happened in '87/'88.

BERKOWITZ: '89 was when it was repealed.

PRIMUS: Yes. So I—you know, it was the first time a major entitlement program or major addition to an entitlement program had gotten repealed a year later.

BERKOWITZ: In fact, I can't think of any other example.

PRIMUS: No. You know, in the OBRA bill we changed the unemployment insurance. We took away a national trigger. We have reduced entitlement benefits, but so quickly upon enactment to repeal something, this was a very unique experience and left a bitter taste in some of the Members' minds about this. And my own inclination was that the elderly—the rich in our society have gained a real upper hand in the political process. It's a disturbing element but a very true element and there's a whole bunch of reasons for that. But this was more a consumer matter. It's not a money corporate interest. It really says a lot about our society.

BERKOWITZ: So by way of concluding, when you took the job on the subcommittee, who was your boss on that subcommittee?

PRIMUS: Tom Downey.

BERKOWITZ: From New York.

PRIMUS: From New York.

BERKOWITZ: So you went into that world and you left the Hill in what year?

PRIMUS: March of '93 I joined the Clinton administration.

BERKOWITZ: Right. So you worked at—you were Deputy Assistant Secretary for Planning and Evaluation?

PRIMUS: Right.

BERKOWITZ: For—?

PRIMUS: We worked on welfare policies, essentially the non-health portions of HHS, the administration for children and families and policies surrounding Head Start, child care, child welfare, AFDC at that time.

BERKOWITZ: So you worked closely with David Ellwood.

PRIMUS: Yes.

BERKOWITZ: He was the assistant secretary.

PRIMUS: Right.

BERKOWITZ: I see. And then you did basically one term of Clinton?

PRIMUS: Yes.

BERKOWITZ: Were you involved in—I know that Ellwood quit in a huff at some point over welfare reform.

PRIMUS: No, actually David didn't. He had left a year earlier to go back to Harvard. And Peter Edelman took his job. I had been asked by Leon Panetta as the Republican welfare bills and the Republican budget cuts were going through in early 1995 to do what I did in the budget summit of '90, which was produce distribution tables saying when you are cutting the deficit which portion of our society is bearing the pain. That was something that I worked with the Congressional Budget Office to produce. And we had distribution tables of who was bearing the pain of deficit reduction. Well, Leon Panetta asked me to do the same thing when the Republicans took over the House in 1995 and did their Contract with America. And as you might expect, the cuts were really borne by lower income Americans disproportionately.

And we produced the same charts we did in the budget summit of 1990, producing those charts we got the idea if we can do that, why couldn't we measure the number of people that were crossing this somewhat arbitrary line called the poverty line. And so I started to produce estimates—actually, the work was being done at the Urban Institute—that suggested two million children were going to become poor if the House Republican welfare bills were enacted.

The Senate bill wasn't quite as draconian. That's what the estimates produced. I couldn't be true to those estimates and to all the analysis that I had done and not resign. I thought any bill that cut $54 billion (over six years) out of low income programs could not be justified and how could you say you were improving child well-being? That's a budget savings of about $8–9 billion a year from low-income families with children.

And so, as a result, I couldn't justify the President's decision to sign the bill. I was a political appointee. So it was a very simple matter. If I couldn't justify his decision, it was time to leave. It was clearly the President's right to make that decision. I didn't pressure him one way or the other. We produced what I felt was credible information using the best simulation models in existence.

And so, between the time the President announced that he was going to sign it and the time he actually did sign the bill, I left the administration and then came here. And Bob gave me an office for a while and then later I became a staff member.

BERKOWITZ: I see. I think that is a good note on which to conclude. Thank you very much.

PRIMUS: Thank you.

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Interview with John Rother

Washington, D.C. on August 27, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: August 27th and I am here in Washington, D.C. at the AARP headquarters with John Rother. And I want to talk to you a little bit about your background. Let's just get the dates straight in our minds here for a second. When you worked on the Special Committee on Aging, what were the years that you did that?

ROTHER: Start at the beginning. I worked for Senator Jacob Javits (R-NY)

BERKOWITZ: In New York.

ROTHER: Essentially from New York on the labor, what was then the Labor-Human Resources Committee, now the Health Committee, during the Carter administration. And then after his defeat I moved over and I was staff director and chief counsel for the Special Committee on Aging under John Heinz (R-Pennsylvania), its new chairman, from 1981 through the end of 1984. And at that point I came to AARP (American Association of Retired Persons). So it's a pretty simple job history. I've had three jobs in my life.

BERKOWITZ: Javits, the Special Committee—Heinz.

ROTHER: Right.

BERKOWITZ: And AARP.

ROTHER: AARP, right.

BERKOWITZ: So when you worked for Javits, that was the committee with Harrison Williams (D-New Jersey), He was maybe even the head of the committee at that point.

ROTHER: Williams was the chair, yes.

BERKOWITZ: So you were on the aging committee through the disability stuff and through the DRGs.

ROTHER: Social Security amendments of 1983, you know, very active. I coined the term "quicker and sicker."

BERKOWITZ: Is that right? About DRGs?

ROTHER: DRG stuff I threw in. You know, we had a lot of work to do looking at the impact of changing reimbursement on the health care system.

BERKOWITZ: That was one of Heinz's special issues, right?

ROTHER: A little bit.

BERKOWITZ: All right. And so how did you get the job at AARP?

ROTHER: Well, it's a long story. But the short of it is, they were looking. They had a headhunting firm and I kept telling him I wasn't interested. And because I was so critical of the organization, it was a paper tiger at that point. And I was probably the leading critic on the Hill with AARP. And they finally said, "Well, the best way to get your criticisms heard is to come in as a candidate, talk to the top people here." And I kind of took the bait and I came in and I said, "Well, you have to do this and this and this and this and, you know, double the budget and double the staff." And they said, "You're hired and we'll do all that." So I was hired.

BERKOWITZ: That was tricky.

ROTHER: You know unintentionally I had laid out a whole agenda and then, you know, much to my surprise, they bought it.

BERKOWITZ: So just for me to get a fix on AARP's legislative work before you came, let's say 1983, did they testify against the amendments, against the six months delay in the cost of living adjustment?

ROTHER: They did. I think AARP in those years was not a very effective advocacy organization. They had just passed the 10,000,000 member mark. It had growing resources and visibility, but it didn't have its act together. It didn't have a strong research component. It had practically no grass roots. And it was very reactive and very defensive, not a problem-solving organization. And so these were all the, you know, bill of indictments I brought to this interview. And so I was quite critical that it had not played a more constructive role as the voice of beneficiaries, as the voice of consumers in these very important debates.

BERKOWITZ: Would you identify yourself as a Republican?

ROTHER: Well, I'm an Independent. I had worked eight years for Republicans who today would probably not be allowed in the party. I'm not sure what categorization I'm really with my—

BERKOWITZ: I just think it's interesting that AARP would have picked someone that had worked for Republicans to be its chief congressional

lobbyist at that point. Sure, there was the White House was Republican, but the Congress certainly was Democratic.

ROTHER: I don't think they really saw me as Republican. I'm sure because I know from friends who were asked that they had checked me out on both sides of the aisle. And, you know, the only real question is: Is this guy respected and can he work, you know, regardless of? Presumably, I passed that test.

BERKOWITZ: I see. I was also trying to figure, when was it that Heinz was killed?

ROTHER: That was after I left.

BERKOWITZ: It was in the '90s sometime?

ROTHER: No, it was actually in the—well, it might have been in the early '90s now. I can't quite pick the date out here. I remember exactly how I heard it and everything. It might have been in the early '90s, yes.

BERKOWITZ: And the other thing I was trying to figure out today is was Heinz running for reelection in 1982?

ROTHER: He did run in '88. I was part of that reelection effort.

BERKOWITZ: Would you say you have devoted more of your time to Social Security or Medicare?

ROTHER: I think I have probably spent the majority of my time by far in health care, both when I was on the Hill and when I came here. And I do a lot of Social Security work. But, you know, not to be pejorative, but Social Security is easy compared to health care.

The politics aren't easy, but conceptually it's easy. And health care, both the policy and the politics are almost impossible. So it tends to be the area that just eats up almost all available energy. Plus, it's the top priority of our members.

BERKOWITZ: So speaking of priorities, let's talk about the catastrophic legislation, which in the public mind is sort of identified with AARP in some ways, also with Senator (Lloyd) Bentsen (D-Texas) and (Congressman Dan) Rostenkowski (D-Illinois) and other people that were there at the time, but with AARP. And you are—you are the head man, right?

ROTHER: I was the legislative director then and I certainly was deeply involved in the whole history of the whole thing.

BERKOWITZ: Did the Reagan administration talk to you in the formulation stages? Were you one of the people that they tried to get on board early on?

ROTHER: We had some conversations with Tom Burke, who was (Secretary Otis) Bowen's chief of staff.

BERKOWITZ: Large fellow.

ROTHER: Very large fellow. Who's no longer with us. And Tom talked in some very general terms. But I think you have to remember this was a time when there was practically no domestic agenda coming out of the administration. And Bowen—a lovely, well-meaning person and a very sincere one—thought of this as a fairly limited initiative that would plug an obvious hole in the Medicare benefit structure.

Unfortunately, it's also a time of very large deficits and no willingness to spend general revenues on improving Medicare. So it had to be, according to them, entirely financed out of increased premiums.

BERKOWITZ: And just to get into the politics of formulation. It ends up being passed right almost to the middle of the campaign in July 1988. So is this something for the vice president, sort of? Was there that angle to it?

ROTHER: I don't think George Bush had anything to say about this either while he was vice president or while he was president. And if this was revealed, he seemed to stay away from it.

BERKOWITZ: So it wasn't a gift to have, like—

ROTHER: No, not at all.

BERKOWITZ: —a legacy or something?

ROTHER: I think it was a kind of a legacy issue for Reagan. I think that he definitely supported this personally and people always react with surprise. But I think he saw it as part of his personal legacy.

BERKOWITZ: I wonder what kind of an anecdote they used to sell it. I'm sure there was some story that he could latch onto.

ROTHER: I'm sure there was. But I think also it would be hard as president to object to something that came to you with bipartisan support that was self-financed that clearly addressed the obvious series of weaknesses in the Medicare program and it was supported by (Representative) Claude Pepper (D-Florida) as well as everyone else. So I wasn't surprised that Reagan was generally supportive.

BERKOWITZ: So one story that's told about this particular legislation is that it begins as a fairly modest thing, you know, to add this catastrophic coverage to Medicare.

ROTHER: Yeah.

BERKOWITZ: Not that many people at this time after DRGs go in the hospital so many days. You would have to be quite sick and near death or whatever. So that part is a relatively modest thing to add. But the thing that was added by Congress was the prescription drug benefit and that's also associated with—mostly with the AARP. Was that something that you were working on?

ROTHER: Well, the dynamic I actually think was more partisan than interest group. I think we saw a very limited, targeted proposal coming from the Reagan administration. And Democrats like Henry Waxman (D-California), John Dingell (D-Michigan), Pete Stark (D-California), said in effect, "If we're going to do Medicare it's got to have a Democratic stamp on it. It can't be just a Republican initiative. And besides, this is way too limited." And of course the big need that everyone saw was prescription drug coverage. And so they decided that a Democratic component of this was going to be prescription drugs. I mean, of course we agreed that prescription drugs was in a way a much more pressing need than just plugging the long-term hospitalization. But it really was, I think, driven more by partisan considerations than the interest group.

BERKOWITZ: How much leeway do you have to negotiate as the person representing AARP? Are you constrained by saying you can only go this far and this is our position?

ROTHER: Well, I think anyone in this situation has two or three really important restraints. One restraint is that whatever we do has to have the support of our board of directors and our policy setting and volunteer structure, which is quite elaborate at AARP. A second thing is that we have to be seen as and in fact be the spokesperson, the voice of our members and an older population generally. So we have to have public opinion polls that back up our position because if we say older people want this and then the polls say something different, that's obviously going to be a credibility issue.

BERKOWITZ: Well, when something becomes partisan like this prescription drug benefit and obviously the members of AARP come from both political parties?

ROTHER: You know, you end up almost always having to work with the party in power if you want to pass legislation. And unfortunately, it's gotten so polarized that it's very hard to work across bipartisan lines. But back then it was much easier than it is today. And so this was very much a bipartisan initiative, in the Senate at least, if not necessarily in the House.

BERKOWITZ: Because when you mentioned the people who wanted to expand the legislation they were all representatives, rather than senators.

ROTHER: Well, this started in the House, remember? And so that's where this decision was made you had a drug problem.

BERKOWITZ: And why did someone like Lloyd Bentsen go along with it then?

ROTHER: In the Senate this really had two phases. First it passed the House and then came over to the Senate. And the Finance Committee under Bentsen's leadership initially reported out a bill that did not have drug coverage.

BERKOWITZ: That is initially opposed to it.

ROTHER: Well, it couldn't figure out how to pay for it, whatever. But then it became obvious and certainly we pushed. We wanted to see drug coverage in the Senate as well as in the House. And it was actually George Mitchell (D-Maine) and John Heinz (D-Pennsylvania) who worked as a partnership to put together a floor amendment which added drug coverage on the Senate floor. And that was a very intense effort. Obviously, it was bipartisan and it was successful in the sense of modifying the Senate version so that then we went into conference with both sides having drug coverage.

BERKOWITZ: And you had decided earlier that it could have died in conference if the Senate didn't have the drug benefit or been much harder.

ROTHER: Well, I think it would have been a lot harder. There would have been a tendency to water down the benefit in conference. It increases your uncertainty factor exponentially. It could have happened. But it certainly I think was much better from our point of view to have the Senate on record as supporting the drug benefit.

And remember, this was not the only benefit bill, that there was really in retrospect a very rich array of improvements to Medicare as part of this bill, including long-term care provisions.

BERKOWITZ: Which, as I recall, was a fairly big issue in that particular 1988 presidential campaign. That was one of the things that was kind of talked about in that year.

ROTHER: Right, we—We had actually formed a separate organization, Long-Term Care '88—

BERKOWITZ: Right, with the Villers Foundation.

ROTHER:—precisely—right. Ron Pollack and I, precisely to make this a grass roots issue in the '88 campaign. So that was also an important part of this.

BERKOWITZ: So the idea was that you get this catastrophic stuff passed, you add the prescription drugs, you start talking about long-term care as part of the catastrophic and then the next phase would have been the long-term care if everything had gone according to plan.

ROTHER: The grand plan was definitely to do this first, to update the Medicare benefit package on the acute care side, and then turn to long-term care. And remember, this was also just a few years after everyone thought we had really fixed Social Security and had that on a stable, long-term basis so it was taken care of.

BERKOWITZ: So it's a time to look at Medicare and…

ROTHER: Right.

BERKOWITZ: Which had pressing problems.

ROTHER: Yeah.

BERKOWITZ: I'm just trying to think about that, that Mitchell-Heinz partnership. Mitchell was—he was on the Finance Committee. Was he already majority leader by then?

ROTHER: No, he wasn't majority leader yet, but he was a very well-respected guy and so was John Heinz. And so they—

BERKOWITZ: What was Heinz's motive? Because Heinz is less obvious what—what was going on there. Or was this just part of his advocacy of issues that benefit the elderly?

ROTHER: Well, I think, yeah, he has a history of advocacy for the elderly and I think that Heinz is a very policy-motivated politician, more so than most, and felt it was the right thing to do. And I think it was also motivated

by many stories of terrible personal anecdotes in Pennsylvania. It's a very moving situation when you confront it directly.

BERKOWITZ: Which is very much in the style of that Special Committee on Aging, isn't it?

ROTHER: Correct.

BERKOWITZ: To have a hearing—did he have one on this after you left?

ROTHER: Yeah, there were field hearings. There were, you know, people telling their stories just like there are today except today the numbers are bigger. But it's the same kind of problem then. People couldn't afford medications. All the benefits that Medicare was supposed to provide in terms of security, in terms of access to modern medicine, were being thwarted by the lack of drug coverage.

BERKOWITZ: So now you also must have agreed to the financing provisions of this legislation.

ROTHER: Well, the financing in the end was the only point of controversy. No one talked about the benefits once the thing got enacted. We had agreed to something that was very difficult for us to agree to, which was the idea that people with higher incomes should be asked to pay more. We call it income-related financing. We drew a very sharp distinction at AARP between that idea and means testing a Medicare benefit, which would have meant a benefit only available to the poor. We already have that; that's Medicaid. But the idea of an income-related premium was a necessary financing step in order to have money to do all this stuff. So it was with some reluctance but also with some sense that we weren't going to get to all the benefit improvements that we thought we needed without it. And also, the sense that when you looked at the overall Medicare program even with this new financing attached, everyone was still being treated fairly.

No one was being asked to pay more than their actuarial value for the benefit and that there was a kind of inherent limit on how much people were going to have to be asked to pay going forward. So we felt that, you know, in policy terms we had come to something that we could support, which was a two—really, a two-stage financing, a two-level financing approach: an increase in the basic per diem, a flat increase for everyone. So everyone would pay something. Everyone would be involved in some way and then an income-related element that would be capped at only $800 a year per person, and that would apply to only relatively few people. Other people would pay much less.

BERKOWITZ: Because in some sense the payroll tax and Social Security would cover that, too.

ROTHER: Correct. Right. But this is the first time we've really kind of gotten away from the Part B premium as a flat premium idea.

BERKOWITZ: Do you think people are aware that they paid that Part B premium?

ROTHER: I think we found that people were unaware of a lot of things. One thing they weren't aware of was all of the gaps in the Medicare benefit structure because people generally weren't aware of those until they hit them personally. And then, of course, it was too late to do much about them. Secondly, I think once people decide, as most people do, to have the premium deducted from their check it does become invisible. And many people have no clue as to what that deduction looks like because they only see the net check every month.

So in retrospect, I think we found that there was not a basis in the public, or certainly not among beneficiaries, that would either understand the basis, the need for improvement, nor really understand the whole financing structure.

BERKOWITZ: Did you start writing about it in AARP publications?

ROTHER: You know, we did but we were inhibited and I think in retrospect did not do a very good job. First off, we did not really have very much of an infrastructure around the country. It was very heavily Washington-based. And, you know, the techniques that we use today—focus groups, message testing and stuff—we weren't using then. And so we were relatively unsophisticated. And so we lacked that kind of messenger system, if you will. And we also didn't do a very good job in translating the policy debate for our members because, you know, we reported it but we didn't report it perhaps in the way that they could understand it. And then finally, we really didn't, because we didn't have the resources, we really didn't take to the airwaves or take out full page ads or do something that would be kind of extraordinary that would make people pay attention. But, yeah, when the opponents started the attack, they did. And so I think there was kind of an uneven level of resources devoted to this. And part of that—most of it was we didn't have the resources. But another part of it was, the working assumption was that once this was into law then people would feel and see and appreciate the benefit improvements and it would be like the program has been all along. It would grow its own constituency.

BERKOWITZ: Right. In other words, being attached to Medicare is going to be a good thing.

ROTHER: Right, because people then would see the drug benefit, would see these other benefits, and would say, "Oh, that's what I'm getting for my money. This is good." And the assumption was that once it got implemented, you know, then it would be fine. Then everybody would have an experience and a benefit and it would—

BERKOWITZ: It's a little bit like '72, like in 1972 when Medicare was extended to disability.

ROTHER: Right.

BERKOWITZ: No one's going to complain. You've extended a popular program.

ROTHER: Right.

BERKOWITZ: They've got instead—people think that they would sort of gather a new constituency as a result of that.

ROTHER: Right.

BERKOWITZ: So that's what you expect to happen here.

ROTHER: And of course, you know, we—again, 20-20 hindsight is so different. At the time we thought that the battle was over when President Reagan signed this into law in the rose garden. We didn't realize that there would be various interests financing a very sophisticated repeal campaign almost immediately that we would have to deal with even before the law ever got implemented.

BERKOWITZ: And who was behind that campaign against the law?

ROTHER: Well, I mean, there were various front organizations.

BERKOWITZ: Well, what's the play there? You know, there's got to be more than just we object to paying these higher taxes. There must have been some, one would think, some more interest group stuff going on.

ROTHER: Well, I think there were three elements opposed. And, you know, I don't think they worked necessarily that closely together but turned out being similar messages. One element were people who were very well off retirees who already had coverage. The UAW (United Auto Workers), for example, having supported it initially, leadership decided to change tactics

and try to repeal it because they already had these benefits, by and large. And these were the people who would be paying, you know, the full supplemental premium.

BERKOWITZ: That's very interesting because you wouldn't think of it that way.

ROTHER: No, you wouldn't. And the labor movement is not who you think of in this role. But in this case, they were. Secondly, we had an organization, a fairly new organization at the time, the National Committee to Preserve Social Security and Medicare, also known as the Jimmy Roosevelt group. And I believe they are the ones that coined the phrase: Repeal the seniors-only surtax. And their position was, "We want the benefits, but we don't want the financing," which of course is a little inconsistent. But they mounted a very aggressive direct mail campaign with that one negative slogan, I think primarily as a way to build their own membership base. But of course that was very influential and framing the debate to many seniors. And then the third group that was very active but much less visible was the pharmaceutical industry.

BERKOWITZ: I was going to say, that strikes me as more plausible.

ROTHER: Well, they had the money. Of course, they didn't have public credibility so most of what they did was done in the name of organizations that they gave money to. There was this retiree organization out of Nevada—a retired airline pilot was the head.

And there were a lot of other kinds of, quote, grass roots groups that had received financial backing from the industry. But altogether they managed to reframe the debate as not about benefits but as about financing. The financing was not well understood. The negative message I think turned out to be very much easier to communicate then the rationale for it. And, you know, I think that really turned the whole tide of not all public opinion but public opinion among those people most likely to be outspoken for a lot of seniors.

BERKOWITZ: So how did this negative message get back to you?

ROTHER: Well, we certainly had strong opposition among some elements within AARP and we were hearing about it. Our board was hearing about it. Our volunteer leaders around the country were hearing about it mostly from seniors who already had this coverage and who didn't want to pay for somebody else's. I was very, very sensitive to this because most of it, you know, would in effect come back to me. And I was very, very proud of our board of directors then because we—you know, we said, look, we can

change our position but here's what it means. You know, here's who would lose—here's who would lose out. Here's, you know, no drug benefit, no long-term care, no prevention, all these other things. And the board said, you know, these are essential things. We've got to fight to keep this in here knowing that this was controversial, knowing that certainly it would have some consequences for our membership levels. And there wasn't a single defector. This was a unanimous decision on my board's part that we should fight to keep this in place.

BERKOWITZ: So AARP testified against repeal?

ROTHER: Against repeal. It's too bad that we, in effect, got identified with such an unpopular financing technique. I think in retrospect, you know, tobacco taxes or almost anything added to that might have helped. But it was a new idea. It was an unpopular idea, and the real killer was the fact that it was mandatory. So the people who already had many of those benefits didn't see any personal return to them.

BERKOWITZ: Interesting. Shows how much harder it is to get social insurance later rather than earlier.

ROTHER: No kidding.

BERKOWITZ: Because the private sector will fill in some places, you know.

ROTHER: Right. But that was another element of this as well as we were taking this position knowing that it would make unnecessary a very large part of the Medigap market that of course we were a part of. But, you know, again I thought that was one reason I was very proud of our board, that they would stick to a public policy position they thought was right even at the financial cost to the organization.

BERKOWITZ: Do you have memories of that moment when Representative Rostenkowski is in Chicago and—

ROTHER: Yes. I don't know if it was Gray Panthers or if it was the National Council of Senior Citizens, a union-affiliated group that had invited Rostenkowski to speak. And he did speak. And this was as he was leaving. And I think they saw some press photographers there.

And it was kind of a contrived incident but it came to be symbolic, and I don't think anyone realized at the time just how symbolic, because it looked like kind of an outlier experience, kind of one of those freak things—

BERKOWITZ: Well, were you blamed for it?

ROTHER: Yeah, what was interesting is, a lot of things we learned out of this experience. One thing we learned is that in terms of many people's perception in the press or in the Congress, older persons meant AARP. So if there's an older person lying on the hood of Dan Rostenkowski's car, that means you oppose the legislation.

We said, "No, we support the legislation." "Well, then how come an older person was lying across his hood?" "Well, that was another group affiliated with unions who have a different agenda." Well, that was not very well understood because I think the popular perception, the perception on the Hill, was AARP was the voice of seniors. Therefore, if a senior was doing something, that was an expression of AARP's position.

BERKOWITZ: Right. Let me ask you one last question. In terms of the trajectory of health care reform, what were the lessons of the catastrophic experience?

ROTHER: Well, I drew a very clear conclusion which again I shared with my leadership and my board here, which was that this meant that incremental health care reform was not politically viable and the only alternative was to do comprehensive reform. Because incremental reform will always mean that somebody who already has something is being asked to pay for that. People don't understand why they should be supporting some improvements that don't address others. And, you know, you couldn't do cost containment at the same time. You know, people were upset that we were spending more money on seniors and weren't doing coverage expansions for the young. There's just all this noise that made incremental reform, which I think catastrophic was kind of the peak expression of, just really, really difficult. So we came away from this whole experience with several organizational changes but with the main policy conclusion being we have to go on now to comprehensive health reform because that's the only way we're going to be able to deal with this.

BERKOWITZ: But of course President Clinton’s health reform was a disaster, too.

ROTHER: Not because it was a bad idea but because it was very badly executed. And I still maintain that comprehensive reform was within the reach of the administration and the Congress if it had been done in 1993 or maybe even early '94. But they let it get away from them and there was just one misstep after another. But I think there was actually bipartisan support for it when we started and certainly we were committed to it and much of the business community was committed to it. I think it's one of the great missed opportunities in the history of our political system.

BERKOWITZ: Well, very good. Thank you.

(Off the record).

BERKOWITZ: This is an addendum to the interview.

ROTHER: Most of the discussion that you hear about catastrophic today is all about the drug benefit because that's what we're talking about. But drugs were one of only five categories of benefit improvements. They were part of the bill. And it's important sometimes to remember that these other things were there as well. But the drugs is definitely what got people's attention and we kind of look at it now through that prism. There was a lot more than just a drug benefit.

BERKOWITZ: But again, it all seems kind of specialized to me that you get the skilled nursing facilities or whatever there was else. They are all very special things as opposed to getting sick, which is a universal thing.

ROTHER: One of the criticisms, of course, was that the term itself, the label catastrophic was so easily misunderstood by most people to mean, “Oh, that’s going to protect me from a long-term nursing home stay.” Which of course it did not.
I don’t think that was fatal by itself but the term became a problem. And it led people to a different expectation of what would be there compared to what was actually there.

BERKOWITZ: Good. Thanks.

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Interview with Dan Rostenkowski

Washington, D.C. on December 4, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: —It is December 4th and I am in Chicago, Illinois, on the northwest side with former Congressman Dan Rostenkowski (D-Illinois). And, I want to ask him some questions about his life and about health care. Let me start by going way back. Why did you decide to go into Congress in the first place, to go to Washington rather than stay here in Chicago?

ROSTENKOWSKI: Well, I was always a legislator. I was in the Illinois General Assembly for six years, two in the House and four in the Senate. My goal was always to try to get to Washington. My predecessor was a good friend of our family. His name was Thomas Gordon. He, by the way, was chairman of the Foreign Affairs Committee for several years but was in bad health. If I could have dictated what the approach would be, I wanted to put in 10 years in the Illinois General Assembly and then go to Washington. The end result was that I put in six years in Springfield in the Illinois General Assembly and Tom Gordon announced his retirement in Washington.

And, of course, I had to declare then to run for Congress. I was only about 29 years old and thought that I was a little young. As a matter of fact, when I was elected, I was the youngest member of Congress for a long period of time. And I was always a legislator. I liked legislating and I convinced Richard J. Daley, who was then the mayor of the City of Chicago, because he wanted me to stay in local politics, and I said, "No, I want to go to Washington—I want to be a legislator." Anyway, I convinced him that I should go to Washington, but more importantly I was convinced and subsequently convinced him that in order for the North to win the Civil War, they had better get some people that are willing to stay in Washington over a lengthy period of time and become chairmen of the important committees. When I was elected, there were only two chairmen from the North.

BERKOWITZ: That was 1958 when you were elected?

ROSTENKOWSKI: 1958. And both of the northern chairmen were from New York. Manny (Emanuel) Cellar was chairman of the Judiciary Committee and Jim Buckley was chairman of the Public Works Committee. All the other committees were filled with Southerners. And, of course, Jack Kennedy was elected in 1960. When he presented his legislation, he was faced with the Southern chairmen. An education bill, a health bill—nothing moved for Jack Kennedy. Later, of course, when Lyndon Johnson took over, he had an arm wrestling match with most of the Southerners and convinced them to

support progressive civil rights legislation. At any rate, I first served on the Commerce Committee, which was a very significant committee with all of its regulatory authority. And from the Commerce Committee I moved to the Ways and Means Committee when Tom O'Brien, my predecessor on Ways and Means, died.

BERKOWITZ: That was in '64 that you went on to Ways and Means?

ROSTENKOWSKI: I think it was in 1964.

BERKOWITZ: Was this considered an Illinois seat on the Committee?

ROSTENKOWSKI: Well, there were kind of permanent seats on the committee. You've got to remember in those days there were only 25 members of the Ways and Means Committee.

BERKOWITZ: So it was a very small Committee?

ROSTENKOWSKI: Oh, yes. And as a matter of fact there were 25 members of the Ways and Means Committee and for a period of time there were only nine or eight Republicans. The standard procedure on that committee, however, was always 15 and 10 ratio wise. In terms of changing the Committee's procedures, nothing happened under Sam Rayburn (Speaker of the House, D-Texas). However, when John McCormick was elected Speaker, being from Massachusetts and a liberal state, they did start to streamline the committees and, they reevaluated the Steering and Policy Committee because the Ways and Means Committee at that time was the Steering and Policy Committee, commonly referred to as the Committee on Committees.

We appointed all the members to the various committees in the Congress. The Speaker would make recommendations on one committee. He would make recommendations on the Rules Committee and the Ways and Means Committee would usually do exactly what the Speaker wanted because it was a leadership post. But after that, they changed the authority of the Steering and Policy Committee. They took it away from Ways and Means. This is after Wilbur Mills (D-Arkansas) went into the Tidal Basin. However, there was enough influence on the Ways and Means Committee so that there were permanent members from the Ways and Means Committee on the Steering and Policy Committee.

BERKOWITZ: How did you get along with Mills?

ROSTENKOWSKI: Oh, very well. But then again, Mills was an amazingly patient person. He and Johnny Byrnes from Wisconsin, at the time, practically ran the whole tax operation. But then again, Mills—and this always is kind of a bone in my throat—would do everything in executive

session or what is also referred to as "closed session." No folderol. You have to remember that until President Johnson's term, the Committee on Ways and Means and the Congress of the United States had very little authority in the area of social programs except for Social Security. I mean, we didn't have Medicare at that time either Part A or B, we didn't have any of that. It all was created during the Johnson Administration. And what happened in city councils and state legislatures at that time was that they started to look for monies from the federal government. They would constantly blame us for everything that was wrong because they felt they weren't getting their fair share. The states did not want the strings tied as to how to distribute Federal funds; they just wanted the monies.

But the federal government became involved in the social activities of the population after Lyndon Johnson's 1964 election to the presidency. Because when I was there in the late 50's and early 60's there were only about five things that we had to consider in Congress: postal authority, postal service—that was very big; veterans, because of the ending of the war; Social Security; appropriations for roads, bridges, etc. Pretty much that was the authority that Congress had until the Great Society.

BERKOWITZ: Were you in the room in the spring of 1965 when Mills was presiding in closed session, reviewing the bill that was going to become the Medicare bill in 1965 when he basically said, "Well, let's try putting this together. Let's try putting the hospital care like the administration proposed together with the doctors' stuff, which became Part B together with Medicaid." Do you remember that day at all? That's one of these famous days where the story goes that he just kind of said, "Why don't we try this." And everybody said, "Yeah, that's a good idea." Does that ring a bell?

ROSTENKOWSKI: I had to have been in the room because it was the King Anderson bill all the time. But Mills took credit for this legislation with Johnny Byrnes. But he did it because there was a hammer over his head named Lyndon Johnson! I remember Mills—and I was a junior member of the committee then—calling me into Room P13 as it was then known; it's now H.208 in the Capitol building. Mills called us in and told us what he envisioned. He always wanted to be in play. And I said, "Mr. Chairman, there are two people that I'm going to be answering to. One is John McCormick, who helped me get on this committee, and the other one is the President of the United States. The first person I'm going to answer to is Lyndon Johnson, and this is what Lyndon Johnson wants." Wilbur was delaying and delaying, because Wilbur was never very certain of himself. I guess the first time he took a bill to the Floor of the House of Representatives he got severely beaten, like I did. And so with him, caution was always there.

And at that point in time Wilbur started thinking, "Oh, boy, I am not in charge and I'll never go to the floor against Lyndon Johnson because he'll beat me." We had a whole contingent of a hell of a lot more liberal members at the bottom of the Committee on Ways and Means. And, at the top of the committee, they were conservative until you exposed them and until they had to make a choice. Then, they were quite as liberal as those at the bottom of the committee that wanted to see some movement. Why I say it's like a bone in my throat is, when I was Chairman of the Committee on Ways and Means, sessions were open, I had to do everything in the public's eye... reason with the people. I had pressure groups in the room and I had the press in the room. Still, I tried to stamp out legislation that Wilbur Mills would do in total confidence in executive session...an entirely different scenario.

BERKOWITZ: He was playing on a much better field—

ROSTENKOWSKI: Oh, yeah.

BERKOWITZ: ... downhill. You were going uphill!

ROSTENKOWSKI: I'm working up a slippery slope and he's sliding downhill.

BERKOWITZ: Let me ask you another question, just out of curiosity, about the Illinois scene at this point. I've always been interested. You must have known all the Congressional delegation, such as Senator Paul Douglas.

ROSTENKOWSKI: Yes.

BERKOWITZ: You get along with him okay?

ROSTENKOWSKI: Paul Douglas was not a member of the "Club" in the Senate. Therefore, he was often times ineffective with respect to funding issues for Illinois. . .bringing home the pork. He would reason so often about what things that he should be doing. . .that was, until he got into the race with Chuck Percy. Then I could go over to see Paul Douglas and the door "swung wide open". Then he became the politician. . .doing things for the state, particularly in public works. I would, on the other hand, be in the Mayor's office listening to Richard Daley say, "Hey, get this for Chicago. What about this project. . .what about that. . .is Illinois getting its fair share?" And I kind of created for the mayor two or three people on various Congressional payrolls who would tell him what federal monies were available because until that time, cities were being circumvented with respect to the kinds of monies that were available to them. They didn't have anybody in Washington looking out for them and as a result, I started to become pretty functional. I started to be viewed as a success. That's what

Lyndon Johnson noticed about me. When he saw that I was becoming a power in structuring things, and then the Speaker, knowing that I was pretty influential, made me chairman of the Democratic Caucus.

Rostenkowski, young was making a move. This is first person singular and it sounds terrible. But it was only because of these things and my activity that I started to gain some recognition and people would then begin saying, "You see what Rostenkowski thinks about this or what he wants to do." But Paul, until he got in political trouble, was constantly playing with the sand dunes.

BERKOWITZ: And he wasn't much of a player...

ROSTENKOWSKI: No but he had a person on his staff—I don't know whether it was Ginsburg or Gothenburg, that was his advisor. And although Paul was very reluctant about becoming the politician, the staff realized his polls were down and he could possibly be defeated and the floodgates opened up. Now the problem. Members of the Senate were not very high on Paul Douglas because Paul Douglas always treated the Senate as though it was something like the City Council; like, "My God, I'm the only purist here," though on a personal basis Paul is a good guy, a nice guy, a lot of fun. But he wanted to, quote-unquote, "be sheltered in a University of Chicago atmosphere" rather than be a player in the Senate. He was the intellectual. I would then have to go over to the Senate and argue with Bob Kerr (D-Oklahoma) and argue with all the principals—Dick Russell (D-Georgia)—because, they said, "Oh, you know, that Paul Douglas is a son of a gun." Now wait a while I would tell them. "You're not talking about Paul, you're talking about me." Also, I would go over and see Lyndon Johnson. Paul Douglas was just Paul Douglas. He was a great guy. I worked my tail off for him. I think I worked my tail off for him not because I liked him so much but I just thought Chuck Percy was a "three-dollar bill."

BERKOWITZ: I understand that in the Chicago political scene there was always one or two people who were tolerated by the mayor but who considered themselves above politics, such as Paul Douglas or maybe Adlai Stevenson.

ROSTENKOWSKI: Actually, Paul Douglas was not supposed to run for the Senate. Paul Douglas was supposed to run for Governor of Illinois. Adlai Stevenson was supposed to run for the Senate, but the switch came and that's what happened.

BERKOWITZ: Someone like Paul Douglas, he is not reporting to Mayor Daley at all, right?

ROSTENKOWSKI: Correct. At the end, at election time he was very much associated because his campaign was in trouble.

BERKOWITZ: I see. Okay, so you got onto Ways and Means and you kind of worked your way up the ranks. And then we get to that period where Mills goes into the Tidal Basin.

ROSTENKOWSKI: I'll tell you. I'll never forget it. I'm in the Democratic cloak room right off the House floor and I'm standing there with Billy Green who was then a member of the Committee on Ways and Means from Philadelphia. We're sitting there, and I'd say it was about 1:00 o'clock in the afternoon. And the afternoon news comes on and there is a 10-second clip of Wilbur Mills at the Tidal Basin. And Billy Green hit me on the shoulder and said, "Did you see that?"

"That was Wilbur Mills." They hadn't identified him when this picture was taken. "What are you talking about?" "That was Wilbur Mills."

We called the station and asked who that person was and they say, "Well, we think it's Wilbur Mills." Then Mills went to Boston and got on the stage with Fannie Fox and then came back to Washington. This is the time when Richard Bowling (D-Missouri) was fighting with respect to retaining the authority of Steering and Policy on the Committee on Ways and Means. As a matter of fact, it was the very Tuesday, and then Wednesday was the Democratic caucus. And this story is breaking all over. At any rate, three or four days later Wilbur Mills is sitting in H208 which was then P13. He's calling us all in. I'll never forget, I walked in that room after Joe Karth (D-Minnesota)came out. I said down and Wilbur Mills was sitting there. Walter, his driver, is sitting outside guarding the door. And Wilbur said, "Dan, I guess I made a terrible mistake." I said, "Yes, you did, Mr. Chairman." He said, "Well, Dan, there's this powerful movement afoot urging me to relinquish my Chairmanship. Now, you know, Dan, I'm not going to do that." I said, "Well, Wilbur, I don't know why you're not going to do that, " I say, "because you haven't got the votes." "Well, Dan, you're for me." I say, "No, I'm not." He said, "Well, Joe Karth just—

I say, "Joe Karth is for you? ??? Joe Karth is leading the group to overturn your chairmanship. He's leading the group. Mr. Chairman, you want some good advice? Go out to Bethesda or Walter Reed. Turn yourself in and claim alcoholism or whatever it is because you're out as Chairman." That afternoon, Walter took him out to Walter Reed. And so, of course, Al Ullman (D-Oregon) then took over the chairmanship. But Wilbur Mills enjoyed a tremendous reputation because he was astute and he was smart. But I think that there was a great deal of respect for Wilbur that, for want of a better word, was kind of traditional. He established himself and then everybody

backed off. Wilbur Mills was the only person that could work the New York Times crossword puzzle to its end and all that. But what I still say is that here he was in the executive sessions doing all these things and I was out there busting my buns in the public.

BERKOWITZ: Of course, Wilbur Mills had some help.

ROSTENKOWSKI: Oh, yes. Let me tell you something. Don't think for one minute that it isn't staffing. And I established something with my staff the day I took over the chairmanship. I said, "Anybody on this staff that is an authority in his field, that's your limitation. The minute you start becoming political about this with respect to your advice, you're out. I'm the politician. I'll make the decisions because when they're wrong I'll take the blame for them." And I had a great rapport with my staff. Once there was a woman staffer who, when we were in conference with the Senate said, when I gave something away to Russell Long, "Oh, my God." I said to Rob Leonard, my chief counsel, "tell her she's through."

BERKOWITZ: That's not her role.

ROSTENKOWSKI: That's right. When I'm giving something away it's not permanent. It's something that I'm giving away that I'll pick up next year or something. I mean, I'm that good. But her response to me was "I've been working on it so long." I don't care how long you've been working! When we get into Bill Clinton and the health bill I'll tell you how I tried to influence Mrs. Clinton and the President. Wilbur Mills would tackle a program and it would take two Congresses. It worked so slowly then. Heck, we didn't organize the Congress until around Easter time when I was first elected. Don't misunderstand me: they weren't wrong; they were right. You get in a session two weeks after you're elected, and you still delay everything until after Easter. It's crazy but it's all the media. We've got to look like we're working even if we're running in place!

BERKOWITZ: I see. That's interesting. I didn't realize it took so long.

ROSTENKOWSKI: By the time the committee on committees did everything, no one was in any hurry. Don't forget, it was cold in Washington. Those guys didn't want to come up to Washington—they were down in Florida. The first January and February if you had two hard-working legislative days in both those months you did a lot. In the one session I had with Eisenhower, we practically did nothing.

And then, of course, Jack Kennedy for three years. Well, we weren't held responsible for as much then as we are now, as the Congress is today.

BERKOWITZ: So we get to Mills and they start having the subcommittees.

ROSTENKOWSKI: Yes. Well, that was as a result of Mills going into the pool.

BERKOWITZ: And so you had to—

ROSTENKOWSKI: We created four or five subcommittees.

BERKOWITZ: And of course the idea was that Ways and Means has to play by the same rules as all these other committees—

ROSTENKOWSKI: Right, right.

BERKOWITZ: So you got to be head of the health subcommittee in 1974?

ROSTENKOWSKI: Yes, yes.

BERKOWITZ: You must have had some choice. Why did you pick health?

ROSTENKOWSKI: Let me think where I was in rank. Charlie Vanik (D-Ohio) took trade. He was ahead of me. And Jim Burke (D-Michigan) took Social Security. I think there were four or five. I chose Health instead of Miscellaneous Taxation and I disappointed a lot of my staff.

But I took health because I had campaigned to audiences my age on the big question of whether when faced with a choice which was it going to be? Would you provide an education for your kids or provide health for your grandparents or parents? Where is your money going to be spent? And why isn't it an obligation on the part of the government to take care of both things? Health to me was the thing that we were really going to focus on at that time and, we did.

BERKOWITZ: This was after the Kennedy-Mills had already failed.

ROSTENKOWSKI: After the Kennedy-Mills, yes.

BERKOWITZ: So it was kind of a tough time and the economy was in bad shape?

ROSTENKOWSKI: Yes.

BERKOWITZ: How did the staff structure work on the subcommittee?

ROSTENKOWSKI: Well, Al Ullman was the person that wanted the authority to appoint, but I put my people on though. I had a disagreement

with Al Ullman about that. I said, "Listen, my principal staff person is mine. I'm going to appoint that person."

(Off the record).

BERKOWITZ: This is a continuation of the interview with Congressman Rostenkowski. We were just talking about your staff on the health subcommittee and you had a disagreement with Congressman Ulman about that.

ROSTENKOWSKI: Well, as any chairman would, you want to control all the staff. Al was nervous about being chairman. Following Wilbur Mills was tough because of Mills' reputation and because of the so-called "sunshine rules" and because of now having subcommittees.

But I think it was my job to work with Al Ullman. I did more, in my opinion, to help and protect Al Ullman than did many of the subcommittee chairmen. I was a loyalist to Al while some of the other subcommittee chairmen were running off on his or her own.

Some of the senior staff on Al Ullman's committee wanted more control than him. But there was never any flurry of dissent between Al and me. I had a bigger problem with Jimmy Carter than I did with Al Ullman because Al Ullman realized the sensitivities involved in trying to write legislation that was this controversial and this technical.

During those times, it was hospital cost containment that was the big thing. That was the main issue I had a problem with because I was working like a beaver trying to get a "Cost Containment" bill and it wasn't going anywhere. It wasn't happening.

BERKOWITZ: That was a pretty high priority of the administration, as well?

ROSTENKOWSKI: That was the highest priority of the administration because hospital costs were just going out of sight. And you remember the great amount of inflation we had then. Joe Califano, who was over at HEW (Department of Health, Education, and Welfare), and Hale Champion (the Undersecretary) and all those people who were very close to President Carter expected me to do magic!

I'll never forget when I finally came out with the bill that I had finally introduced on cost containment. It was a voluntary method. It was successful but President Jimmy Carter thought that I had pierced his heart. He called Speaker Tip O'Neill. Tip O'Neill called me. "What are you doing? Joe Califano was on the phone with me at 2 o'clock in the morning." I say, "Tip, you know, these people are living in ‘Never-Never Land’. It's never

going to happen. They're going up against the most sophisticated lobby in the world. You're not going to get a cost containment bill. Now, if I can get a voluntary bill, at least I can slow down the increases for a period of years." And I did for a while, as long as I had control. I'll tell you exactly what I told most of the administration people: You don't play on the level with me, I'm going to be around here for a long time. Now, if you're serious, I'll be serious because you are not going to stick my head in that noose and have me jump off the ladder." And I think I frightened them a little there, and as a result we came up with a pretty good program. But the liberals were in control at the time and it wasn't satisfactory enough for them.

While I was Chairman of the Health Subcommittee, we did a fairly decent job in the health area on cost containment. There were other things that we did. We started the dialysis program in the health area. So I had a pretty good reputation of being a reasonable subcommittee chairman in the health arena with the industry as well. I believe Al Ullman was happy with the progress. Jimmy Carter—see, presidents are funny, Professor. They think that if they bring you into the Oval Office, you're going to do cartwheels because you are in the Oval Office. I told Bill Clinton, "Bill, you're my ninth president. I'll be here when you're here and when you're gone. I'll be here if I want to be."

I felt I had established myself in the health community and when I left to be the full Committee Chairman, I knew a little bit more than the ordinary member of the Committee did. But Pete Stark (D-California) is a tough guy in the health area and he is a "nudger." I like Pete. Pete, in the final analysis, would always find out that I've got to make compromises and he would go along with me.

BERKOWITZ: I see. So is there a Chicago interest in all this health stuff?

ROSTENKOWSKI: Well, I was always interested in how what we were doing in Washington was going to affect Chicago. I would have my staff look into that.

BERKOWITZ: We were talking about your becoming chair now of the Ways and Means Committee, which happened in 1980.

ROSTENKOWSKI: We were talking about the staff. Bill Fullerton was a clever and talented person and John Salmon also worked for me on the Health Subcommittee But when I took over the Chairmanship of the full Committee, health was not the priority that it was under Jimmy Carter. I took over with Ronald Reagan becoming president. Health was not a priority with Ronald Reagan at all. The only thing that he was worried about in tunnel vision was lowering the taxes and getting the Berlin Wall down and going crazy crusading against the Evil Empire.

BERKOWITZ: But there was some interesting stuff. There was the 1983 stuff, for example, in Social Security and which you were involved in, I know.

ROSTENKOWSKI: Yes.

BERKOWITZ: Let me ask you, if I could, a couple questions.

ROSTENKOWSKI: You know what's amazing? When we did the revisions, when we did the reforms, it was not a big thing with Ronald Reagan.

BERKOWITZ: Really?

ROSTENKOWSKI: No. If you did them, fine. He was worried about rates and taxes. He was worried about the Defense Bill, which had nothing to do with me. He was more concerned about where we're going. It was, "I'll present a program on Social Security. I'll present a program on trade." He let us do the things, the negotiating. And of course this is where I coined the phrase: "You can do all preliminaries, but once the president puts the pen in his hand in the Rose Garden, all the work that you've done goes out the window. It's his bill. And that's what Ronald Reagan was marvelous at. The '86 Tax Act, I mean, I nearly had a nervous breakdown trying to write that bill with the minimum amount of cooperation from the White House until I pounded the table with Ronald Reagan. But you've got to remember in the '86 Tax Act, Bob Packwood (R-Oregon) was going around the country saying, "I like the code the way it is. I mean, I don't want to touch the Code." And so Reagan and "Regan" offered this proposal called Treasury I and Treasury II and then Jim Baker takes over. And it's, well, heck, the House will kill it. We offered it. The Republicans didn't want it at all. And I started thinking, I'll show those SOBs: I'll try and write this god darn thing. And I had a long discussion with Ronald Reagan at this point. He was always, worrying about "The rates, the rates. Get the rates down." And I said, "Mr. President, you've got to understand something. If I'm going to assume this obligation, and in the process, you're going to say, 'Well, I won't sign the bill if this is in it,' you've got to give me a commitment that you're not going to say one word about this bill until it's finished. "Because the minute you say, 'I don't like this in the bill,' forces get together and say, 'Hell, he's not going to sign this bill because of this anyway. Get it out.'

"Now, I have to take things out and I have to put together monies and a combination of these in the legislation. In some instances, Mr. President, I'm not going to like them. And maybe I'm going to use them as negotiating tools against the Senate if the Senate ever gets a bill. "But you've got to say, 'I've promised the chairman that I'm not going to say a word about this bill until it's completed." Now, Ronald Reagan doesn't know a darn thing

about taxes. Why wouldn't that be the most glorious thing for him to say? "Well, I talked with the chairman and the chairman made me commit myself to not saying a word about this until it's all over." Didn't know anything about it. For me that was great. I had a Republican popular president. I was kind of the leader with respect to the economic program in the tax area. He wanted to write history, and I convinced him that he should. He is going to be more liberal than the Republicans are on my committee and he is going to bring them over. And all I need is six of those members and I've got a working operation. That's the way I maneuvered this thing all the time with Ronald Reagan. But I never deceived President Reagan. I shook his hand and I said, "Now, do we have an understanding?" He said, "You've got my word." And you could put that word in the bank.

BERKOWITZ: He was a pretty straight player.

ROSTENKOWSKI: Well, if he had faith in you, if he believed you, he trusted you. And Nancy was concerned but she trusted me as well and knew that I wouldn't hurt the President. I said, "Oh, Mrs. Reagan, don't worry about that. I hurt him, I hurt myself, I'm not going to do that." And that's the way it was. Now, that's the tax bill.

But everything else, when Dr. Bowen, then Secretary of HEW and I worked out the '87 catastrophic health bill, President Reagan signed it and then 41 signed the repeal in 1989. They don' have prescription drugs today, Professor, and they had them in 1987!

BERKOWITZ: Why don't we talk about it for just a second? That legislation starts with Secretary Bowen, as you said. And they want to do something about catastrophic costs and Medicare. It ends up with the prescription drug and so on, which the Democrats really added on.

ROSTENKOWSKI: Right, right, right.

BERKOWITZ: And you were okay with that, right?

ROSTENKOWSKI: Oh, absolutely. Anything to do with getting prescription drugs into the legislation. The thing is the Gray Panthers didn't understand what the heck it was all about. People in my neighborhood in Chicago were angry at me. This legislation would never cost them a dime because the increases were not for people at this financial level. And they had pickets against me and they chased me down the avenue.

BERKOWITZ: You were to give a speech at the Copernicus Center?

ROSTENKOWSKI: The Copernicus Center, yes.

BERKOWITZ: Which is located where?

ROSTENKOWSKI: North Milwaukee Avenue.

BERKOWITZ: So that's in your district?

ROSTENKOWSKI: Yes.

BERKOWITZ: And you agreed to come there?

ROSTENKOWSKI: Well, you've got to understand something. The AARP, the national association endorsed the bill. It was the local Gray Panthers as I think they called themselves then. They just misunderstood it. We in the Congress poorly communicated what the bill was all about, while everybody in the Republican area was talking about the increase in the premium. And there was an increase. But for what they got for that increase, it was unreal. At any rate, we passed the bill. The President signed it. We came back after that election and I won by a larger majority than I had ever won before. But Congressman Archer (R-Texas), who was subsequently my successor as Chairman of the Committee on Ways and Means, was in a crusade Professor. He represented the richest district in the State of Texas, the successor in the Congressional District formerly represented by George W. Bush. I went to see George W. Bush, 41. "George, are you crazy? Don't sign this thing."

BERKOWITZ: Don't sign the repeal?

ROSTENKOWSKI: Don’t sign the repeal. This is nuts. I’m telling you, you’ll be a big man. He said, "They’ll override the veto." I said, "I’m still telling you if you don’t sign the repeal you will be proving to the American people that you are determined to have Catastrophic Coverage. Even if it is not popular, in the long run you’ll be proven right because they’ll never pass it in the next decade. He said, "They’ll override the veto.” I said, "I’m still telling you, you’ll be a big man."

What we did, and this was the mistake, we taxed immediately. We should have done it in the future. That was the mistake. But if you think I’m ashamed of what we had done, history has proven that that would have been the smartest thing in the world to do, and we would have had prescription drugs for everyone. There are 43 million people there without health insurance now. Crazy. But it happened and they repealed it. I talked to Ronald Reagan afterward. He says, "They're crazy." I say, "That's right, they're crazy." Senior citizens from my neighborhood in Chicago came to Washington to see me. I told my press guy," Don't you say anything to these people." I walked into the meeting room and said, "You want to know something? You're all full of..." They looked at me in disbelief. "I’m a senior

citizen, too and you didn't have the faith in me when I passed Catastrophic Health Insurance. Now you're all sorry." And they all came to apologize. I said, "Now you're all sorry. . .well, you can just go to hell. Go find yourself another champion." And I walked out of the room.

My press guy says, "Jeez, I hope that no press people were in that room." I said, "Jim (Jim Jaffe) I don't care. They're wrong and they made the mistake of their life." And they did. And here it is, what, '87? Now in 2003, fifteen years later and we still don' have prescription drug coverage.

BERKOWITZ: Yes. Is it really true that the woman went on the windshield of your car?

ROSTENKOWSKI: They stood in front of my car. They didn't get on the windshield.

ROSTENKOWSKI: Yes.

BERKOWITZ: Well, what were they going to do? Just stop you?

ROSTENKOWSKI: Just stand there and swear at me and scream at me. Finally, I got out of the car and walked to another car while they were calling me "Rottenkowski" and every other name in the book. There were two people there that were defending me. So they said, "He's been a good Congressman and he's been representing us and if he did it he did it for a reason." And it was cute, you know. But some people say it was a set-up and stuff.

BERKOWITZ: But there were cameras there, right?

ROSTENKOWSKI: Oh, yes.

BERKOWITZ: So there wouldn't have been cameras there on an ordinary time, would there, for something like that?

ROSTENKOWSKI: I wouldn't think so.

BERKOWITZ: So maybe some member of the press got tipped off that it was going to be a confrontation?

ROSTENKOWSKI: Probably.

BERKOWITZ: Because the picture of the people in front of the car was everywhere.

ROSTENKOWSKI: Yes, standing around the car. And these little old ladies, once they were on television, they would say anything to stay on television.

BERKOWITZ: So let me ask you then—I don't want to take too much of your time—we get to Clinton now and he decides he's going to be the man finally to untangle the knot of health insurance. And so you were involved in that, too, right?

ROSTENKOWSKI: Oh, yes. We were the only Committee in the House of Representatives to produce a bill for consideration in the Floor of the House.

BERKOWITZ: Right.

ROSTENKOWSKI: Don't forget, at that time, I was up to my neck in arguing with the Federal District Court. Let me tell you how it happened. Bill Clinton and I were talking about health insurance, about a health bill. I said, "Mr. President, I don't know what you are going to propose but I would be very cautious. It's not likely that if you propose a large measure, you are going to have it pass. "However, I will make some recommendations to you as to how to proceed. If we do this my way, I think everything you will want to see in a health bill will have been accomplished in the years that you will serve as President. But you won't do it in the first two years of the term."

BERKOWITZ: What did he say?

ROSTENKOWSKI: Well, we talked about it. And Bill Clinton and I were friends, Of course, he was a pain in the a—when he was Governor. And I told him that, too! I told him that when he was President. And I always loved Bill Clinton. I thought he was very intelligent and, at the same time, very compassionate. Professor, nine presidents. Without question, he was the smartest of all of them. He knew the commas, the quotations, the periods, the exclamation points. He knew legislation. He understood legislation and really had studied in depth all the issues. Many times I would come back to my office after having been on a "one-on-one" with him and I'd say, "How does this guy know so much about the bill. For goodness sake, he knows more than I do!" Janice Mays, who was my staff person, would say, "Boss, that's how smart he is." And that's how smart he really was. At any rate, he called and said, "Dan, can you come down to the White House?" "Are you kidding me? Sure, I'll come down to the White House. When do you want to see me?" "Well, let's you and I have some lunch." We had lunch and I said, "The way I would approach this, Mr. President, I would send the Congress kind of a subject outline on health, to the members of the Committee on Ways and Means:

"As you know, I am earnestly committed to a health bill. I would like you to join me in this effort. When you are considering this measure, I would like for you to include this, this, this, this, and this! "I would find it definitely divisive not to have all these items in the bill. I think if all these things cannot be included I could not, in good conscience, sign a piece of legislation. Therefore, I would like for you to program something."

And he says, "Well, Jesus," he says, "then I don't have any" authorship you know." I said, "Mr. President, let me tell you something. You put in what you want. Put everything in. You give me an opportunity to solicit people to join in this effort. What happens when I get people putting together something, they become team players. Now we're all on the team. "I get something for Congressman A. I get something for Congressman B, I get something for Congressman C, but I receive one blanket commitment. If this is in the bill the way you like it, you support the whole bill." I said, "Now you've got a team effort and you've got cheerleaders. If you send a bill down from your executive office, I look for what I don't like in the bill, not what I like. And now, you put together negative coalitions for what I don' like in the bill. "Now, from that point, you disarm us and you have the protection of the veto pen. You may not obtain all you want initially, because, I'll probably say let's do it incrementally. We'll do this now and do this then and that we'll do later and this now automatically."

He sat there and he says, "You know, that's pretty smart."

Got another call from the president. "Danny, what do you think of me making Hillary the head of this group?" I said, "Bill, I didn't think you disliked her that much." He said, "What do you mean, don't know exactly what you mean." I said, "You know, you're not in Arkansas now. You're going against probably the most talented group of lobbyists and trade association people in the country. This is their job. You're not going to be able to say, 'Well, here's a job for your cousin and I want you to support me.' These people are here and this is a lifestyle for them." "Furthermore," I said, "you know the people you're talking about putting together on this issue, Bill, did they ever run for sheriff? Did they ever get any dirt underneath their fingernails? Did they ever do anything in the community around health care or in the Washington area? "You're getting academicians to sit back and smoke their pipes and say, oh, this is the way it should be. That's not the way it is in real life." And I say, " For God's sake, you're a politician."

And he says, "Well, you know, I would love to name Hillary."

I said, "Well, listen, you're going to do exactly what you want to do. I'm just telling you that you're wrong." He names Hillary.

Hillary calls me. And I love her. She's the smartest kid in the world. . .so, so bright. I said, "Well, I think you've got a big problem. But why don't you come down and testify before my committee."

And she says, "Should I do that?" I said, "Yes. I'm going to send you an invitation. When you get that invitation, you call me back and tell me whether you can do it." So, I wrote a note to her, inviting her to come down to committee. She called me back. She says, "Well, when do you want me to be down there?"

I said, "I would like you here on Wednesday, the 16th."

She said, "Fine." I said, "How much time can you give us?"

She says, "Will two hours be enough?" "Two hours? Oh, no. Oh, no. You give us a half hour. You block out two hours but you're only coming in to testify for half an hour." So I'll never forget. She pulls up in a big Cadillac and it's raining out and I'm standing there with an umbrella. I walk her into the Longworth Building and we walk into the back of the Committee room. And I say, "How long are you going to be here?" She said, "I'll be here until 1:30." I said, "Okay, that's three and a half hours." I said, "But you're only here for a half an hour. Do you understand?" So she sits down. I go into, "Mrs. Clinton, it's a pleasure for us to have you here today, etc." I said, "I know your schedule is busy and if you could give us a half an hour to 45 minutes, that would be good. Would you do that?" "Oh, yes, yes, Mr. Chairman." She makes her presentation. 45 minutes go by. I said, "Mrs. Clinton, you know, we have overstepped our bounds. Could you extend it for another 20 minutes? Could you?" "Oh, yes." Twenty minutes went by. "Could you extend it for another 45 minutes? It's so interesting." And I get her for three hours. And she walks out and she gets me in the hall, she says, "Danny, you're a genius."

I say, "If you told us you were going to be here for two hours they would have expected you to be here tonight." Three weeks later she gets this big rap in the paper about having these private meetings with Ira Magaziner. And Ira Magaziner never had any healthcare experience in his life. And I told him that. I said, "I'll give you some names of people. The minute you go in one direction they'll tell you, 'Now here are the people who are going to be for you; here are the people that are going to be against you.'" Well, Mrs. Clinton never did that. But you saw the end result of what happened with her. Now, while we're talking about the health bill, we're going through meetings with Tom Foley, the Speaker. And, every meeting is a total flop. He's got six committee chairmen in the room. What did we accomplish there? Nothing. I said to my staff , "We're going to get an agreement on a bill. Well, I created it in my committee. Such an atmosphere, that I don't

care whether any other committee gets something or not. The Committee on Ways and Means Committee is going to prove its responsibility. I don't care whether we carry the bill on the Floor of the House of Representatives or not but we're going to let the House of Representatives decide, not the Ways and Means Committee. And indeed we brought a bill up. I'll never forget, David Broder was in the room and at that point I was no longer chairman. Sam Gibbons (D-Florida) was. Different groups were trying to outmaneuver us and I was stopping them. And David Broder said, "Danny, I don't know whether I would have done that, having been deposed."

I said, "David, I want to help this president." And we got the bill out. Of course, we lost it on the floor of the House of Representatives.

And a lot of people say, “Oh, Danny, if you were the chairman you would have passed that bill.” No way. That bill couldn’t pass. It had too many good people against it. At any rate, but we were the only committee that did it. Dingell couldn’t get a bill. Jack Brooks couldn’t get a bill. Norm Manetta couldn’t get it. Well, none of them could get a bill, but the Committee on Ways and Means did. At any rate, I called Bill Clinton and, of course, he was all upset because of the problems that I was having. I said to him, “You know something, I’m probably not going to be around that much longer. But I want to tell you something, pal. I wish you’d have listened because you would have had a health bill.” What Ted Kennedy introduced last year was what I wanted. Lloyd Bensten and I wanted to start with that in 1990. Had we started with that we would have nibbled away until we had it. We would have had a bill and Bill Clinton elected in ‘92 would have seen this thing go through. But it didn’t happen that way.

BERKOWITZ: No. That’s a good note on which to end. Thank you so much.

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Interview with Marina Weiss

Washington, D.C. on July 17, 2002
Interviewed by Edward Berkowitz

BERKOWITZ: I am in Washington, D.C. talking to Marina Weiss. And I want to start by asking you some questions about your background. Were you an academic at Texas A & M?

WEISS: Yes, I was.

BERKOWITZ: Are you from Texas, originally?

WEISS: No, I was actually born in Ann Arbor, Michigan.

BERKOWITZ: An academic child or just—

WEISS: Yes. My parents were both on the faculty of the medical school there.

BERKOWITZ: So were they doctors?

WEISS: My mother was a pediatrician, my father was a surgeon, yes.

BERKOWITZ: I see. And academic doctors.

WEISS: Yes.

BERKOWITZ: I see. And your academic specialty is?

WEISS: Political science.

BERKOWITZ: So you have a degree in political science from where?

WEISS: Well, I started out here at American University and then I went on to the University of Texas and from there to Texas A & M.

BERKOWITZ: And then you got a position on the faculty?

WEISS: Yes.

BERKOWITZ: In the political science department. Was your specialty health?

WEISS: No, political science.

BERKOWITZ: I see. And then as I understand it, somehow you came to Senator Bentsen's (D-Texas) attention. How did that happen?

WEISS: I went to work for Senator Bentsen as a legislative assistant in his office.

BERKOWITZ: How did you get that job?

WEISS: How did I get that job? I applied for it. They called me, asked me if I would be interested and I said, sure, I would be happy to come up and visit with them. And so I did, and they offered me the position.

BERKOWITZ: That's interesting. So then what was your portfolio with Senator Bentsen's office?

WEISS: When I started with Senator Bentsen, I handled the typical issues, that a legislative aide dealing with health and education and labor and so forth would handle. And the two committees that I watched most closely were obviously the Finance Committee, on which he was a sitting member, and also the at that time Labor and Human Resources Committee, now called the Health, Education, Labor and Pension Committee. But he spent the bulk of his time obviously dealing with Finance Committee issues, so if you had to split it up I would say maybe I spent 20–25 percent of my time on labor and human resources issues under the jurisdiction of that committee, and then the balance of my time on Finance Committee issues.

BERKOWITZ: So in terms of health and welfare, you were there for him when the 1983 Social Security amendments were passed.

WEISS: Oh, Lordy, yes. I started working for him in 1979.

BERKOWITZ: And the DRGs got put into Medicare as well.

WEISS: Yes, I worked pretty closely with Senator Dole's office in getting that done.

BERKOWITZ: And how high-ranking was Senator Bentsen on the Finance Committee?

WEISS: When I started he was number three on the Democratic side. Russell Long (D-Louisiana) was chair, followed by Senator Byrd from Virginia and then Senator Bentsen.

BERKOWITZ: I see. And so then at some point you went over to the committee staff.

WEISS: When he became Chairman I became a member of the committee staff, that's right. By that time I had worked for him for a number of years. He asked me to go over, reorganize the way in which the committee staff was structured such that there were essentially three of us who were coequals and we were organized according to subject matter. He had a chief tax counsel, obviously dealt with tax matters. He had somebody who dealt with trade. And then he had me handle for him the spending portfolio and the budget issues.

And in addition to that, I worked very closely with the tax staff and in some cases with the trade staff, trade adjustment assistance, for example, on issues that were sort of crossover issues, if you will. For example, as you know, there is a deduction in the tax code that enables employers to cover health insurance for their employees. And so that was an area in which the tax staff and I worked very closely with one another. But I had a staff who worked for me and that was responsible for individual component parts of that larger portfolio. For example, I had someone who was focused exclusively on Social Security matters and somebody else who dealt with Medicaid and MCH (Title V of the Social Security Act, the Maternal and Child Health Block Grant). I had somebody else on the staff who dealt primarily with welfare issues: SSI (Supplemental Security Income), AFDC (Aid to Families with Dependent Children) at the time, foster care, adoption assistance, and so on, and obviously Medicare. So we split responsibility for Parts A and B of Medicare.

BERKOWITZ: So it was a pretty big staff.

WEISS: No, it was a very small staff. The Finance Committee, to this day, prides itself on having a very lean and mean operation. If you will take a look at the hearing room, compare that hearing room to hearing rooms in other parts of the Congress, you will see that it's rather modest in size. It was one of the last hearing rooms in the Dirksen Building to be completely remodeled; that is to say, new flooring materials and new curtains and so on. And the staff has always been very small.

BERKOWITZ: I see.

WEISS: And that is a budget savings matter.

BERKOWITZ: And just so I get this straight, Russell Long had retired?

WEISS: Well, he stepped down after 14 years as chairman of the committee, yes.

BERKOWITZ: And that's when Senator Bentsen became head of the committee?

WEISS: No. The Senate turned over in the election of Ronald Reagan to the Presidency and Senator Dole became Chairman. And Senator Long was still a sitting member of the committee and he became ranking.

BERKOWITZ: And the Senate itself went over to the Democrats in '86. So it would have been 1987 that Senator Bentsen was the chairman.

WEISS: Well, he took on the chairmanship in 1986.

BERKOWITZ: I see.

WEISS: And you need to bear in mind that he and Senator Long were extremely close. Senator Long treated him almost as a son. And so, throughout the transition period, Senator Long was giving him more and more and more responsibility for actually running the day-to-day activities of the committee, including all hiring and firing decisions. So we were hiring staff while Senator Long was still in the premier Democratic position because it was clear that Senator Bentsen was going to take over as chair.

BERKOWITZ: Now, turning to Medicare now, specifically. Did Senator Bentsen have an agenda in Medicare other than—

WEISS: When?

BERKOWITZ: Say in 1986 as he becomes, gets ready to take over the—

WEISS: Well, every year we would have a series of issues that were going to be his premier issues for that year, sure.

BERKOWITZ: And did Medicare ever get to be premier issue?

WEISS: In every program over which the committee had jurisdiction he had issues of interest.

BERKOWITZ: Oh, I see.

WEISS: He took a personal interest in a very broad spectrum of issues before the committee, and each year staff identified areas where initiatives might be undertaken. Typically that was done in the fall of the preceding year so that we were ready to legislate on day one.

BERKOWITZ: So let me ask you a question then about catastrophic, if I can. The way I understand it as an outsider is that this was something of

interest to the Secretary of Health and Human Services, Otis Bowen, who was himself a physician. And it was actually mentioned by President Reagan early in 1986, the idea that there should be some sort of change in the Medicare program to cover catastrophic expenses.

WEISS: That may well be. I don't recall hearing the President discuss the issue in early 1986, but yes, it was an issue of very great interest to HHS Secretary Bowen.

BERKOWITZ: Obviously, somebody had to get it on the President's agenda, Secretary Bowen or someone. Do you know anything about the background? Do you have any memory of when this became something on your radar in the committee?

WEISS: In 1984, Senator Bentsen was chairman of the Joint Economic Committee and we did the initial hearings on catastrophic in '84 at JEC.

BERKOWITZ: Do you remember who brought that to you or what the initiative was?

WEISS: We did it internally.

BERKOWITZ: From having listened to constituents? Or from what kind of stimuli?

WEISS: Because it appeared to us, looking at other insurance programs, that the Medicare program was deficient in that, you know, you had any number of hospital deductibles that could be incurred during the course of a year if the beneficiary had multiple hospitalizations. And there were issues around the SNF (skilled nursing facility) benefit that made it difficult to use. It became obvious that skilled nursing facilities were not immediately available to Medicare beneficiaries in all states and easily accessible in rural areas and so on. There were just a series of problems with the program that were pretty obvious and that the chairman thought should be addressed.

BERKOWITZ: In 1983, of course, you had to deal with the financing of Social Security. That clearly was a pressing issue, had to be dealt with then. Was there sort of a precedence of issues?

WEISS: That was not a huge issue for us because there was a commission that had taken care of developing a series of recommendations that were turned into a legislative proposal. And so, you know, that was pretty straightforward. There was more—how shall I say this in a diplomatic way? There was more visibility and press coverage and angst and intensity around that issue externally than there was internally—within the Senate, that is.

BERKOWITZ: I guess I was wondering if—whether there is some order to these issues and whether it was just an ongoing process of stewardship of all the programs?

WEISS: No, the committee had created, of course, most of these programs and as a consequence, you know, felt pretty strongly—well, let me back up. The Finance Committee, in my opinion—I think it continues to be true today—is a committee that is made up largely of very seasoned members of the United States Senate. People wait a long time to get on that committee. Members have to get in a queue.

And once they are on the committee, they are on it for long periods of time. So these were people who became intimately familiar with the very wide array of programs that are part of the Social Security Act. In other words, it was always my belief that Members took very seriously their responsibility as stewards of these programs. And so, on an ongoing basis we would just work on each and every aspect of programs that fell within the committee's portfolio. It was not any particular order or, you know, we didn't say, "Oh, this is the year for Social Security and next year will be the year for Medicare." We didn't do that at all. We worked simultaneously on all those programs, as well as on the tax code and on trade matters.

BERKOWITZ: You talked about the fact there's expertise on the staff. Was there expertise among the senators? Was there a Medicare senator?

WEISS: No, absolutely not. They were all engaged. One of the things that people even to this day don't seem to focus on with respect to the Finance Committee is that there is no legislative activity at the subcommittee level—all legislating is done by the full committee. So they don't have an arrangement similar to the one in the Ways and means Committee, for example, or in the Energy and Commerce Committee, where a subcommittee deals first with an issue and then makes recommendations to the full committee. Whenever Senators are going to mark up at Finance, they mark up at the full committee level. So everyone needs to come equipped to deal with each issue on which they are opining.

BERKOWITZ: Okay. So let me ask you more specifically about what became the Catastrophic Act of 1988. Do you remember negotiations with the administration on this particular legislative initiative? As I understand what happened, the administration had a fairly small bill that they put forward which Congress broadened, and the one clear thing that Congress did that wasn't in the administration bill, was the prescription drug benefit.

WEISS: Yes, it's true that the administration had a rather modest proposal. The pharmaceutical benefit was not added by the committee, it was offered as an amendment on the floor of the Senate.

BERKOWITZ: Do you remember who did that?

WEISS: I know exactly who did that. The initiators were Senator Chafee (D-Rhode Island), Senator Heinz (R-Pennsylvania), Senator Pryor (D-Arkansas) and Senator Mitchell (D-Maine).

BERKOWITZ: And how did Senator Bentsen feel about this issue?

WEISS: Well, Senator Bentsen's role in the effort was to find the necessary funds to pay for the proposal. He wasn't particularly keen on expanding the size of the bill reported by the committee because the President wanted beneficiaries of the initiative to cover its costs. That is to say, the elderly population and disabled population enrolled in the program would bear the cost of its expansion. So Chairman Bentsen's view was that we ought to keep the bill small and that we ought to keep it very affordable. And the bill that left the Senate was bigger than what the administration had initially proposed, yet we were able to maintain, I think it was a four-dollar-a-month initial premium for every beneficiary and then a means-related premium that kicked in at a higher income level for individuals with higher incomes. When we got together with the House, the bill grew even further, and I have to say he was concerned.

BERKOWITZ: Who were the people in the House that were movers and shakers on this?

WEISS: Well, the Ways and Means Committee and also the Energy and Commerce Committee.

BERKOWITZ: So let me ask you a little bit more about the financing.

WEISS: There were actually Part A provisions of the bill and there were also Part B provisions of the bill. But because one had to figure out how to—how to obtain the standard premium, the four-dollar-a-month piece, it was all handled through Part B because there was a preexisting system for deducting premiums from Social Security checks before they were sent out from the Treasury to beneficiaries. The idea was that there would be a deduction taken from the check to cover a portion of the cost of the new benefits. And so we used an existing mechanism to get that contribution from the beneficiary. That's how the basic premium was to be collected.

BERKOWITZ: Right. It's so unique in Social Security, too, in the sense that the people who get the benefits actually pay for it themselves, rather than the workers—

WEISS: Well, they don't actually pay for all of it themselves.

BERKOWITZ: Pay a percentage anyway.

WEISS: They pay a portion of the cost.

BERKOWITZ: Right. What about the other part of this, which is this means-tested, income tax-related charge?

WEISS: Right. Well, obviously the size of the bill was growing and there was a need to cover its costs because the President continued to insist that he wouldn't sign a bill unless it was paid for by the people who would benefit from it. So it was Senator Mitchell, in particular, but there were many, many others within the Senate and they ranged in political persuasion from far left to far right, including Senator Dole (R-Kansas) and Senator Bentsen and Senator Bradley (D-New Jersey) and Senator Boren (D-Oklahoma), and on and on and on—senators who felt that it was appropriate to graduate beneficiary contributions based on ability to pay.

BERKOWITZ: Which is an interesting idea for a social security program.

WEISS: No. It's very like Social Security. I mean, the Social Security pension program does it through adjustment of the benefit. Social Security is a graduated benefit and, you know, depending upon where you sit in terms of your contribution to Social Security you either realize a larger percentage or a lesser percentage of what was contributed for you over time. And so it was kind of the mirror image—that's what they were thinking—of an already existing approach. Instead of altering the value of the benefit at the point of service delivery, which you can't do because you can't anticipate what health care services a person will need, the premium was adjusted according to the beneficiary's ability to pay. They reasoned that if they altered the value of the contribution made by the individual at the front end when beneficiaries were still in their working years, presumably those who were younger would be able to contribute more because their incomes would be higher.

BERKOWITZ: But in the catastrophic bill, the people paying are the retirees.

WEISS: Well, retirees and the disabled, yes. Many of whom continued to work at least part time.

BERKOWITZ: Yes, beneficiaries.

WEISS: But if you take a look at the profile or the demographics of that population, obviously people at the lower end of the age scale are better able to contribute larger amounts than those who are older, typically widows in the 82, 85, 87 age cohort.

BERKOWITZ: I see.

WEISS: So basically the Members thought they were targeting those better able to pay, and by and large those were individuals who were recently retired or still working part time.

BERKOWITZ: And when this was going on did they see—did they predict any reaction?

WEISS: Senator Bentsen was concerned as we finished up conference with the House. Yes, he was concerned because the cost of the bill had grown so much. At first, Chairman Rostenkowski (D-Illinois) was not eager to add a drug benefit. That initiative really came from the Energy and Commerce Committee. And I remember a lot of conversations between Chairman Bentsen and Chairmen Dingell (D-Michigan) and Rostenkowski about the price tag of this particular bill. But again, they structured the premiums in such a way that the people who would have to pay the so-called supplemental premium were well able to do so.

BERKOWITZ: Right. As I recall, originally this was actually supposed to have returned a little more money to the Treasury than it cost and it was going to help with the deficit in the very short run.

WEISS: I don't remember that being an objective of the conferees, but it certainly is true that the benefits had to be phased in and not only because of budgetary considerations, but because there wasn't much of an outpatient prescription drug benefit at that time. A handful of drugs were covered on an outpatient basis—organ rejection drugs and so on—but creating this new benefit was going to require setting up a whole new infrastructure for implementing the program. And so, obviously it couldn't be put into effect immediately. There had to be a delay so that HCFA (at the time) could do what it needed to do internally to be able to administer the new benefit.

BERKOWITZ: Right, implement it. I see. Now, in a case like this, just to touch base, just to touch bases, parochial bases, am I correct in saying there is really no Texas angle in this for the senator?

WEISS: Oh, no, there never was for the senator. In fact, he had a rule when I worked at the committee. It was absolutely inexcusable for staff to propose a so-called "rifle-shot". We were not permitted to do things as committee

staff that would disproportionately advantage one state over the others. We just were not. And that was true in tax as well as in trade.

BERKOWITZ: So it was a special committee in that way.

WEISS: Well, the members certainly felt so. I mean, that committee, I've always thought of them as members who had been battle-tested together in a foxhole. They raise all the money that is needed by the federal government, with very few exceptions. I mean, there are a handful of fees that other committees impose. But by and large Finance committee members raise all of the money that is appropriated plus whatever is needed to cover tax initiatives, trade initiatives, as well as the spending programs. In fact, they are responsible for better than 80 percent of the federal budget. So any time that committee reported a bill and took it to the floor the bill was guaranteed to be big and it was going to move a lot of money and affect a lot of people. And so, they kind of built a members' rapport. And the other thing, of course, is that these were members who had served together for a long time. Because they wait a long time to get on this committee.

So by the time they join the committee and they go through the very difficult process of raising taxes to pay for something or cutting programs to stay within budget, members tend to forge a relationship that really crosses political party lines. And they are very much committed, I think, to the product that they put together. You know, for a very long time the leaders of both parties have been members of that committee, because again, when that committee—today it has 21 members, when I was there were 20—reports out a bill it is extremely hard to stop that steamroller. They are really a very influential group of members and very experienced. They know what they are doing and by the time they report something out there is a lot of interest in it around the country. So, you know, it is very, very difficult to put the brakes on them once they move onto the Senate floor.

BERKOWITZ: And so who would have been the Republicans that the senator was working with on this?

WEISS: Every one of them?

BERKOWITZ: Was Dole still on the committee?

WEISS: He was, and a very, very close friend. He was a close collaborator with Chairman Bentsen on many issues.

BERKOWITZ: So that was one of the central legislative dynamics, this Bentsen and Dole.

WEISS: I wouldn't say the collaboration with Senator Dole was central to this bill. Senator Bentsen made it a practice to work very closely with Republicans and Democrats throughout his Congressional tenure. It was just something that he did. He really—he thought it was important and there were strategic reasons as well, having to do with the split on the committee between Democrat and Republican. Remember I told you that the numbers added to 20. He had 11 Democrats and nine Republicans on the committee. If he lost one Democrat it meant that whatever initiative he might have on the table would fail because you need a majority to report out a bill.

So each time he set about developing a bill he would see to it that he had Republican support because that way he couldn't be pressured or "blackmailed" by a single hold-out on his side of the aisle.

BERKOWITZ: I see. Were you involved in the hearings on this catastrophic, helping set up hearings and so on? Or was that something handled by the Medicare specialist in the committee?

WEISS: I don't know how to answer that question. The Medicare specialists reported to me. So of course I was involved.

BERKOWITZ: I guess so my question is who the senators would like to have heard from on this particular issue. Obviously, they have to hear from the Secretary of Health and Human Services.

WEISS: Right.

BERKOWITZ: I imagine from the head of HCFA as well.

WEISS: Well, I worked for Senator Bentsen so I can tell you how he structured hearings. He was interested in hearing all sides of a given issue. He really—I can't think of a time when he used a hearing to drive a point of view ever. Ever. It's been a long-standing tradition of that committee. We didn't do too many hearings with human interest stories, you know, where you had somebody come and describe some really sad situation or—

BERKOWITZ: Like the committee on aging does or like several do when they highlight individual case studies to highlight an injustice and so on.

WEISS: Yes. Different committees do different things. I mean, the committee on aging doesn't have a legislative portfolio, so they have to do something that attracts the interest of the media. And so that is a technique that they use.

But we never did and Russell Long didn't either and subsequent chairs didn't either. So we would focus on the issues. And, for example, with the

catastrophic bill we broke it down into different component parts. Because most legislation is made up of lots of pieces, you wouldn't want to do one hearing that would attempt to address every single piece of a bill. You'd do multiple hearings. Sometimes we would do them at full committee, sometimes we would do them at subcommittee, depending upon what the schedule allowed for. But the chairman on that committee—and this continues to be true today—has enormous authority over what happens within the committee. So, for example, even subcommittee hearings have to be signed off on by the chairman. Subcommittee chairs have to deal with the chairman. If they have an issue of interest they can propose a subcommittee hearing to the chairman, but he doesn't have to agree to allow them to hold it. So basically we would set up a calendar of hearings—and bear in mind again the committee dealt with more than health issues—we had income security issues going on and trade and tax matters as well. So we'd use a master calendar. And, within the available timeframe, the staff makes recommendations to the Chairman about issue priorities on which public discussion is needed. And we would attempt to put the very best witnesses we could in front of the members. We would invite people who are experts and articulate, and we would ensure that all sides of the issue were covered. And that's really about it.

BERKOWITZ: I see.

WEISS: In other words, we would include witnesses who were opposed as well as witnesses who were in favor. We would feature witnesses who had an alternative point of view, you know, who thought we were all wet and dealing with the wrong subject matter, we put them on the witness list too.

BERKOWITZ: So what are the sides on the catastrophic issue?

WEISS: It depended upon the particular subject matter. I mean, the nursing homes had a real interest in the skilled nursing facility benefit. The mental health community had a very great interest in something that Senator Spark Matsunaga (D-Hawaii) was pushing, which was an expansion of the mental health benefit. In the drug arena we had the obvious, I mean, the continuing debate that is being played out right now, spokespersons for the patent products versus the generic products. (But it's not really that simple because a lot of the patent drug companies also produce generic products.) We had individuals from the hospital industry who cared mightily about limiting the number of deductibles. There were lots of different pieces of the catastrophic act so there were many points of view. In addition to that, of course, you had economists who feel strongly about the incentives and disincentives that are built into a system regardless of what the benefit packages might be. So we had them testify, we had people from the budget office, Congressional Budget Office, who had a point of view on what the cost drivers were going

to be and where savings could be achieved. We had witnesses who were pushing a formulary approach to pharmaceutical coverage. Secretary of HHS Bowen was one of them.

BERKOWITZ: Who was?

WEISS: Otis Bowen wanted very much to have a formulary to be able to control drug costs. Senator Bentsen was inalterably opposed to that—

BERKOWITZ: What does that mean, a formulary?

WEISS: Where the Medicare program would agree to reimburse for drugs that were on a given list. Senator Bentsen opposed that, but we had to deal with—we dealt with that issue once we got onto the floor, did it a little differently since we didn't add the drug benefit in committee

BERKOWITZ: How about the long-term care issue? There was also a contingent, as I understand it, that the advocates, liberal Democrats who wanted this bill also to have a long-term care component, you know, to have some sort of new kind of benefit which would pay long-term care. And they saw this as an issue for the election of 1988—

WEISS: Right.

BERKOWITZ: —which was, of course, going on.

WEISS: But that is always the case—again, you know, this committee is in the position to be able to put big money on the table. And so, that's just one issue among many. I mean, my lord, there are people standing in a queue at the door any time a bill is moving in that committee—it's the same today. Advocates and lobbyists see a moving train and they are eager to put their particular issue of interest on that train. So, sure, we had long-term care advocates, people with a long-term care agenda and others who thought that it was inappropriate to be legislating on behalf of the elderly and disabled who already had health care courtesy of the federal government, and believed we ought to deal with the under-65 population who were uninsured. We had people who cared about the uninsured and the underinsured—AFL/CIO members, laborers who were out of jobs and had thereby lost their health insurance. I mean, there was no shortage of issues on which the committee could focus.

BERKOWITZ: So what is your sense then of why the administration took an interest in the catastrophic legislation?

WEISS: One might actually say all of us were late in coming to the issue in '84. It had been around in the '70s, you know, in fact since 1965 when the

Medicare program was created. Everybody knew that there were holes in the program and for years efforts had been made to try to fix this or that issue. So it just happened that Senator Bentsen had an interest beginning in '84 and he had a place to do it, Joint Economic Committee in '84 where he could begin to look at some of those discrete pieces of the puzzle. So I don't mean to imply that we invented the issue but, you know, as with most of these big programs, these are evolutionary kinds of—and iterative kinds of discussions. And many people will come to the conclusion that something needs to be done to fix X, whatever X might be.

BERKOWITZ: Is there maybe one dynamic? Let me try this idea out on you.

WEISS: Okay.

BERKOWITZ: That in 1965 people confidently thought there would be a Medicare Part C, which was going to cover the non-elderly; and that never happened. We did get the 1972 inclusion of the disabled but the health insurance issue lingered through the Nixon administration.

WEISS: Well, we got ESRD (End Stage Renal Disease). You remember that population was added.

BERKOWITZ: So I guess what I'm saying is, is it possible that people said that we're not going to have national health insurance by this time, by 1986 it's pretty clear, and therefore we should fix up Medicare? In other words, work with what we have.

WEISS: Oh, no, no, no. In my judgment, that's incorrect. And I say this, having been an academic before. I think academics tend to think that these decisions are made in a macro way, that someone has a vision and then it falls into place as you go forward. I just don't think it works that way. What I saw going on in my 15 years on the Hill and then more years with the Clinton-Gore administration was a far more pragmatic process. It's really born of asking where is there a need and what resources can be deployed to address that need? And is there precedent? And if there is precedent, should we build on it or should we create something different, something new? It's a much more operational approach to things than it is a conceptual thing. And I think, based on some interviews that I did with Wilbur Cohen and others when I first started working in the Senate, they would tell you the same thing, that it was just a question of starting with an idea and then looking for ways to build on the base that already exists. In other words, it's not really this macro vision and then back-filling. It goes the other way. It starts at its base with what is already there and with the identification of problems that are begging for resolution. And then you look at available resources.

BERKOWITZ: So let me then ask you about the other interesting thing about this, which is that it, was repealed.

WEISS: Most of it was repealed. However, there are still a few pieces of it in law today.

BERKOWITZ: I wonder if you could tell me about the dynamic of that because it is kind of unusual that this would happen.

WEISS: Well, it was not the first time. This has happened before.

BERKOWITZ: In Social Security? Very rarely, or in Medicare.

WEISS: Well—

BERKOWITZ: Student benefits have been repealed. There have been things like that.

WEISS: Well, since '79, let's see, we passed—I have forgotten the name of the bill. But at the end of the Carter administration we passed a bill that included a series of improvements in health care coverage for low-income women and children and then at the beginning of the first Reagan administration immediately repealed it. Then we turned around and—this is testament to (Representative) Harry Waxman's (R-California) persistence—enacted essentially the entire bill piece by piece by piece by piece through the 1980s and finally went even beyond what he and others had originally envisioned. But why was the Catastrophic Act repealed? Is that what you're asking me? The best analogy I guess is to the perfect storm. Several things happened. I think that probably the single most important problem was the inability to sell to the American people the concept of self-financing. It just didn't play. And no matter how hard members tried, it just—the American people would have none of it, the notion that the elderly and disabled should bear the full cost of the bill.

Even though it had been structured in such a way as to force those most able to pay to carry the lion's share of the burden, it just didn't play. Now, why was that? I have my own notions about it. My view is we didn't do the John the Baptist thing, you know. We didn't prepare the way. The situation really begged to have the President step in to explain the value of the Act and lend his support. By that time of course, President Bush was in office, not President Reagan. And it is my understanding, although I wasn't there when it happened, but I have been told by several different folks who worked within the new administration that Chief of Staff Sununu had told President Bush, to stay away from the debate over the Act, in fact from health care issues generally and this in particular. I'm told Chief of Staff

Sununu thought the dynamics of this very tough issue were not something in which the President should engage. I think it begged for someone who could command media attention at a level that neither Chairman Bentsen nor Chairmen Rostenkowski or Dingell could command, to step in and say, "Now, wait a minute.

This is why we're doing it this way. This is the truth about the benefits you will receive and what it will cost you." Because there were some groups out there who were agitated in opposition to the financing mechanism and the response was not adequate. I mean, the fellow who went to the floor of United States Senate and first started talking about scaling back the premiums and then later on proposed repeal was SENATOR John McCain (R-Arizona). And the people that he was hearing from were the retired pilots association. And the reason he was hearing from them makes perfect sense. We didn't know it at the time because we were relying on imperfect information that we got from the administration and others. We didn't know at the time how many in the retiree population had drug coverage as part of their retirement benefits from their former employers. Turns out that the number was much higher than anybody had estimated. So in the case of pilots, apparently they had pretty good retirement packages, including outpatient prescription drugs. And their plea to Senator McCain, and with which I sympathize quite frankly, was: we're having to pay for a benefit that we already have. And the only thing we are getting out of this catastrophic change is protection against deductibles and improvement in the SNF benefit or this and that small benefit improvement. But the big-ticket item, the drug coverage item, is something that we're having to pay for even though we don't need it.

BERKOWITZ: And these were people that presumably had a lot of income and were the ones that were paying the most, obviously. $1,600 or whatever it would have been for a man and a wife?

WEISS: Well, that was at the top. I mean, that was assuming that you were paying the maximum amount. The supplemental premium scaled up to that. The public concluded incorrectly that everyone would have to pay $800, but in fact most who paid the supplemental premium would have been paying—I don't know $200, $250, something in that range.

BERKOWITZ: Trying to remember, did they ever pay this? There was one year, right, where they paid this?

WEISS: Yes, because again, remember I told you that we had to delay the effective date of the prescription drug coverage to give HCFA time to get ready to implement the program. And typically, retirees pay their taxes on a quarterly basis. So the collection began prior to the availability of the full

benefit. I mean, technically it worked but what was absent there in my opinion was a national spokesperson stepping up to the mike and saying, "All right, let's talk about what you are going to be asked to contribute and in turn what you are going to gain from this." It just didn't happen. So I think that lack of public understanding was a huge factor, but not the only factor.

I think another factor was that the Congressional Budget Office did some estimates—re-estimates—of the cost particularly of the dual eligible provisions that put the cost of the bill at a level much higher than what had originally been estimated when the bill was approved by Congress and signed into law by President Reagan. And I may say that because of the people we were working with here—Rostenkowski and Bentsen on the revenue side—that they had been pretty conservative in their estimates. We thought that we had more than covered the cost of the expansion. We thought we were going to be all right. But as it turns out, when the initial estimates on which we had relied were redone by the CBO staff we came up short.

And at the same time, the revenue projections that had originally been done by the joint tax committee and the Department of the Treasury were off as well. So that was a serious problem. And almost simultaneously the department of Health and Human Services put out new guidance on the use of Medicare dollars for nursing home coverage. The cost of nursing home payments under Medicare spiked up as a result and that news became public at the same time that the CBO re-estimates on the Catastrophic Act were done. Obviously, that changed everything. One of the problems that I think was significant and could have been remedied with better technical analysis was differentiating between the cost drivers behind those increases. Instead, they were lumped together. So it became impossible to tell whether the increase in Medicare nursing home-related costs had occurred as a consequence of the catastrophic act or because of the changes in the nursing home coverage guidelines. All we knew was that costs were going up and no one could tell us exactly what was behind those increases. Later on, after the fact, yes, analysis was done to separate the sources of cost increase and it turns out that the greatest percentage was attributable to the changes in regulations and guidelines, rather than to implementation of the catastrophic bill provisions. But we didn't know that at the time.

BERKOWITZ: So where was Senator Bentsen on this particular issue, repeal?

WEISS: He didn't want to repeal it. I mean, his theory was that this particular initiative solved or addressed a number of deficiencies in the program and he would have liked to have kept as many of the provisions in

place as possible. But it, you know, it took on a life of its own. There was nothing one could do.

BERKOWITZ: There was a movement, as I understand it, to keep that drug benefit as one of the—

WEISS: I don't remember that.

BERKOWITZ: One of the things was voted on, in fact, was to repeal legislation but keep the drug benefit.

WEISS: Right. Well, that sort of thing happens all the time. I mean, people have component parts of a multi-part bill that they care the most about. I think if you were to ask Senator Bentsen which one piece was most important to him I think the SNF benefit was the most important. If you would ask, you know, Senator Heinz which was most important to him it would have been the drug benefit. And it varied. It varied all over the lot. If you asked Senator Dole, it was probably the income-related premium. He thought that was terrific. It was a really, really creative piece, despite the fact that it didn't go over well. So, you know, people have things that they cherish the most. And I think in an attempt to try to hold onto that which they think is most important, you know, they go out and then they offer up an amendment or, you know, attempt to block another one that went the other way. So I don't remember any move particularly, you know, any groundswell of support for keeping the drug benefit alone.

BERKOWITZ: Of course, in this interim period Senator Bentsen had run for Vice President, right?

WEISS: He ran with Governor Dukakis in '88.

BERKOWITZ: So this would have been contemporary with these events.

WEISS: Uh-huh. And that played into it as well because he was out of town and we were having to keep him informed, you know, as he was out campaigning. But really, you know, the real steam, the head of steam behind the repeal effort didn't really begin to materialize until later. So internally within the Senate we had—and Senate to House we had people concerned about the changing estimates. There was a lot of technical stuff going to him as he campaigned around the country. And he was also running for Senate at the same time.

BERKOWITZ: 1988?

WEISS: Yes. In Texas there was an arrangement under which he could run for both offices at the same time, I think that Senator Lieberman just had

the same option in Connecticut—where you could run simultaneously for both offices.

BERKOWITZ: Most famously by Senator Johnson, 1960.

WEISS: Uh-huh, you betcha. But anyway, so he was running—

WEISS: The tape is still going?

BERKOWITZ: Yes.

WEISS: Good.

BERKOWITZ: So let me just ask me a little more about yourself. So you stayed on the committee for—

WEISS: I stayed with him until President Clinton was elected and then I went with Secretary Bentsen to the Treasury Department.

BERKOWITZ: And so then your portfolio really changed. You did other things. I mean, you worked—

WEISS: No, not really. You know, obviously, the Treasury Department has a different portfolio than the Finance Committee. On the organization chart I was deputy assistant secretary of the economic policy division. But really I worked directly for the secretary as his point person on a handful of initiatives that he thought were important and where he felt that I could be helpful to him. And the first thing was the 1993 budget because at that time we didn't have administration appointees confirmed for many key positions. Secretary Bentsen was one of the first to be confirmed, if not the first, as Secretary of the Treasury. And then there was some lag time before other people were put into positions. When individuals who have to go before the Congress for confirmation are waiting for their hearings they tend not to engage in high profile administration activities. So we didn't have all the hands on deck that were needed at the time the administration was putting together the 1993 budget. Moreover, between election day and January 20th when President Clinton took office, I worked on the budget transition team. So I was asked by Secretary Bentsen to be his point person on the expenditure side of the 1993 budget, I worked mostly with the White House and with the Treasury Department on initiatives included in that budget. That was the budget that passed by one vote, Vice President Gore's.

BERKOWITZ: Right. So you worked in the Treasury—

WEISS: So I did that first and then I moved immediately to working on the vaccine initiative and then after that Mrs. Clinton was under way on the

health care reform initiative and I was the Treasury point person for that. Simultaneously I was working with the secretary and with others in the Treasury Department on matters relating to the trust funds, Social Security, Medicare, etc.

BERKOWITZ: Did you have any advice for Mrs. Clinton, having seen the administration of Medicare and Medicaid so closely on the Finance Committee, in terms of her putting together her proposal?

WEISS: No, because I don't believe that's the role of staff. My view is that staff is technical support and that, you know, if folks who are elected or appointed to handle a particular portfolio want your advice, you give it to them based on the technical knowledge that you bring to the table. You know, I just don't give people political advice.

BERKOWITZ: You must have had an opinion about whether it was going to fly or not.

WEISS: Yes, but I don't start there. You know, I would start by saying, "All right, Senator so and so has a proposal and the bill number is blah-de-blah. This has, you know, X number of co-sponsors. There is particular interest in this set of provisions. You might want to consider modeling what you are going to do on something that already has this base of support." I mean, that's how I would do it. I wouldn't say Marina Weiss' opinion is X-Y-Z. Frankly, who would care?

BERKOWITZ: And just tell me what you are doing now at the March of Dimes. You work more with kids now, I would imagine.

WEISS: Yes, but this has always been an interest of mine. I am senior vice president for public policy and government affairs. And what I do is oversee the advocacy portfolio for the March of Dimes. I'm the chief lobbyist for the organization. We lobby the federal government out of this office, both the regulatory side and also the legislative side. But we also work in the States—ours is a single organizational entity, we don't have affiliates. The Washington office works with our 54 chapters across the country, about 1,600 staff, 3 million volunteers. And we work in every state capital and here in D.C. on health related issues that pertain to parents and children. The March of Dimes also has a research portfolio, dealing with the NIH (National Institutes of Health), CDC (Centers for Disease Control), et cetera. We're interested also in clinical services, so we work on programs under the jurisdiction of HRSA (Health Resources and Services Administration), the Department of Defense, the VA (Veterans Administration), the Indian Health Service, the Agriculture Department, whatnot.

BERKOWITZ: And how did you fall into that? It's a little bit different from the—

WEISS: Well, it's not all that different if you—you know, truth be told. I was tired of dealing with all of the political posturing on administration initiatives. I found that much more difficult and contentious than dealing with folks on the Hill. I was really tired of the lack of progress on important issues, I really was. And, you know, when I went to work for Lloyd Bentsen, one of the things that he said to me when President Reagan was elected was, "This is going to be a difficult ride for certain populations that are not particularly well represented here in town. I want you to pay particular attention to issues affecting the very young and the very old." And I took that advice to heart.

On balance, I think that the Medicare program is well-established and aggressively represented. There are a lot of people who have an interest in seeing to it that that program succeeds. Children's health programs are in a far different position. And so I thought, you know, for 17 years I had been on the other side of the table. I thought that maybe I know some things I can teach folks to use, techniques and whatnot in lobbying effectively. For a very short period after I left the administration I worked for a law firm here in town. They were very good to me. And, you know, I was dealing with client issues there but I found the issues too narrow. I like the broader scope of policy making. So this work at the March of Dimes is interesting. In fact, it's a lot like teaching. You've got bright people out in the field who are not doing what you are doing full-time, but who are eager to learn and who, you know, have a commitment to trying to accomplish something. So that's nice.

BERKOWITZ: Good. That's a great note on which to end. Thank you.

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INTERVIEW WITH HARVEY FRIEDMAN

Chicago on December 15, 2004

Interviewed by Ed Berkowitz

BERKOWITZ: Today is December 15th and I am on the north side of Chicago talking with Harvey Friedman and who actually worked for a long time at Group Health, Incorporated. But I might as well start out by asking a little bit about yourself. You are from where originally?

FRIEDMAN: New York.

BERKOWITZ: The City of New York?

FRIEDMAN: The City of the Bronx. Born in Manhattan, raised in the Bronx.

BERKOWITZ: Public school.

FRIEDMAN: Yes, public school.

BERKOWITZ: Any one that I would recognize? What was your high school?

FRIEDMAN: Are you from New York?

BERKOWITZ: I'm from around there, yes.

FRIEDMAN: I went -- for high school was Theodore Roosevelt. I was one of those kids who refused to take the exams for the fancy schools.

BERKOWITZ: For like science or for Stuyvesant?

FRIEDMAN: Right, right, right. So I wound up in my local high school -- which was fine, by the way. And I went to CCNY but I never got my degree. I was a senior when I decided I really was going to go out into the world and earn a living. So I was a city -- I was a public school person all my life.

BERKOWITZ: So you were at City College in the '50s?

FRIEDMAN: In the '50s, actually, you know, the same time our secretary of state was there. But I didn't know him. But, yes, in the '50s.

BERKOWITZ: And so you decided at some point to just get a job –

FRIEDMAN: Uh-huh.

BERKOWITZ: -- or did you want a job that was dealing with health care in some way? Or how did that work?

FRIEDMAN: I wound up getting a job with Group Health, Incorporated. But it was chancy, I mean, it wasn't intentional because I really had been -- what training I had was in the area of chemical engineering. And since I never finished it I obviously didn't go into engineering and I just wound up working for this insurance company.

BERKOWITZ: I see. And where were they located?

FRIEDMAN: They were located in Manhattan at that time on 18th Street on what they now call Park Avenue South. It was Fourth Avenue then.

BERKOWITZ: I see. So it's not far from the other big, like Metropolitan Life and –

FRIEDMAN: Correct. It was close to Metropolitan Life, and as a matter of fact New York Life is not too far away.

BERKOWITZ: So now this Group Health, Incorporated, was that some kind of a thing for other group health plans, or was it not -- or they just used the name Group Health?

FRIEDMAN: It was founded by a man who had actually created HIP –

BERKOWITZ: Really?

FRIEDMAN: -- for Mayor LaGuardia.

BERKOWITZ: Health Insurance Plan of New York.

FRIEDMAN: Right. His name is Winslow Carlton, a very wealthy socialite-type guy in New York. And then, for whatever reason, he himself decided he didn't care for that model which was –

BERKOWITZ: For the staff model HMS?

FRIEDMAN: Yes. And started a little insurance company with some buddies of his from Harvard or wherever they went to school. I think it was Harvard

College. And it was called GHI, Group Health, Incorporated. Actually, in those years it might have been Group Health Insurance. But they changed it to Group Health, Incorporated. And they had a lot of labor accounts.

FRIEDMAN: Like HIP, exactly. That was their mainstay, was the pension and welfare funds of ... How exactly he knew them, I don't know. I mean, how this very wealthy guy, you know, who went to Harvard got to know the labor market I don't know. But that was the basis of this company. And I started to work there. It was as simple as that. And at some point after Medicare was enacted, GHI got Queens in New York.

BERKOWITZ: Right.

FRIEDMAN: Part B.

BERKOWITZ: Right.

FRIEDMAN: They were actually supposed to get Brooklyn, I understand in the history, but it didn't work out.

BERKOWITZ: Right. I have actually seen the Washington-level correspondence about that, that they wanted to have -- they wanted to give at least -- they thought New York was a big enough city and they wanted to give at least part of it to Group Health. And that was considered a socially progressive thing to do by the -- because they had been giving all these things to Blue Cross/Blue Shield and to Mutual of Omaha.

FRIEDMAN: Right. So there was a political connection.

BERKOWITZ: Keogh, maybe? There was -- one of the congressmen was –

FRIEDMAN: One of the congressmen from New York, definitely.

BERKOWITZ: Might have been Eugene Keogh.

FRIEDMAN: I think it was a senator. Who was a senator at that time?

BERKOWITZ: That would have been -- probably would have been Javits and Robert Kennedy.

FRIEDMAN: I think it was Javits, actually. I think there was a connection with Javits -- a friendly connection, I mean.

BERKOWITZ: Yes, and that was all done that way --

FRIEDMAN: Yeah.

BERKOWITZ: -- to be honest with you. There was a lot of political stuff, you know, in awarding those contracts. So that was -- you started 1958 in Group Health –

FRIEDMAN: Right.

BERKOWITZ: -- and that was 1965 we're talking about. So Group Health got the Part B contract for Queens.

FRIEDMAN: But I didn't actually get into the Medicare side of the business from an operational point of view until 1971 because I was on the -- first of all, I was on the private side in claims and membership. And then I wandered around the company doing various administrative assistant to this and that. And then the company went into computers in those early years because that's where it went in first almost, was in the business world went into the insurance industry first. And I was going to go into that part of the business. But they said, yeah, great, except that you haven't been in the army yet, fellow. I was 22 at the time. So I went into the Reserves for six months, came back out. Got a recall, went back in, then went into the computer side of the business. So when Medicare came about I was on the, what they used to call EDP, electronic data processing, IT. I was on that side of the business. And so my first experiences were working with what they called themselves then, the Bureau of Health Insurance, working with them on the technical side, on payment records and stuff like that. And as a matter of fact, GHI, with IBM's help at the time actually did the first Part B online claims processing system for them for $20,000.

FRIEDMAN: And it worked, by the way. It wasn't wonderful but it worked.

BERKOWITZ: So what did that mean? So someone went to the hospital, generated a bill.

FRIEDMAN: Uh-huh.

BERKOWITZ: Hospital then sent -- instead of a paper record they sent something else to --

FRIEDMAN: No, no, no. That came much later. But remember, this is the Part B side.

BERKOWITZ: So it's a doctor.

FRIEDMAN: So it's the doctor's side.

BERKOWITZ: So he goes to see Dr. Jones.

FRIEDMAN: This was a matter of when the claim came in, instead of entering it into a keypunch machine, a dumb machine that had no connection to the logic of the computer, this meant that you entered it into a terminal, a CRT. Think of it as a PC that was connected to the mainframe and there was some intelligent logic that said, "No, no, no, you couldn't have entered the name because you entered a number," or, you know, so there was editing and then there was, "No, there is no Dr. Cohen with that number at such an address." So that's what online claims processing is. It's the entry of data with some logic and some searching against master files and some pricing, et cetera, that happens.

BERKOWITZ: So it improves quality control? Is that the idea?

FRIEDMAN: And speed and price, yes. It improves a lot of things. And now, by the way, I guess pretty much almost all claims processing is done that way from paper claims, from paper claims. I mean, obviously, a lot of claims now are sent in electronically. But I send in claims for my wife and we just don't have enough business to send electronically. I send paper. So somebody at the other end is either entering the data from the paper or scanning it into an optical scanner and then looking at it with a terminal and saying, "Yes, that's right, it read it right," "It didn't read it right," et cetera, and editing is happening over time.

BERKOWITZ: I see. I see.

FRIEDMAN: Anyway, I was on that side of the business.

BERKOWITZ: How did actual money change hands in this early Medicare? Did the Group Health or whatever the Part B carrier was they had money to pay out? There's got to be some money here somewhere, right? It's got to go to the doctor.

FRIEDMAN: The money was never at the contractor. It never was, it never has been. The money is in a bank account that the government actually feeds in every day after you pay for -- I shouldn't say -- it wasn't always that way. Pretty much though, going back many years, what happens is when you make payments, and say you are at Citibank. Okay, that's where your account is. Citibank at, let's say, 3 o'clock in the afternoon sends something to the Fed that says this amount of money was drawn on this account. And the Fed sends the money the next day or that evening or something like that.

So the bank is not working with these big deposits. They used to be in the early days. And the government said, "Well, why are we letting the banks work with our money?" So there is that account for benefits. Then there is an administrative account that is around for small amounts of money. But mostly you draw money down. In those days it was monthly. Now some places drawn down every two weeks. You draw down your expenses after you expend them.

BERKOWITZ: I see.

FRIEDMAN: After you expend them. Of course, remember there is no profit in administering Medicare technically unless you have signed some sort of incentive contract, which are relatively new things. So contractors, fiscal intermediaries, carriers, were never in the make-money-off-Medicare business. One wonders why they were in that business. But, you know, there are ways to "make money." I mean, if you are sharing corporate expenses, for example, you are making money for the corporation.

BERKOWITZ: I see. But don't you get paid a certain amount for doing that contract? I mean, theoretically couldn't you end up with more money than you have spent for --

FRIEDMAN: No.

BERKOWITZ: You have to justify all the money?

FRIEDMAN: Yes. You can't wind up with more money than you spent unless you have signed an incentive contract of some kind.

BERKOWITZ: I see.

FRIEDMAN: And that is not the common way to contract, although I think it will become more common.

BERKOWITZ: So was the idea behind, let's say, the Mutual of Omaha, which was, in Nebraska at least, was I guess a Part B carrier.

FRIEDMAN: They were.

BERKOWITZ: Were they doing this because they wanted to do business more generally with the providers? Is that the idea?

FRIEDMAN: That was certainly one -- in the very early days, first of all when Medicare was passed the insurance companies thought that the second shoe would drop and that would be national health insurance.

BERKOWITZ: Medicare Part C or something like that.

FRIEDMAN: Yeah. And so they wanted to get in the game. And you got in the game by participating in Medicare. Secondly, it was very influential. I mean, if you were a Medicare contractor, the docs around -- before they began to hate Medicare, okay? -- they saw you, little GHI, for example, or even big Blue Cross, they saw you as an administrator for the government, okay? And so did groups that you might be selling to. Now, you theoretically were never supposed to use your Medicare contract as a sales chip, if you will, you know, as an ad hominem argument for doing anything. But if the world knows you are a Medicare contractor or even a Medicaid contractor or whatever else, it helps your reputation.

BERKOWITZ: I see.

FRIEDMAN: Also, if you think about it, on the Part A side, if you were a Blue Cross plan and a Medicare fiscal intermediary, you controlled probably two-thirds to 80 percent of their cash flow.

BERKOWITZ: That makes you pretty powerful.

FRIEDMAN: Makes you powerful even though you, you know, are not supposed to act that way, you know, or wave that around, but the hospital knows that you are pretty powerful because you are controlling their income. Again, it was more so in the early days than now. And Part A reimbursement is the world's most complex subject anyway.

BERKOWITZ: Yeah, yeah, and it was from the very beginning, I guess.

FRIEDMAN: And it was from the very beginning, yes.

BERKOWITZ: So you worked at this -- for a while you worked for Group Health, Incorporated.

FRIEDMAN: Yes, almost 20 years.

BERKOWITZ: Always working on this electronic data processing?

FRIEDMAN: No. I worked on the electronic data processing side maybe about 10 years -- no, 15 years. I beg your pardon, 15 years. And then I

went into -- I guess it was 1976 I went into the Medicare side of the business. And it was interesting. I went into the Medicare side of the business on the day that the union went on strike. It was an organized work force. What had happened was -- I don't mean what happened with the strike, but the reason I went over to Medicare was that GHI had also gotten Dade and Monroe Counties in Florida.

BERKOWITZ: Dade and Monroe, as the Dade County I know

FRIEDMAN: And Monroe was south of there.

BERKOWITZ: South.

FRIEDMAN: It's alligators, mostly, yeah. Few people. They eventually lost that contract. But the guy who had been the V.P. of Medicare went to Florida, okay, and the job was open and I was sick of being the world's -- you know, the chief scapegoat, which is what the EDP guy was always in those days, okay? And I said, "I wouldn't mind trying to run an operation, okay?" So I moved over to the Medicare side and took this guy's job. And that was the day that it went on strike. So I learned that business from --

BERKOWITZ: Who went on strike? Group Health went on strike?

FRIEDMAN: Yes, the employees went on strike. And they went on strike for 14 weeks, by the way. Office employees, OPEIU, Office Professional Employees International Union. Any rate, I learned the business.

BERKOWITZ: You were doing everything yourself.

FRIEDMAN: Yes. A little bit of trivia. The chairman of the board at that time was a man by the name of Steve Vladek.

BERKOWITZ: Steve Vladek? Is that Bruce's father?

FRIEDMAN: Yes, yes. Steve was a big labor attorney and was chairman of the board of GHI at that time. So, yes, Bruce was -- it was his father. Anyway --

BERKOWITZ: And I actually have been in his apartment, Steve Vladek.

FRIEDMAN: You have?

BERKOWITZ: Yes.

FRIEDMAN: Okay.

BERKOWITZ: Because his wife, whose name is Freda, I think?

FRIEDMAN: Yes, Bruce's wife.

BERKOWITZ: I thought it was Steve's wife. Anyway, Steve's wife was a friend of my father's and they had some connection at the War Labor Board or something like that.

FRIEDMAN: Okay. Was Steve's wife's name Freda also?

BERKOWITZ: It could have been.

FRIEDMAN: Because Bruce's wife's name is Freda.

BERKOWITZ: Maybe I'm confusing it.

FRIEDMAN: So is my wife's name, by the way, is Freda.

BERKOWITZ: I am probably confusing the two but I remember going to their apartment.

FRIEDMAN: Okay.

BERKOWITZ: So 1976 you are the head of Medicare for Group Health.

FRIEDMAN: Yes.

BERKOWITZ: What was your biggest thing there in Queens that you were dealing with? Still Part B, right?

FRIEDMAN: It was still Part B.

BERKOWITZ: So was there a doctor somebody who was like the Mr. King of Medicare?

FRIEDMAN: You know, I really don't remember. I remember going to the -- we had regular meetings of Queens Medical Society over corned beef sandwiches and then they would scream at us for everything -- everything.

BERKOWITZ: Did they ever threaten to say, "Okay, we're getting out of the contract. We are going to, you know, send it to Blue Shield or something?"

FRIEDMAN: There was a complaint. I am trying to remember. I remember that the GAO came in to look at the way we ran our usual and customary, or what Medicare calls customary prevailing, because the interns in Queens County complained.

BERKOWITZ: That they weren't being paid enough?

FRIEDMAN: That they weren't being paid enough. And so there was a GAO investigation. And by the way, it came out fine and there was no finding that said that we needed to change the way we were paying the docs. But it was, you know, this was okay. It was -- it ran, you know, it ran pretty well.

BERKOWITZ: Does the local entity, the -- what is the word I'm looking for? It's not -- is it carrier, local carrier?

FRIEDMAN: Uh-huh.

BERKOWITZ: Did they set that rate? They said what's the usual and customary rate? Or they must --

FRIEDMAN: They set it --

BERKOWITZ: -- have a lot of supervision, I would think.

FRIEDMAN: They set it based on data. It's all data driven and it's only data driven if you have got claims history for those docs for those services. And as an insurance company you usually do, what you don't have historically you build up as you receive Medicare claims. So initially, you set a lot of that usual and customary from your private data and then you build up your Medicare data. And as I say, it's all formula driven, it's all data driven.

BERKOWITZ: And it's different from each place? Different in Brooklyn than -

FRIEDMAN: No, it isn't. It isn't that way anymore because now they have got formulas, you know, how much is experience, how much is work, how much -- you know, all that stuff. The so-called relative value type of system --

BERKOWITZ: Resource-based relative value scale.

FRIEDMAN: Right. Originally, by the way, there were relative value systems. New York State had one, their medical society had one, which we used whenever we didn't know how to price something. And if you remember, they were thrown out. We threw them out when? They were considered like anti-trust --

BERKOWITZ: Right.

FRIEDMAN: -- at one point in time.

BERKOWITZ: Price-fixing.

FRIEDMAN: Right, yeah. They got thrown out, which was a shame because then insurance companies had nothing to base anything on. But, as they say, yes, you establish usual and customary charges or customary prevailing. All the insurance companies did who were carriers. Okay, the hospital stuff was done differently. But on the doc side, independent laboratories, physicians, et cetera, the data determined the individual's customary charge by procedure and then the prevailing charge of the physician community that was his or her peer group. Usually, it's a specialty.

BERKOWITZ: So if you were a doctor in some fancy part of Queens that charged more, how would Medicare handle that? They would say the prevailing rate is such and such and there is a ceiling and that's what you get.

FRIEDMAN: That's right. Whichever was the least of the three: the actual charge, the customary charge, which was the individual's, or the prevailing charge, which was the peer group. So whichever the least of the three was, is what you got paid.

BERKOWITZ: I see.

FRIEDMAN: Or was the allowed charge before consideration of co-insurance and stuff like that.

BERKOWITZ: And it was just aggregated by region, by contract, so that the upstate prevailing charge was different than the Brooklyn ones, different from --

FRIEDMAN: Yes, usually --

BERKOWITZ: -- the New Jersey one?

FRIEDMAN: Usually it was by county, I believe. So that the upstate carrier at that time -- Met Life I think --had several upstate counties. But their customary and prevailing were broken by counties. Now, counties were not obviously necessarily the right, you know, statistical area breakdown. But that's how they were done because there was never -- I'm thinking -- I bet

I'm wrong saying this -- I was going to say I don't think Medicare was ever contracted out where a county was split across the country. You know, how they did it -- most of the contracts were statewide by the way. But county was a basis for the customary and prevailing.

BERKOWITZ: That's interesting. So Cook County would be one prevailing rate. Even if you are some obscure place on the north side or you were in a fancy place near north, it's the same prevailing rate.

FRIEDMAN: Right.

BERKOWITZ: I see. I can see the tensions there in this.

FRIEDMAN: Yeah.

BERKOWITZ: Okay, so you got to be the head of this -- you got to be Medicare vice president?

FRIEDMAN: Vice president, yes.

BERKOWITZ: At Group Health, Incorporated. Then you seem to have left soon thereafter.

FRIEDMAN: Yes, because I got a -- I was searched out.

BERKOWITZ: By a head hunter.

FRIEDMAN: By a head hunter, right. And the head hunter said that they were looking for a Medicare person who was Part A and Part B and it was a very large operation and he couldn't tell me who it was. It obvious who it was: it was Blue Cross and Blue Shield. So I went on the interview. I wasn't looking for a job but I went on the interview and I took it. I actually stayed with the Blues from that point on until my retirement.

BERKOWITZ: They are talking about the Blue Cross/Blue Shield of New York?

FRIEDMAN: Of New York. It was at that time called Blue Cross/Blue Shield of Greater New York. It later changed its name to Empire Blue Cross/Blue Shield, and now it is something else because they went public. What do they call themselves now? Blue Choice or something.

BERKOWITZ: I see. So you worked for them, I guess in New York City? That's where they were --

FRIEDMAN: In New York City, but also we had offices in a number of places because they had a much bigger Medicare contract. They had all of the city other than Queens, because GHI never lost Queens. They had Westchester, Suffolk, et cetera, and up to Albany County on the B side. And on the Part A side while I was there they actually got the entire State of New York. They had a lot of it and there were seven Blue Cross plans in the State of New York, an absurdity. And in those early years one of the things that Medicaid was doing was going to states like New York and Pennsylvania, et cetera, and saying there are just too many. Can't manage all these people. It's crazy. And the Blue Cross plans in the State of New York saw that handwriting on the wall and went to -- maybe it was HCFA in those days -- and said, "We are willing to consolidate." And Empire, being the 500-pound gorilla, ran it. But the concession to the other plans in the state was that (a) we would run it in Syracuse, which is geographically central to the state; and (b) we would farm out all the provider relations and provide the reimbursement audit stuff to you guys. And that's how it started. And it was an incentive contract, by the way. It was an experimental incentive contract that, believe it or not, made money.

BERKOWITZ: As incentive contract to Empire for -- ?

FRIEDMAN: It was a fixed-price contract. That's really what it was. It was a fixed-price contract. And if you were able to do it for less money, you kept it.

BERKOWITZ: And we're talking about administrative costs here, not the cost --

FRIEDMAN: Yes. Oh, I'm sorry.

BERKOWITZ: Not the cost of the benefits.

FRIEDMAN: Benefits were never --

BERKOWITZ: Were just paid out.

FRIEDMAN: Yeah, benefits were benefits.

BERKOWITZ: Yeah, that's an exogenous thing but the -- you say for $200,000, or ... more, but for $200,000 I can run the Part A claims.

FRIEDMAN: Yes.

BERKOWITZ: I can be the intermediary --

FRIEDMAN: Uh-huh.

BERKOWITZ: -- for the entire State of New York. And --

FRIEDMAN: And if it costs 150,000 --

BERKOWITZ: You win.

FRIEDMAN: -- you win. And if it costs 250,000, you lose.

BERKOWITZ: I see.

FRIEDMAN: Now, there was a -- there was a loss -- I'm trying to remember on the loss side -- no, this was fixed price, as I recall it. Now, I will tell you that after -- you know that the kicker in all of those kinds of arrangements -- and by the way, Medicare contracts in those years, even to today, were written based on the statutes. And the statutes, the contracting of the statutes is not the way the rest of the government contracts. Okay, all of the standard government contracting rules were waived at the time Medicare was enacted. So the change-order process, in other words when the government said, "Thanks for doing your work but now this has to change," and you would, you know, tell them what you thought that was going to cost, all of that stuff was done by people who worked for HCFA who were bright, but they were following their own rules. They were not following GSA's contracting rules, okay?

BERKOWITZ: Uh-huh.

FRIEDMAN: They just weren't. And as I say, that is changing now. But after Empire was in this fixed-price contract for a few years and was making money, HCFA got upset about it and decided that -- oh, well, this was an interesting philosophy. They said, "You have reduced the number of people today from what you started with. Therefore, you shouldn't be making any profit." This was their logic.

BERKOWITZ: I never ...

FRIEDMAN: I didn't either because we said, "Well, of course we were working with more people." When you start up you expect to lose money in the early years. You expect to get more efficient in your later years. So you start up with perhaps more people than you will eventually need. But how can you be taking on more work and changed work and still reducing staff?

Well, that's part of the gamble. Anyway, as I was leaving Empire we were in court over this. And when I was at the association I was happy to learn that Empire won that case, went, you know, to claims court and won the case. Because in those early years -- and I hope it's getting better although I'm not convinced -- government people, and especially at HCFA and CMS, they abhor the profit motive. They do. I mean ...

BERKOWITZ: At least they used to.

FRIEDMAN: Well, I'm not convinced that it changed that much, okay? I'm not convinced. And so when they see people making a profit they figure out this is no good and we have to --

BERKOWITZ: Something's wrong.

FRIEDMAN: Yeah, it's wrong.

BERKOWITZ: We're overpaying for this.

FRIEDMAN: Right. And we're overpaying.

BERKOWITZ: The people's money.

FRIEDMAN: Right. The people's money. So --

BERKOWITZ: That's interesting.

FRIEDMAN: Yeah. Anyway --

BERKOWITZ: So you went to Empire. And what was your job at Empire? You were the --

FRIEDMAN: I started as assistant vice president for Part A and Part B. But it was only claims. It was only the claims part. It wasn't the customer service, it wasn't the provider reimbursement, et cetera. The job, however, grew and grew and grew, and then I eventually was corporate vice president for Medicare, which was all of Medicare's Part A, Part B reimbursement, et cetera. The audit piece had not moved over but the reimbursement piece had, the service piece had, ... hearings, all of that stuff had. You know, companies go through decentralization. Actually, I also had national accounts at Empire for a year or two, too. What a disaster that was.

BERKOWITZ: National accounts in -- ?

FRIEDMAN: You know, like IBM's account or -- you know, because --

BERKOWITZ: IBM's health insurance account.

FRIEDMAN: Yes, yes.

BERKOWITZ: You were handling all that.

FRIEDMAN: Well, on the hospital side actually because they were using Prudential for their doctor side and somebody else for dental. But I just -- I used them as an example of what a national account is.

BERKOWITZ: It's a New York company, too?

FRIEDMAN: They are.

BERKOWITZ: Did you have to go Syracuse? You said that just operations.

FRIEDMAN: Oh, yes. I had operations in Syracuse.

BERKOWITZ: And you had to move to Syracuse.

FRIEDMAN: I didn't move to Syracuse, no. But I -- because we had operations in Westchester, we had operations on the island and Suffolk County, and so I was still New York City-based, but I travelled a lot. I don't know, I was in Syracuse, you know, a few times a month. I was in Westchester a lot. I lived in Westchester anyway in those years.

BERKOWITZ: Where did you live?

FRIEDMAN: I lived in New Rochelle and then moved to Scarsdale afterwards. So -- are you familiar with --

BERKOWITZ: So you took the train?

FRIEDMAN: I took the train. Actually, I took the train and/or I drove. Because while I never in my life worked for a profit-making corporation but the non-profits at least gave you a car in those years. So I had a company car. All of DP's had a company car.

BERKOWITZ: Really? And a driver? Or just a car?

FRIEDMAN: No, just a car.

BERKOWITZ: And I guess -- do you get a parking space when you have a car?

FRIEDMAN: And a parking space.

BERKOWITZ: Wow.

FRIEDMAN: Yeah. So that was a perk. That was a nice perk. So I drove also.

BERKOWITZ: And I guess if you had to leave in the middle of the day to go to Long Island it makes it easier to have your own car.

FRIEDMAN: Absolutely. So, I mean, there was an assumption, you know, that you used the car for some personal use. But mostly it was business. And I did do a lot of driving around for business. As I said, it was driving everywhere.

BERKOWITZ: To Syracuse?

FRIEDMAN: No, to Syracuse I usually flew but I did drive occasionally to Syracuse.

BERKOWITZ: Were you establishing relationships at all with people in Baltimore and Washington with HCFA?

FRIEDMAN: Yes.

BERKOWITZ: Who were you dealing with? Do you remember people that you were dealing with there in the agency?

FRIEDMAN: Wow.

BERKOWITZ: Did they have like a New York specialist? Or did you maybe deal with the regional people more?

FRIEDMAN: Well, first of all there was a regional office. And I don't know whether you remember Bill Toby?

BERKOWITZ: No. I know the name.

FRIEDMAN: He was the administrator for a while. Bill was the regional administrator. He eventually -- as I said, he was actually the HCFA

administrator for a while. And then a whole bunch of people at the regional office. In Baltimore -- and the people change a lot, by the way.

BERKOWITZ: Even more than the private ones?

FRIEDMAN: Oh, yeah.

BERKOWITZ: Yeah?

FRIEDMAN: Yeah. They moved around a lot in the agency. But one of the things I had gotten involved in fairly early on was performance monitoring. You know, they had what they called technical advisory groups. And HCFA met with their contractors and they had these discussions about how they should do things, whether it was audit or performance measurement, et cetera. I had gotten involved in the performance initiative group. And so that crew -- I can't think of the name, but Marilyn Koch, who is now I think with one of the consulting firms, Marilyn Koch was an executive at HCFA.

FRIEDMAN: Anyway, Marilyn ran this performance group and there were -- I remember Stuart's name because he is still there. So was his brother. Stuart Streimer, who has gone on into many jobs since then.

BERKOWITZ: I have heard his name.

FRIEDMAN: High flying, low flying. His brother was also higher up at one point, too. Depending on who was the boss at that time, you know, some of them are godfathers. Then they lose them, et cetera. So I knew a bunch of those people, actually. I mean, I did know a lot of them but more at the lower and middle levels than at the top levels. I didn't really start dealing at the administrator level until I was either in trouble, okay, because Empire got into trouble a lot. Performance was fair, the cost was fair, you know, especially the cost. New York City is an expensive place. And so -- trying to remember who the administrator was.

BERKOWITZ: What era?

FRIEDMAN: I don't mean the administrator, I mean the operational head. You know, there's a key person in operations, okay. She married -- she went to the Cincinnati Blue.

BERKOWITZ: I don't know who that is. Anyway, we'll get to it.

FRIEDMAN: Anyway, so those people I got to know. I didn't get to know the administrator-level people until I was at the association in Chicago --

BERKOWITZ: I see.

FRIEDMAN: -- where I began to deal more at the administrator level.

BERKOWITZ: I see. Now let me just ask you one more question about New York stuff.

FRIEDMAN: Yeah.

BERKOWITZ: So you have New York, which has got New York City, which is complicated, and there is this big health and hospital corporation that -- I don't know what they do, if they unify their billing or whatever. But how did you handle it? Did they have their own? Was that a special part of the Empire in terms of dealing with them? Or how did that work

FRIEDMAN: Well, first of all, when Health and Hospitals Corporation first entered Medicare they had little or no administrative capabilities. If you recall from reading --

BERKOWITZ: Yeah.

FRIEDMAN: -- the government had its own fiscal intermediary --

BERKOWITZ: Yes, yes.

FRIEDMAN: -- early years, and that was there because some of these -- especially public hospitals -- had no paperwork capability. They didn't know how to complete a claim. They didn't know what a procedure code was or, you know, they might have known how to treat people but not how to keep records. Health and Hospitals Corporation was one of those groups that did not keep great records. They just didn't. It wasn't their thing. In fact, from an audit reimbursement point of view, Empire had people who specialized in the Health and Hospitals Corporation. And it was a struggle especially -- I'm trying to remember when it was, what the legislation was that required physicians in clinics to be paid as physician services instead of as hospital services. When that happened, Health and Hospitals Corporation was beside themselves because they didn't keep those kind of records. They never did. And so, of course, they got waiver after waiver after waiver and it was a struggle to get them to start to use procedure codes in their outpatient clinics so that the physicians would be paid, you know, that way instead of as just a part of salaried costs to the hospital. But to answer your question, they were a big, sort of a big, clumsy elephant, if you will. And they were handled by people who understood them a lot.

BERKOWITZ: I see. I see. Let me ask you one other question about them. So a lot of people that are in these hospitals, Bellevue and so on, they are Medicaid patients. That's a whole different --

FRIEDMAN: That's totally different.

BERKOWITZ: Those bills just went someplace totally different and --

FRIEDMAN: Correct.

BERKOWITZ: Paid out of some state operation.

FRIEDMAN: Yes.

BERKOWITZ: You never got into that business.

FRIEDMAN: Never got into that business.

BERKOWITZ: Nobody wanted that business? That must have been big bucks, all those Medicaid claims that are being --

FRIEDMAN: There was a point in my career at Empire when the Medicaid administrative contract came up with this. And I forget who had been running it. EDS I think had had it for many years. And so we went -- a few of us went up to Albany and spent a couple days and looked at it. When I came back they said, so what did I think? And I said, well, I said, this -- I'm trying to remember how I said it. But I don't remember my exact words, but the point I made was we don't want the business.

BERKOWITZ: Too hard.

FRIEDMAN: The state, you couldn't do anything. You could do anything except what they told you to do every minute of every day. You couldn't issue a check. You could do nothing. So it was just not a good business. And by the way most -- you see, most state Medicaid operations from an administrative point of view is a strict transaction basis. It's like the back room of a bank, you know, running with checks. And they wanted you to do it for very, very little money. It was just high processing, mind your business, don't pay any attention to policy, don't pay any attention to anything. You know, we'll give you the computer programs to run and do it for -- I'm making this up, but do it for like 35 cents ...

BERKOWITZ: So it's much more run by the states as opposed to this Medicare, which seems to have allowed a little bit of interplay between the private carriers and the government.

FRIEDMAN: Yes, yes, a little bit more. I mean, the federal government is still pretty overbearing, but in a different way --

BERKOWITZ: I see.

FRIEDMAN: -- from the states.

BERKOWITZ: Okay, so now did you also have -- you talked a little bit about Albany dealings. So was there a political aspect to your job or you were kind of dealing with heavily technical things that --

FRIEDMAN: At Empire, I didn't have much political. I mean, we once in a while would go down, you know, and talk to people, talk to a couple lobbyists and talk to people about things like that. But --

BERKOWITZ: But you must have had your own lobbyist that was working for you.

FRIEDMAN: I didn't.

BERKOWITZ: But Empire did?

FRIEDMAN: Empire had a couple of people in D.C. in those years, one Republican and one Democrat who they used not really for the Medicare side of business. They used it on the private side of the business. And once in a while, you know, I would go down and we would make a couple visits. So I would get to know some people, in Washington. Now, you know, you are not allowed to lobby. I mean, that is a non-reimbursible expense.

BERKOWITZ: Because you are Blue Cross/Blue Shield?

FRIEDMAN: No, because a Medicare contractor can't lobby.

BERKOWITZ: I see. Oh, once you are in the Medicare business.

FRIEDMAN: That's right. And I was in Medicare. My salary was almost entirely paid for by Medicare. Not entirely, but almost entirely.

BERKOWITZ: I see. So part of the company could lobby, but not your part, or something like that.

FRIEDMAN: Correct. Well, again, now let me skip ahead for a second. When I got to the association, which is a trade association, you know that part of their reason for being is lobbying.

BERKOWITZ: Right, right.

FRIEDMAN: Okay. But that's all done out of the Washington office. And in the later years, of course, you would actually fill out forms about, you know, how much time you spent lobbying, et cetera. And while I would spend more time in D.C. travelling with my Washington people, but my role was much more educational than lobbying. And I was also very careful, you know, if I thought there was any chance of being considered lobbying, of taking that expense off the contract. And that's just what you had to do.

BERKOWITZ: Yes, I see. So what was your highest job at this Empire Blue Cross? Were you corporate?

FRIEDMAN: Corporate vice president for --

BERKOWITZ: Government programs.

FRIEDMAN: Government programs.

BERKOWITZ: So you're running Medicare, basically.

FRIEDMAN: I was running Medicare and the data center that ran Medicare, by the way.

BERKOWITZ: Now, tell me about that. That's different than Medicare.

FRIEDMAN: No, no. I mean there was a big computer center.

BERKOWITZ: Right.

FRIEDMAN: In Syracuse that was only running Medicare. So while it was a corporate data center or a few corporate data centers, well, there was a corporate vice president of computing. But I ran the Medicare data center.

BERKOWITZ: I see.

FRIEDMAN: It was a big job ...

BERKOWITZ: How many people working there in that data center?

FRIEDMAN: There were probably about 1,500 people total at data center services, Part A, Part B at its height.

BERKOWITZ: Was that considered the less glamorous side of the -- if you had to pick a job at Empire would you have picked other than the government programs?

FRIEDMAN: Oh, well, the government part of most companies was second citizen.

BERKOWITZ: Second citizen?

FRIEDMAN: Absolutely. On the other hand --

BERKOWITZ: Because there is no underwriting interplay? What's the --

FRIEDMAN: Well, there is no market in either, you know. I mean, you really don't market.

BERKOWITZ: Well, you have to keep your contract.

FRIEDMAN: You have to keep your contract but you don't really go out and sell.

BERKOWITZ: It's not like going to someplace here in Chicago and saying, "You should buy your health insurance from me," or something like that.

FRIEDMAN: Right. The private side of most of the insurance companies that also had Medicare looked down on the Medicare side of the business, but on the other hand looked to that side of the business for technical innovation because most of the Medicare sides were run much better, much more efficiently, and there was a lot of technology that entered that way -- including, by the way, some of the reimbursement technology. When the government -- when the feds put in the Part A reimbursement/Part B reimbursements that are now in place --

BERKOWITZ: The DRGs.

FRIEDMAN: Right. Then the private side said, "Oh," and of course the private side said, "Well, now, wait a minute. The Medicare folks know how to make these diversions," which were tough things to do in those years. And so the technology transfer was another reason why companies went in to the business even though they hadn't thought about it that way perhaps when

they entered it, because they then were able to pick up some of this knowledge and apply it.

BERKOWITZ: So that's interesting. So you are saying the government is the leading edge there --

FRIEDMAN: Oh, they certainly were.

BERKOWITZ: -- of technology. We don't think of it that way, we think of it the other way that's supposed to be all the reasons that's come from the private sector, you know,

FRIEDMAN: Well, it wasn't true.

BERKOWITZ: That's interesting.

FRIEDMAN: I mean even such things as optically scanning the claims was very heavily done on Medicare sides of the business long before the private side did it, largely because the government underwrote some of that, well, some of the experiments that we did, things like that. But on the reimbursement side remember also that while you think it was leading edge it was one of the few ways that the government could control reimbursement. Because they can't say to a doctor -- they still can't say to a doctor, "We don't want you in our program because you are not efficient." They hope one day they will be able to say it. They are trying to get into that PPO side of the business where, you know, theoretically you can choose your panel of docs. But they were never able to control utilization very well so they controlled reimbursement. Kind of an artificial way to do it, you know. And you control reimbursement by all these schemes. And they are still trying to figure out, you know, how to control risk. They don't have a good formula for, you know, my risk versus your risk in a practice, in a doctor's practice. But they would love to be able to adjust the rates by patient risk.

BERKOWITZ: Just a minute. So we are going to talk now about modernizing Medicare. On one hand they mean like using the market or something like giving a guy $1,000 to go out and buy health insurance and that's it. You've just got to -- or on the other hand they seem to also mean something about quality that they would like to do this thing you were talking about that drove some physicians out or -- which is a different scheme entirely. It's much more regulatory.

FRIEDMAN: Uh-huh.

BERKOWITZ: And I guess that was the fear in this program always that they are going to somehow come in and regulate the hospitals and the doctors. So they had always promised they are not going to do that so they -- so now there's some interesting conflicts about, you know, they always tell you about modernizing Medicare. I'm never sure what they mean but --

FRIEDMAN: To a large extent they mean getting rid of most of the contractors. I'm serious.

BERKOWITZ: That's the way you see it.

FRIEDMAN: Yeah. Because they would much rather have few contractors than a lot. And we have a relative lot. I have found personally over the years, however, that some of the smaller contractors run much better shops than bigger ones. And so I don't think it's the smartest move, you know, forward for CMS to consolidate into territories that are too big. I think the risk is too big to do that. Their risk is too big, especially as they are now going to go into and are going into the federal procurement stuff in a purer way than they were before. And once you start contracting with the real federal procurement regs there is a lot of in-fighting. There is a lot of profit-making. There's a lot of stuff that goes on that they don't know how to handle because that's not their history. Never been their history.

BERKOWITZ: That's interesting.

FRIEDMAN: You can hardly think of a government contract done under the federal procurement rules that somebody isn't complaining about after it is awarded and there's lots of time spent in court and, you know, a lot of stuff which HCFA doesn't -- CMS doesn't do because they don't have to do that. But as I say, they have been moving over the last six years or so into more of that real contracting way ... By the way, the people I have met over the years who worked for that part of the government are generally very dedicated and quite bright. They may be bureaucratic, you know, and some of them will -- as a matter of fact, I remember ... Empire won this huge ... lawsuit. I made my case and I got nowhere with that. Nowhere. Years later she had moved out of the government. She was working for Pittsburgh Blue Cross/Blue Shield, Pennsylvania Blue Cross/Blue Shield. And then Empire won the case. And I said, "By the way, Marilyn, Empire won this case." And she said, "Well, you were always right but I couldn't tell you that then." So that's their mentality, too. They have a policy line and that's it. I wish I could say that's changing.

BERKOWITZ: Yeah. So at some point you went over to Chicago to the national --

FRIEDMAN: Well, I lost my job in New York is what happened. We got a new chief executive because our chief executive had gotten into trouble. And this guy came in and within about a year had gotten rid of just about every senior officer. And that's just -- those things happen.

BERKOWITZ: That's what they do.

FRIEDMAN: And he certainly never got to know me, however. But anyway --

BERKOWITZ: This was in the 1990s?

FRIEDMAN: Yes, 1990s. And so at that point I was looking for a job and I was working as a consultant for Massachusetts Blue Cross/Blue Shield, because when they heard that I was available and they had gotten into trouble with the government over the Medicare contract, they hired me to help them. And then the association here in Chicago hired me to do some work for them. And a very sad thing was going on at the association in Chicago. The guy who was the V.P. of Medicare, not the senior V.P. but the day-to-day V.P., was dying of cancer. Terrific guy, by the way. And he said to me when I lost my job, he said, "This is going to sound like a terrible thing for me to ask you, but would you like my job?" He died. Anyway, his boss and he hired me as a consultant because they wanted to do some stuff and I think they wanted -- I think they wanted to hold me in abeyance. I think that was part of it. They never said it quite that way. But the Massachusetts people said to me, "You know, we are happy you are working here and we have a job to offer you but we are not really sure that the association would like us to offer you a job." By the way, the association in the Blues owns the trademark but they don't own the businesses, okay? All the Blues are individually owned and operated. I mean, somebody ... somebody now enormous, but they are all individually owned and operated. Most are mutuals. A few of them are for-profit now and a few of them are still not-for-profit. But the association owns the actual trademarks. But the plans own the association so it's kind of an incestuous thing. But I didn't mean that the association could tell Massachusetts Blue Cross/Blue Shield what to do. They couldn't. But they could certainly say -- the senior V.P. of Medicare of the association could say to the CEO of Massachusetts, "You know, I may want to hire Harvey. So I'm happy that he is working for you but don't offer him a job yet and we're not speaking to them." Of course, the CEO there told me that. He said -- anyway, so I wound up before actually ... no, I'm sorry, after. After, that's right. I wound up eventually being offered the job at the association in Chicago. And since I needed to work somewhere, you know, it was actually probably the most lucrative period of my life being a consultant. But I'm not cut out for that.

BERKOWITZ: You always have to market yourself.

FRIEDMAN: That's my point, you know.

BERKOWITZ: ... doing something --

FRIEDMAN: I didn't mind doing the work.

BERKOWITZ: -- but you've got to look ahead always, yes.

FRIEDMAN: I just -- it was not me. I was salaried all my life. Now, mind you, I tell my sons that if I had to do it over again I would never work for a large corporation because large corporations these days are not employee-oriented at all. It gets worse and worse and worse. I mean, I'm a retiree now with two companies. I retired from Empire as an early retiree as part of my, you know, settlement and my settlement included free health insurance for the rest of my life.

BERKOWITZ: That's pretty good.

FRIEDMAN: It lasted a year and they said, "No, we really didn't mean that." And they were going to charge me for it, which I didn't need because I was working. So I said, "Oh, go away." So I am now retired from the second with free health insurance for the rest of my life. And they just essentially shut down the dental side of it. So we will see how far that goes. But even as an employee my personal --

BERKOWITZ: That's why we need Medicare. That's why ... they don't --

FRIEDMAN: Well, not this bill. This is a bad bill.

BERKOWITZ: Well, that's why we need somebody that's going to help people that are left in those situations where they are promised benefits after they retire and they don't get them. But anyway.

FRIEDMAN: The government needs to get more -- unfortunately more into Medicare, into health care, than we would all like them to be. Because frankly, they should be more into some issues that they got out of like deregulating. Can't operate without the government, unfortunately, without lots of fraud. However, I would never work with a big company again if I could, but the point is that was my only experience is working for a big company. And so being a consultant is tough even though it's lucrative. Anyway, so they offered me a job and I knew nothing about Chicago. I had

been there a couple times. My wife said -- we had been in the East a long time, "I wouldn't mind." I mean, she was gainfully employed, too. And we moved to Chicago. And by the way, we love Chicago. It is a really nice city, a nice place to live.

BERKOWITZ: So you moved here in 1994?

FRIEDMAN: Yes, 1994.

BERKOWITZ: Too late to really pick up a good value on this house that I see.

FRIEDMAN: Correct. Now it has -- I'm sure it has appreciated, yes, but not as my ...

BERKOWITZ: Yeah, yeah. So you came to this national office and you are called the vice president for Medicare and senior markets. So what was that job?

FRIEDMAN: A couple things. First of all, a Part A contract, the hospital contract with the Blues is actually a contract with the association. The fiscal intermediary is the Blue Cross and Blue Shield association, not Empire or Massachusetts or anything else. I'm not sure about the commercials. Mutual of Omaha has its own fiscal intermediary. It is a fiscal intermediary. But the Blues are not. The association has the contract. Now, the association -- well, first of all I guess when it started the association as a government contractor had some of the typical powers like budget authority, performance authority over its subcontractors. It subcontracted the daily operations to its Blues, okay. But the Feds couldn't stand that. They didn't want anyone to do the budget other than themselves. Again, now remember this is not FAR, you know. A standard government contract is called FAR. I don't know what FAR stands for, the Federal something regulation [Federal Acquisition Regulation].

BERKOWITZ: Acquisition?

FRIEDMAN: Yeah. Yes, it is. And it's singular, by the way, always singular. Anyway, the FAR would not have permitted the government to take away those accountabilities. I mean, how can you be the contractor and have no accountability for the performance of your subcontractor? Think about that. But that's the way HCFA wanted the association to operate. However, the association still to this day has the prime contract. And what it does at the moment for the prime contract is set some policies and do some training, do a lot of the audit work, do the provider reimbursement review board appeals,

if you are familiar with that, and used to do a lot more education. If you look at the HCFA -- or CMS has a website now, a learning website or something, a lot of that stuff for how to do SNF reimbursement, et cetera, was done by the association.

BERKOWITZ: And SNF is skilled nursing facility?

FRIEDMAN: Right. But remember when all of those things in the last several years also became prospective reimbursement? All of those contracts, all of that work was done by the association because the truth is reimbursement is such an esoteric field there are very few people who know this stuff. And the Blue Cross/Blue Shield Association still has some of those people around. The government hardly has any around anymore who can do that kind of stuff because those people retired or changed jobs 12 times. So number one, running the prime contract which was, by the way always a fight. Every year was a fight because they really wanted you and they really didn't want you.

BERKOWITZ: You're talking about the government.

FRIEDMAN: Yes, because they considered it an anachronism. And in many ways it is an anachronism. But mainly an anachronism because they really wanted to control every single contractor rather than give a contract out and give the accountability out with it. Which is, by the way, going to be their downfall as they try to consolidate more and more contractors and need to deal with companies like -- the Blues were always suckers. Even the commercials were pretty much suckers. Whatever the government wanted, they did. But when you start dealing with, for argument's sake, Price Waterhouse as the contractor and they will subcontract to whoever they want, they are not going to put up with that stuff. If you start dealing especially with companies that are historical government contractors, you know, and will say, well, okay, I'll do that -- you know, EDS as an example. You know, I'll do that, I'll subcontract with you. They are not going to put up with that stuff. And they haven't been. So it's going to be a different world that I hope they are slowly realizing and will work that way. Anyway, so the association had that. On the Part B side the association never had any authority or any standing, if you will, with the Feds. But a part of every Part B contract for the Blues included a premium, a few cents, that you would give to the association so that the association could do some national conferences and training and stuff. When I was there we actually took a different tack. We said to our plans, "We would love on the Part B side to do a lot of stuff for you to help you with performance monitoring, et cetera, you know. But we would like to do it not because you are forced to give us a few cents. We would like to just close that right out and offer you the services. And if you

want them, you buy them from us." And we actually did that transition when I was there. Fairly successfully, by the way, and got out of that government business of a few cents. So the A side of the prime contract, the B side running national conferences, running training, Ethics became a big issue during my tenure at the association. If you remember, lots of contractors were being thrown out for -- you know, there were whistle-blowers everywhere. Illinois lost its contract.

BERKOWITZ: For cheating? Is that right?

FRIEDMAN: For cheating, like performance. Usually cheating, performance. Not for stealing money. That wasn't usually it, although you can translate everything to stealing money. But for keeping the contract, you know, by telling people that you were doing better than you were.

BERKOWITZ: Common corporate problem.

FRIEDMAN: A common corporate problem, yeah, right. Actually in the papers yesterday they finally settled a case with United which had a Medicare contract for beneficiary service and was apparently not doing whatever they were supposed to be doing, but lying about that they were doing it. So ...

BERKOWITZ: And this became a thing.

FRIEDMAN: A huge thing. And so as a division of the association we took that bull by the horns together with -- there's another division of the association in D.C. that does the federal employees' program, which is a big piece of what the association does. We are the biggest contractor for --

BERKOWITZ: Federal employees benefits program.

FRIEDMAN: -- federal employees. So the two divisions got together and said the government is the big customer here, the big area of concern. Let's start writing some manuals on ethics and do some audits, et cetera. And so we started that as part of the services that were offered the plans. National meetings, training, policy stuff and borderline lobbying stuff, okay. There's a lot of ... there at the association.

BERKOWITZ: When they talk about Blue Cross/Blue Shield, right? Is there like a different office for Blue Shield and Blue Cross or is it the same?

FRIEDMAN: No, but there used to be. They used to be separate associations but they merged in the '70s, I think.

BERKOWITZ: So by the time you got there it was pretty seamless?

FRIEDMAN: Oh, yeah. It was seamless, right. But they had been two separate associations. I mean, the history of the Blues with the Community Chest, they came out of the Community Chest movement and the medical societies.

BERKOWITZ: Right. And that's why it's in Chicago, I guess, right? They wanted to be close to the AMA originally

FRIEDMAN: Oh, you betcha. Oh, yeah.

BERKOWITZ: I don't know if that's still true but --

FRIEDMAN: The ... with Medicare were two things. One that they be paid their cost of operation and secondly they could nominate a fiscal intermediary.

BERKOWITZ: Right.

FRIEDMAN: So the hospitals, state hospital associations got talked into, I guess -- I don't know what the day-to-day dynamics were -- got talked into giving that proxy to the American Hospital Association. And the AMA and the Blue Cross Association were buddies. You know, they worked together a lot in those years so --

BERKOWITZ: The AMA or the AHA?

FRIEDMAN: I'm sorry, the AHA. I beg your pardon. The AMA was never -- never ...

BERKOWITZ: They were against it the whole ...

FRIEDMAN: Yes. The AHA and the Blue Cross Association were close in those years and so they nominated the association to be the prime contractor. That's how the Blues became the prime contractor, the association for Part A for a big piece of the action.

BERKOWITZ: Yeah, I see. So today there is this national office --

FRIEDMAN: Right.

BERKOWITZ: -- doing this thing. So you had stayed at that till year 2000.

FRIEDMAN: Uh-huh.

BERKOWITZ: And what was the retirement decision? Was that --

FRIEDMAN: I stayed at it till -- let me see -- 2002, actually.

BERKOWITZ: Oh, 2002.

FRIEDMAN: Yeah. When I hit 65 I had worked for 45 years and I just was tired of working. And I must tell you I was not particularly happy. You know, if I had been enjoying my work I think I would still be working. But I wasn't. So I just took the opportunity to retire at age 65.

BERKOWITZ: Well, now, not to probe too closely, but when you say not enjoying, was that something about Medicare in any way?

FRIEDMAN: No, it was more -- it's more a function of the association and its politics. And it's changing. It had gotten over the years -- I went through years of psychological evaluations, you know. I mean, I never lost my job over any of this because they decided all the officers needed to, you know, to have certain kinds of personalities. And companies do this. It's just unpleasant to work for these companies.

BERKOWITZ: Outgoing personality? What kind of personality do you need? Aggressive?

FRIEDMAN: Well, they don't tell you what you need. But everybody had coaches, everybody had -- you know, had psychological testing, went with this absurd team training. Somebody once said that if they would allow their executives to do -- managers, rather -- to do what they could do, they wouldn't need all this team stuff because they don't know how to work together. But anyway, over the years this is how companies have changed. And at the association itself they also changed our senior management. And I was just not happy with the person I was working with.

BERKOWITZ: Is there typically a doctor at the very top of Blue Cross/Blue Shield?

FRIEDMAN: You mean a physician?

BERKOWITZ: Yes.

FRIEDMAN: No, actually.

BERKOWITZ: That's not the tradition.

FRIEDMAN: It's not the tradition, although at Empire our chief executive, when he got tossed out or the other guy came in, was in fact a physician. And so was the guy at GHI after a while was a physician: Dr. George Melker I remember that. And the guy who is in charge of Empire now is a physician, by the way. Not practicing, but a physician. So it isn't the association person, it's not -- there are -- it's like, you know, saying that there are a few physicians in Congress. There are a few physicians who are at the head of Blues. But it is not common or typical at all. I mean, it's like Chrysler. One year the engineers would be charge, the next year the sales people would be in charge. It's mostly the MBAs who are in charge -- health economists, occasionally, you know, people who have actually trained in health economics.

BERKOWITZ: So in terms of original mission there is this idea that Blue Cross/Blue Shield is non-profit. Originally when they were not experience rated and so on ...

FRIEDMAN: Uh-huh.

BERKOWITZ: Old days. Is any of that still visible there or it still looks like a business now? Basically it's like Prudential or something.

FRIEDMAN: No, there are plans. There are still plans around who -- they tout experience rating, of course. But there are those around who are not and do not normally ...

BERKOWITZ: For example, what states are they in?

FRIEDMAN: Well, interestingly enough, Illinois is one of them. But they're a mutual. But even so a mutual is a kind of non-profit. But they feel that they don't want to be what Wisconsin became and what Cincinnati and California and now New York will become for-profit. They don't believe in that.

BERKOWITZ: What is the rationale for California became for-profit? Do you think it is because they make a lot more money that way?

FRIEDMAN: Yeah. Well, you know, the beginning rationale is that they go for-profit they are going to get a whole bunch of money to use to expand the corporation. And to keep up with the big commercials who have untold amounts of money you need a lot of money to develop your markets to, you know, develop et cetera. That's the original rationale. But of course if you

think about it, and more than one health economist has said this, there is no place for profit in health. And health insurance is not far from health provision, I mean. Why are there so many CT-scanners in this world, you know? Is it because we all need to be scanned or because someone has got to pay for those things and make some money? So health insurance companies that are for-profit, I think there is still a conflict of interest. The primary goal of a public corporation is its shareholders, right? And that can't be the primary goal of health care. Ultimately, it just can't be, which is why I think the government is going to get back into it at some point in a big way. It's, you know -- costs are not being controlled. I'm one of those people who never were big on HMOs because they thought it was just another artificial way to control money that was eventually not going to work. And it has not worked, guess what. PPOs I think have --

BERKOWITZ: Yeah, HMOs when they were these little small experimental, Group Health of Washington or something like that, that was idealistic.

FRIEDMAN: Uh-huh.

BERKOWITZ: But when you have to go to an HMO and so on you start getting ... then people don't -- are not thrilled about it at all.

FRIEDMAN: Not only that but the more you begin to control what your staff does and what it costs you to do it. And so in fact HMO costs are, you know -- see, originally they didn't even keep all those records. Now in an HMO they have got pounds and pounds of papers about the way you are practicing. And so they are not cheap anymore. You know, theoretically if you save benefit dollars you can spend any amount of administrative dollars and you will still be way ahead. But saving benefit dollars is such an overbearing way to practice that everybody hates you for it. Nobody wants to be in there if you can't go in the emergency room when you think you are sick. And we are not in a position to know when you should be in the emergency room, frankly.

BERKOWITZ: Right, right.

FRIEDMAN: But anyway, I don't know how we got on that.

BERKOWITZ: Things have changed a little bit since you did you go in your last job then in Chicago, did you begin to have more dealings with the folks in CMS, but pretty much about the time you had the job, just changing over?

FRIEDMAN: Yes. You know, and I testified several times.

BERKOWITZ: I saw that you testified with Nancy-Ann, they call her Nancy-Ann DeParle and so on. So did you have a relationship at all with those?

FRIEDMAN: Yeah. Yeah, as a matter of fact ... Who is the guy that just left?

BERKOWITZ: Scully?

FRIEDMAN: My boss knew Scully much better than I did.

BERKOWITZ: And Scully had been the head of the Federation of Hospitals --

FRIEDMAN: Right. And Scott, who was the head of the association here had been involved with the hospital side of the business, the HMO side of the business for years before he got into the association. But we were damned because Scott was testifying and I just sort of, you know, hanged alongside in case he said something silly -- which he never did.

BERKOWITZ: A very common thing in Washington, by the way, to have some people around.

FRIEDMAN: Right. And Scully was there and so we wound up having lunch in the cafeteria together. And Scully said to me, "You probably knew me when I was with OMB." He said, "I'm a much nicer guy now." ..... I don't know whether you knew him in those years. .... he's a very smart guy by the way -- he did some of the best investment. Have you seen the views of the nursing homes and hospitals, et cetera, from an investment perspective that were done under him at CMS?

BERKOWITZ: No.

FRIEDMAN: They are excellent views of the industry and I'm sure they are on line. They are, of course, dated now. But he thought that the government needed to look at the hospitals and the nursing homes and et cetera and understand them as an industry, as industries. Some very smart investment analyst, you know, must have done this for him. But anyway --

BERKOWITZ: So you say you got to meet him a little bit

FRIEDMAN: Well, some .. people, you know, you got to know. And of course our Washington office knew them all. They're all -- you know, they pestered them constantly about this and that and the other thing. And I would occasionally get involved in some of that, too.

BERKOWITZ: So this Medicare + Choice and so on, these other modern innovations, these things that you had to kind of roll with, did that affect the Blues, that Medicare + Choice?

FRIEDMAN: Yes. It's still affecting. I mean, you know, those changes are still sort of happening. A lot of changes are still happening. When I -- I'm not really in touch with the folks at the association a lot, but a little bit. And when I saw they announced the regions the other day for the PPOs and the prescription drug, what a disaster that bill ... But, I mean, it's just a bad bill. But when I saw that they announced the regions I had sent that information to a couple of folks at the association. I figured they had probably seen it, but just in case they hadn't. And they sent back an answer that said, "Yes, but ... still want to know what the regions are going to be for the contractors." Okay, because they can understand all that. But they want to know how to manage the constituency of the Blues who are contractors and do not understand what regions the government is going to settle on. They really didn't know what to bid for, how to bid, how to help people bid.

BERKOWITZ: I see. I see. So it's uncertain ...

FRIEDMAN: It's a very uncertain ..., yes, it is, by the way. And I see the association's prime contract being gone in -- it's actually been on its death throes for many years. But ... it has to go away, the ..., whatever. And what the association will do from a Medicare perspective will be to sell services because they still have a lot of talent and history and knowledge, which unfortunately the government, by the way, doesn't have. They have gotten rid -- and by the government I mean CMS -- they have gotten rid of almost everybody that has any historic perspective on the business. There are very few people from when I started, very few. And not because they all retired. I don't mean that. They left because they had been put into corners or -- and it's sad.

BERKOWITZ: Yeah. Well, maybe this tape will help create some ... institution --

FRIEDMAN: Oh, you think so?

BERKOWITZ: Yeah, yeah. Actually, I think that's a good note on which to end.

FRIEDMAN: Okay.

BERKOWITZ: Thank you very much.

INTERVIEW WITH BILL ARCHER

Washington, D.C. on June 9, 2004

Interviewed by Ed Berkowitz and Mark Santangelo

BERKOWITZ: Today is June 9th, 2004, a few days after the death of President Reagan and I am on K Street talking to Congressman William Reynolds Archer, Jr. Bill Archer is the name that he usually goes by. I want to ask you about your career and about health policy in particular. You are from Texas and the seat that you got in Congress was the seat that the senior President Bush held. Had you connections with the family or did you know him at that point?

ARCHER: Not prior to the time that I ran. Well, I knew who he was. He had been the chairman of the Harris County Republican Party and then of course been elected to Congress. He was my congressman for four years but I had not personally known him until 1969 when he was getting ready to run for the Senate, vacating his congressional seat, and I was getting ready to run for the seat. That was the beginning of our relationship.

BERKOWITZ: You must have been in touch with him and gotten to know him during that campaign.

ARCHER: Well, I did. I went to his office and met him for the first time and told him that if he decided to run for the Senate, which he had not yet decided, that I was going to run for his seat. I wanted him to know that I wasn't stepping on his toes or trying to push him out, but that if he did make that decision that I would run for his seat. That was the beginning of our relationship.

BERKOWITZ: Now, where is that seat?

ARCHER: The western part of Houston. We then had three Congressional seats in Houston. His seat, which was to become mine, was the western part of Harris County.

BERKOWITZ: Because I saw that you were also a mayor or head of a city council --

ARCHER: Right. A very small suburb of Houston on the west side.

BERKOWITZ: I see. And you also had business experience before you did this.

ARCHER: I did. I was CEO of a manufacturing company that made livestock and poultry feed.

BERKOWITZ: What caused you to go into politics?

ARCHER: It was a family business and after my father died in 1960 I sold the business. At that point I had to decide, "What am I going to do with my life?" And I was intrigued by being of some public service. I ran for the state legislature and was elected in 1966, which was the same year that George Herbert Walker Bush was elected to the Congress. Interestingly enough, my legislative seat was exactly the same configuration as his Congressional district. So I campaigned for the legislature throughout the same district in '66 while he was campaigning for Congress. I served two terms in the legislature before running for Congress in 1970.

BERKOWITZ: When you were at the University of Texas and you were a student and so on, were you always a Republican?

ARCHER: No.

BERKOWITZ: Did you switch off?

ARCHER: Nominally I was a Democrat all of my life, until 1967. The battles in Texas, like all the Southern states, were fought philosophically within the Democratic party. There really was effectively no Republican party. In 1966 I was elected to the Texas legislature as a Democrat. But after one year I became so uncomfortable with what was happening within the Democratic party both nationally and locally that I changed parties. At that time there was only one Republican in the Texas House of Representatives, and he had only been in there for two years. I became number two. In 1968 I ran for reelection as a Republican. So I had established my Republican credentials for about three years before I ran for Congress.

BERKOWITZ: Was there someone who was a role model in that regard? I mean, when you started the president was from Texas, obviously, but he was a Democrat. Was there some other figure in Texas politics that was kind of a role model for you in terms of finding your way?

ARCHER: No, not really. I can't think of anybody in Texas who was a role model for me. I remember that I thought very highly of Harry Byrd, the

Virginia U.S. Senator. I remember distinctly that he died when I was campaigning for the legislature, and I eulogized him that evening in my campaign speech.

BERKOWITZ: And you became a member of Congress. Let me talk about Congress now when you're in Washington. You fairly quickly became a member of Ways and Means.

ARCHER: Yes. I was on the Banking Committee my freshman year but succeeded in being assigned to Ways and Means as a sophomore.

BERKOWITZ: Was that a Texas seat? Or how was that determined?

ARCHER: Well, my predecessor, George Bush, had been on the Ways and Means Committee, but for the first two years I was in Congress there was no Republican Texan on the Ways and Means Committee. At that time there were only 10 Republican seats on the committee. They were big prizes, competitively sought. Texas was growing in its potential for the Republican party, and that helped me a lot in being able to get on the Ways and Means Committee.

BERKOWITZ: I see. And when you got on Ways and Means Committee, this would have been what?

ARCHER: January of '73.

BERKOWITZ: Right. They do so many different things. Did you feel that you had a specialty among the trade or income tax or Social Security?

ARCHER: I was intensely interested in fiscal matters at the federal level. It was the committee that had the biggest amount of jurisdiction that related to fiscal matters because the Ways and Means Committee presided over spending about half of the federal budget and had the responsibility to raise all of the money, as well as jurisdiction over the national debt.

BERKOWITZ: Let me ask you about the history of Ways and Means. When you came on, Mr. Mills was still the chairman of Ways and Means.

ARCHER: Yes.

BERKOWITZ: And would be for maybe three more years. When you became a new member of Ways and Means, did he take you in his office? Do you remember? Did you see him like that, and did he say, "Welcome, son, and here's what we do here."

ARCHER: Well, he didn't say “son.” But yes.

BERKOWITZ: He was older than you, though.

ARCHER: I visited with him personally and he treated every member of the committee with enormous respect whether you were a Democrat or a Republican. There was total bipartisanship whenever we met and it was just a delight to get into that environment. The Banking committee had been highly partisan. In fact, the Democratic chairman of the committee would not even recognize a Republican to speak. And the staffs fought bitterly on a partisan basis. But the Ways and Means Committee was different. The staffs worked beautifully together and everything was bipartisan. It was a delight to get on the Ways and Means Committee.

BERKOWITZ: Was Representative Byrnes still ranking or had he left by that time?

ARCHER: Yes, John Byrnes was still there for my first term and I got to know him well because in my freshman year I was taken in as a member of the Chowder and Marching Club (Jack Kemp and I were the two freshmen out of our class that were invited to join that club) where Byrnes was a senior member. Not many people know anything about the Chowder and Marching Club, but it was very valuable for me. You begin as a Republican House member, and you stay a member for life. And when I first came to Congress, Nixon was president and Nixon was one of the founders of the Chowder and Marching Club. He and Gerry Ford and Mel Laird and a number of very influential individuals had started that club at the end of World War II when they came back and were elected to Congress as returning veterans. They continued to keep it alive and it's still alive today. In fact, this year is our 50th anniversary. Byrnes was a member of the Chowder and Marching Club and all of us -- there were 20-some-odd members-- became very closely-knit. We have social events. It was like a big fraternity, really, or a small fraternity.

BERKOWITZ: What did you have to have to become a member? What was the requisite?

ARCHER: You had to be perceived as someone who was going to advance and hold the promise of ultimately being a leader within the party. They took Jack Kemp and me out of our class and then they added Pete DuPont from Delaware. Those were my three contemporaries. As a result, Jack Kemp and I are still today very close friends and our wives are very close friends. It brought a togetherness and gave me a nucleus to work from of

people who were beyond “just another member of Congress.” That helped me get on the Ways and Means Committee because there were several members of Chowder and Marching that were on the steering committee who worked very hard to help me get on the Ways and Means Committee.

BERKOWITZ: I see. Did this role on the Chowder and Marching Society give you a special relationship with President Ford?

ARCHER: Yes.

BERKOWITZ: Very soon after that he became vice president.

ARCHER: Yes, he was minority leader at the time. He came to every meeting and that gave me the ability to know him very well personally. The Chowder and Marching members meet every week on Wednesday afternoons when the House is in session. It's a totally off-the-record get-together. Everyone is totally open and candid in reporting what's happening in their state and in their committees. It plugged me into all of what was going on within the Congress. And once I left the Congress I continued to be a member and am invited back every Wednesday. Today Denny Hastert is a member, Tom DeLay is a member, David Dreier is a member—all members of the House leadership. So it -- I mean, we're getting way off the track of Medicare but --

BERKOWITZ: Right. It's interesting.

ARCHER: That had a lot to do with giving me a foundation, and Jack Kemp, too, for that matter, to move into what we ultimately did. It's not sacred in the sense that we try to hide our identity from the world. But the meetings are all off-the-record, so we can share candidly with each other any topic that we wish.

BERKOWITZ: So, now about Medicare, did you come into Congress with any views at all?

ARCHER: No, no.

BERKOWITZ: Did you have a hospital in your district that was important --

ARCHER: Well, there was a hospital in Houston that was very dear to me but it wasn't in my district. It's St. Joseph's Hospital, which is still the only hospital in downtown Houston that survived all of the changes in health care. And I was born there. The same doctor that delivered me delivered

all six of my children at St. Joseph's. So I have a very strong emotional attachment to St. Joseph's Hospital. But Medicare was not really an issue of any significance when I went on the Ways and Means Committee or when I ran for Congress. I doubt that I ever talked about health care in my original campaign. Ways and Means had no subcommittees at that time. And that's why Wilbur Mills had even greater power, because every issue was handled by the full committee and he presided over every meeting. There were no subcommittee chairmen to balkanize the system. Yet I don't recall that Medicare or health care really came up in the first couple of years that I was on the committee. Social Security did. Social Security was a big, big item and was a topic of significant interest to the committee every year. But only later on did Medicare become important.

BERKOWITZ: So when Mr. Mills left and Mr. Ullman became the head and then eventually Congressman Rostenkowski, you are saying that the atmosphere changed. It became a more partisan committee on which to work, less fun.

ARCHER: It did for a couple of reasons. The '74 elections were a dramatic watershed, restricting Wilbur Mills even had he been able to continue as chairman and had not run afoul of the Fanny Foxe event with the ultimate unveiling of his being an alcoholic, which none of us knew.

BERKOWITZ: Really?

ARCHER: No one on the committee, Democrat or Republican knew that he was an alcoholic. He was consuming up to a fifth of bourbon at night, but could come the next morning and run the committee. It was just amazing. He was unbelievably professional in running the committee with what was going on in his private life. But even had he not been afflicted with alcoholism and “Fanny Foxe,” he could never have run the committee again the way he did.

BERKOWITZ: There would have been subcommittees.

ARCHER: Well, that was one part of it, but there were a lot of other changes. We are getting way off of health care but it's fascinating to me. If I write a book this will certainly be a part of it, that Wilbur Mills had the power to make the committee assignments for every Democrat in the House.

BERKOWITZ: Committee on Committees.

ARCHER: He was the Committee on Committees. I mean, his committee was. The Ways and Means Democrats were. But that meant he was, because he dominated the Democrats and in the right way dominated the whole committee. I don't mean that he was arrogant or overbearing. But he was just such a strong presence that he dominated it. After the Watergate elections, the Democrat caucus took the committee assignment power away from him. They didn't want one person to have that much power, and particularly a moderate conservative. Once he lost that, he lost a lot of his power in the overall House. As I mentioned his power was also diminished by forcing the subcommittees. In addition, the committee was expanded and it went from 25 to 36 members. He had a lot of new, differently motivated people that were put on the committee, a lot of freshman that had never been on a committee before and that were not nearly as controllable, as it were. "Control" is really not the right word, but earlier members realized that you needed to work a while and build your way up and you were part of an overall teamwork process and that you shouldn't try to drive the show yourself. That all changed. Finally, the seniority system, which protected every committee Chairman, was abolished. Each chairman thereafter was elected by the Democrat Caucus making his conduct subject to the will of the caucus. Mills could no longer operate in total freedom.

BERKOWITZ: Let me ask you now a quick couple of things about the medical field. After Mills left and subcommittees came in, one thing that happened was that Congressman Dingell acquired a certain amount of power over health programs that had previously been Ways and Means property, particularly Medicaid and Part B of Medicare. Did that come across? I know that was something probably handled very much by the Democrats.

ARCHER: I wasn't involved in that, and I really can't give you anything on that other than what you already know.

BERKOWITZ: Because I always thought it's interesting that the Finance Committee has all those things so it creates an asymmetry.

ARCHER: Yes, and it's not a good situation. There should be restructuring to the created jurisdictions, in my view. But touching that is touching dynamite. All of health care ought to be in one committee. It's too big an issue and too important an issue and too complex with too much interrelationship for it to have it spread out in jurisdiction. Welfare should, too. That's another good example, where there are three or four committees that deal with welfare and you don't have a coherent policy as a result of it.

BERKOWITZ: So you talked about how Medicare wasn't really a big issue when you first came in. It had just been passed really a few years before, but eventually it becomes an expensive and noticeable program, as does Social Security, as you already pointed out, in the '70s. Now, were you on the Social Security Rescue Commission?

ARCHER: Yes.

BERKOWITZ: Where did that come from, your appointment?

ARCHER: Well, the White House could appoint a number of members, the House could appoint a number, and the Senate a number. The Senate appointment was by the leadership of both parties and Democrats had a majority that were appointed, but the Republicans could appoint from the Senate. The same in the House, and then the White House could appoint. I think the White House had five appointments. I don't remember the exact number breakdown. Maybe it's more. But in any event, I was picked as one of the Republicans by the House leadership because when I got on the Ways and Means Committee I was really interested in long-term issues. There was no subcommittee on Social Security and nobody really was interested in Social Security on the committee. It was just a political cash cow to increase the benefits, to get votes. Nobody paid much attention to what was the long-term implication. I dug in, determined to learn everything I could about Social Security and all of the long-term impact of what we were doing. Bob Myers, who was one of the initial actuaries at Social Security was excited when I came to him and said, "I want to study at your knee and learn about Social Security." So I had taken a very strong position on Social Security issues. I had been very obvious. I spoke against that Social Security Bill in '73 on the floor of the House. And I was told, "It's been nice knowing you. You're not going to get reelected." But I had done my homework and I had been very prominent in articulating it. So I pretty much stood out to be picked for the commission.

BERKOWITZ: Were you at odds with Mr. Pickle, another Texan, who was also very involved in that field?

ARCHER: Well, Pickle and I probably agreed more than we disagreed on issues.

BERKOWITZ: I know he had a bill that -- in that period of time he was involved in the politics...

ARCHER: No, he became chairman of the Social Security subcommittee when we went to the subcommittees. And Jim Jones, a Democrat from Oklahoma, also became active on the subcommittee. We had a bipartisan coalition that was ready to move on making some major structural changes on Social Security to try to save it. But we were blown out of the water by the politics of it when Reagan became president. If your inquiry were on Social Security I'd spend a good bit of time talking about it, because there's a lot to be said about what happened and why we are where we are.

BERKOWITZ: So now the bill that came out of that discussion, which usually is acclaimed as a great accomplishment and President Reagan was very enthusiastic about, but I gather you were less so?

ARCHER: Well, of all the members on that commission, three of us filed a minority report and did not support the proposal.

BERKOWITZ: That was you; Mr. Waggoner, maybe, was the other. And I'm trying to think who the third --

ARCHER: Senator Armstrong. There were a number of other members who didn't like it and wanted to be against it but they were called down to the White House and were told, "We appointed you and we expect you to support this."

BERKOWITZ: Did you come to admire Robert Ball?

ARCHER: Ball and I disagreed a lot on substance and what ought to be done but I grew to respect him because, contrary to a lot of conservative friends of mine, I recognized early on that you're not going to abolish Social Security and you had better find a way to make it sustainable. And so, toward the end he and I were working pretty well together because he definitely wanted to sustain it and keep it going. I recognized that we needed to do that, and we worked together on some of the specifics of how we should try to sustain it. Over the years I did grow to respect him. But Myers I respected from the beginning. He and I were totally in sync and I thought he was very realistic about it. He also wanted to see it survive and continue.

BERKOWITZ: And he was the staff director, I believe, of that commission.

ARCHER: Yes, he was.

BERKOWITZ: Now, on that bill which passes in 1983, there were also Medicare provisions. But the commission that you were on didn't talk about Medicare.

ARCHER: By the way, the main reason I didn't support it is I didn't believe the actuarial projections that the proposed reform would save Social Security over the long term.

BERKOWITZ: And you were right.

ARCHER: And I was totally right. Of the three actuarial projections that they gave us, one was optimistic, one was intermediate, one was pessimistic. The Commission used the intermediate projection, but I pointed out to them that the pessimistic projection was better than the history of what we had gone through. So how in the world could we accept that the intermediate was the one that we ought to be satisfied with and say, “Now we've saved it?” Sure enough, at the end of the 75 years in the 76th year the Social Security Trust Fund became insolvent.

BERKOWITZ: And every year that passed, of course, brings you ...

ARCHER: Yes, worse and worse and worse.

BERKOWITZ: Right.

ARCHER: I bore the curse for all of my legislative career of being more concerned about long-term problems than those in the next year or two. I wanted to be able to end my life telling my grandkids, "I saved this for you for the rest of your life," and I couldn't say that. But I was right. I was right in 1973 when I spoke against the Social Security Bill and there were only 23 votes against it. I pointed out in the debate that what they were doing would create a half-trillion-dollar deficit in the fund, and I would not leave that to my children and grandkids. When the final actuarial work was done a couple of years later, it was four trillion dollar deficit in the fund as a result of what happened in '73.

BERKOWITZ: '72 or '73?

ARCHER: '73.

BERKOWITZ: So not the indexing, but the year after.

ARCHER: Yes, the indexing, as it turns out, was a very positive thing because it restrained the ad hoc political decisions that were increasing the

rate of benefits in excess of the rate of inflation -- dramatically in excess. In the period from '68 to '73, benefits were increased by 70 percent while the inflation was 20 percent during that five-year period. So the real benefits were increased -- purchasing power of the benefits--by 50 percent in that five-year period. Then on top of that base they added the indexing escalator. In addition what was really bad was that in '72 the law began the COLA in '73. But our committee came back in 1973 and said, "Well, that's too harsh. We'll increase the benefits another 11 percent and then –

BERKOWITZ: I see.

ARCHER: -- let the COLA go into effect."

BERKOWITZ: I see. And that's when you objected.

ARCHER: Yes, that was when I resisted as vitally as I could. It was fascinating, though, all 23 of us who voted against the bill were reelected.

BERKOWITZ: Even in 1974.

ARCHER: Yeah. That's right.

BERKOWITZ: That's interesting. So let me ask you just briefly about Medicare-- this is something that kind of gradually becomes an issue that crossed the screen. In 1983 the DRGs, for example, were put in, these diagnosis-related groups. Is that something that you were involved in at all as part of that 1983 --

ARCHER: Yes. I was involved in the deliberations on that as a member of the committee, albeit I was in the minority. But I had begun to move up and the 1974 elections moved me up more rapidly than I had reason to expect. I very much got involved in Medicare because I was then aware that health care was becoming a bigger and bigger issue. I was very concerned because I couldn't understand how the answer lay in -- and I remember talking about this at that time -- creating a transformer for Medicare where you had certain different slots. I compared it to running an electric train when I was a kid, that you could have a rheostat that could run that engine at any speed. And as you moved the rheostat across the engine kept running faster and faster and faster. But if you used a regular transformer, you had little metal spots and you could move on one spot and then you could move to the next but there would be a speed in between that you couldn't capture. When the DRGs came into effect they operated on the basis of, “Well, this is all black and white. Here's what you do here. Here's what you do there,” and that isn't the way health issues

work. It's got to be like a rheostat that can move without gaps across the field. Of course DRG's happened, and I guess it's been made to someway work, but I still think it's not the appropriate thing to do.

BERKOWITZ: Did you have another proposal, finer tuned?

ARCHER: I don't recall having a specific answer, and no one else has. There is no easy answer. There is an answer to Social Security and I can give it to you. But there is no answer to health care. I believe it is the single most daunting domestic issue facing this country in the next 20, 30, 40 years.

BERKOWITZ: So I take it then by the time you got to be the head of the Ways and Means Committee, which was in 1995 --

ARCHER: January '95, yes.

BERKOWITZ: That you had already been in Congress now for some time. By now health care is definitely right up there in terms of people's concerns.

ARCHER: Big time.

BERKOWITZ: So when did it become for you clear that this is something that -- have to look at?

ARCHER: I don't know exactly. I'm not sure there was one precise moment when I woke up and said, "Well, now we have to worry about health care," because it was a growing thing. But I got very interested, because the biggest medical center in the world is in Houston, Texas.

BERKOWITZ: Is that Dr. DeBakey's medical center or is that different?

ARCHER: It's created by M.D. Anderson, who was a wealthy cotton broker who left all of his money to create the medical center. And it just continued to grow and grow and grow. DeBakey is a part of it. But Cooley was his counterpart in another part of it, who did some of the first open-heart surgery. It's the biggest employer in Houston, Texas. It had an influence politically on anybody who represented Houston, Texas. It certainly influenced me. Then I began to get feedback from St. Joseph's that they didn't know whether they were going to survive or not because they had such a high percentage of indigents and Medicaid patients and Medicare, too. Reimbursements were being pushed back. I remember very well that early on I started using the standard of, what will this do to St.

Joseph's Hospital? Can they survive? Whatever program or proposal we are getting ready to adopt, can they survive? Because they were a non-profit hospital, there was no allegation that they were getting rich off of reimbursements. I was a great adherent to the private practice of medicine. I believed it had given us the best health care system in the world. I could see it slowly eroding with the U.S. moving away from the private practice of medicine. I fought that as long as I could, and then realized that it just wasn't going to survive. I worried about the HMOs because although I could see an initial benefit to health care costs by squeezing down the amount of payments made to the hospitals and the doctors initially creating extra efficiencies in a variety of different ways; but then once you had reached the bottom of that level, then what do you do? I remember thinking along those lines because there is no encore. There is no encore after you have gone as far down as you can without destroying quality, because the pressures of the cost pushers are still there. No one has really addressed that. I became concerned about getting into what the cost drivers in health care are. Can we isolate them? Can we quantify them? And then can we intelligently take a new approach that will help us to reduce the push of the cost drivers? I contacted the President of the University of Texas system in Houston, and he said, "You're right on target and I am instigating a study that's going to take a couple of years. We're going to identify the cost drivers, and we're going to quantify what each of them is doing to drive up the cost of health care." I was so excited. In two years he came back and said, "Can't do it." So I then went to the GAO and requested they do the study. I worked with them for two years, and they assured me they had all the resources to get the job done. But two years later they said, "We can't do it. It's impossible." They did, however, say that the single biggest cost driver was technology, without being able to quantify it. And that's why to me it's imponderable. No one is going to stop the advance of technology.

BERKOWITZ: Well, then how did you react to the system where there are going to be costs going up all the time, the government was the largest single payer, and yet it was not considered a beneficial system?

ARCHER: You know, we tried every way that we could within that structure to try to make it more efficient. And we had some success . We prolonged the life of Medicare by some of the reforms that we put in place, trying to involve the private sector to a greater degree, trying to create more competition, trying to create more involvement on the part of patients so that you could have an impact on behavioral response. You could achieve just so much, and then when you tried to go beyond that you got into the political arena and you were snuffed out in your ability to be able to increase even slightly the co-pays which would have an impact on

behavioral response. The one thing that we do know is that there is over-utilization in an awful lot of the system. If you can push technology aside -- which you can't -- and then look at the rest of what's involved in health care, then certainly behavioral response is something that's got to be impacted in order to have a better system. I've got a son who is a doctor and who has spent a lot of time in public policy. He was Assistant Secretary of HHS under Louis Sullivan. He's got, I think, an incredible approach that is very creative. By the way, you may want to talk to him because he also ran the health system for the entire State of Texas.

BERKOWITZ: Uh-huh. Where is he now?

ARCHER: He is now here in Washington and he works with Hill and Knowlton, which is one of the bigger P.R. firms.

BERKOWITZ: Right.

ARCHER: His office is down in the Watergate complex. He has my name. His name is William Reynolds Archer III. He goes by Reynolds, by Ren. But I have explored it a little bit with him. I am told by people who know even more about health than I do that he has got a really creative approach that can help us in this area and it's built on holistic concept that accentuates preventive health care and entire lifestyle. It's good you are doing this because the latest data that I get from our economic division right here in our Price Waterhouse Coopers shop is that over the next 50 years health care will be six times more than Social Security in driving the cost of the federal government. We used to think Social Security was the biggest budget spending problem in the long term, but our recent analysis now projects health care is six times bigger as a spending push than Social Security over the next 50 years.

BERKOWITZ: I see. Interesting. But as you say, it's a very intractable issue you've got because you want to have consumers have a role. You want to have choice, freedom of choice so you keep your doctor, but you want to keep costs down. And maybe those objectives sort of contradict one another.

ARCHER: Well, and the other thing that is now I think reaching the point of being counterproductive is that we have squeezed down the reimbursement to such a degree on the physicians that we are having a different type of young person entering medical schools. It remains to be seen about how long we can turn out top quality physicians when the economic incentive has been reduced to such a great degree. That's probably worth another story.

BERKOWITZ: So where is the issue right now?

ARCHER: Well, I don't know. I started out by saying I don't have an answer to health care. I can tell you a lot of the problems but I sure don't have an answer to it. There are those who will tell you they do have an answer and I would take that with a grain of salt. I do think patient involvement is extremely important and that's why I was the original author of medical savings accounts. For a while after they became law they even had my name attached to them. Now Congress has enacted a broader iteration with health savings accounts which are basically what I introduced originally. The whole concept combines savings and health expenses with individuals determining where they want to spend their money on health care. If they spend it more wisely, then that money accrues to their benefit in a savings account. Teddy Kennedy and I negotiated what would go on the books on medical savings accounts initially. I kept wanting him to be more expansive and he kept wanting to be more contracted and more limited. At one point there in our discussions he leaned over to a staff person and said, "We can't do what Congressman Archer wants to do here, can we, because then we'll never get rid of him." It told me he believes in his heart that a government-run system --

BERKOWITZ: Single payer.

ARCHER: -- single-payer, any way you want to entitle it, is the way to go. He believes that's the right thing. And maybe we'll end up there. I don't know. I'm hoping there is a better way to do it. Whether it is through medical savings accounts or whether it is the new concept that you give every person a tax credit and they can then buy their own insurance, part of the problem clearly is that with a third-party payer, whether it's the government or whether it's a private insurance company, people are not going to be as sensitive to getting the best quality for the least money.

BERKOWITZ: It's like going to a hotel and saying, you know, just don't give us your credit card, just use the mini-bar. Do whatever you like.

ARCHER: Well, I heard from a German many years ago that there was one community in northern Germany where they had the highest medical bills in the country and they had the most doctors. They had first dollar coverage and these people just went in to see the doctor for anything that they wanted. The doctors loved it, but it was just bleeding the system. We've got to find a way that's better. Obviously there are a lot of things that can be done. We can try to get people into clinics instead of emergency rooms. I still believe in all of my investigations that malpractice

is a major contributor to cost increases. And yet I could not get the government estimators to attach any revenue impact to malpractice reform, tort reform. They went on assumptions as if it didn't cost the system anything.

BERKOWITZ: No, but it clearly does.

ARCHER: Of course it does. And it's not just the awards, it is the doctors' time that is taken away from the delivery of health care, time they must spend on depositions and court trials. Secondly, and maybe the biggest of all, is defensive medicine. I've had physicians tell me, "If I could deliver health care to every one of my patients the way I would deliver it to a member of my family I could cut the cost 50 percent because I know a member of my family is going to know that I'm making the best judgment and they're not going to sue me." That's another political problem, of course.

BERKOWITZ: Right, right. Well, this gives us a good panoramic view of things. I really appreciate it. Thank you very much.

INTERVIEW WITH JUDITH D. MOORE

Washington, D.C. on April 21, 2004

Interviewed by Ed Berkowitz

BERKOWITZ: Today is April 21st and I'm here on K Street in Washington with Judy Moore and I'm also here today with Sarah Mergel and Mark Santangelo. As I mentioned, I wanted to ask you about your career and about HCFA. And I see you've got a list of your offices and jobs that you had there. But why don't we start with how you got into the government, maybe?

MOORE: I came to Washington on a fellowship to go to graduate school at George Washington University and quickly realized that I would be able to pay my rent and my books and my tuition but I wouldn't have much left over to eat on. So I got a part-time job in the Public Health Service in their legislative liaison office as a GS-3 clerk-typist. I worked for a wonderful woman who was very interested in bringing women into the federal government and was quite a mentor to me. She was a lawyer and in the legislative office for the Public Health Service, and she had me doing lots of things besides just typing and filing. I got to cover some hearings and I got to read the Congressional Record every day. So at the end of my course work I took a job with the Food and Drug Administration as a legislative analyst.

BERKOWITZ: What year was that?

MOORE: That would have been 1966. I started in PHS part-time in 1965.

BERKOWITZ: Food and Drug Administration, you said.

MOORE: Right.

BERKOWITZ: Here in Washington?

MOORE: In Washington, yes. One of the reasons I didn't stay with the Public Health Service is because they had moved their office from downtown Washington – what is now the Switzer Building, what was then called the South Building – to NIH. I thought that was so far out in the boondocks, which seems funny to me now, that I didn't want to commute

that far. So I went to work for the Food and Drug Administration as a legislative analyst.

BERKOWITZ: And what had you been studying at G.W.?

MOORE: Public policy, public administration. It was actually called Public Affairs at that time.

BERKOWITZ: Public Affairs. So it is what is now today part of the Elliott School, I guess.

MOORE: Yes, exactly.

BERKOWITZ: And I think we also had a Public Administration program as well.

MOORE: Yes.

BERKOWITZ: But that was a different program, I guess.

MOORE: That was a different program and I was not in that.

BERKOWITZ: So you were getting a Master's in Public Affairs.

MOORE: Right, exactly.

BERKOWITZ: Because you had some interest in government?

MOORE: Because I had an undergraduate degree in history and political science. I wanted to come to Washington. And it was the '60s, which was the time when lots of young people wanted to come to Washington and be part of the government and part of public service. So that's what attracted me here. I applied to the graduate program and got accepted and got a fellowship, and here I was.

BERKOWITZ: And where were you coming from?

MOORE: I grew up in Iowa, Kansas and Kentucky. I graduated from a little college in Indiana called Hanover College with a bachelor's degree in history and political science.

BERKOWITZ: Is that in Hanover, Indiana?

MOORE: It is in Hanover, Indiana, it is.

BERKOWITZ: Which is where?

MOORE: Which is on the Ohio River about 40 miles from Louisville, about 50 miles from Indianapolis, and about 50 miles from Cincinnati.

BERKOWITZ: It's near New Albany.

MOORE: Near New Albany, yes, it is.

BERKOWITZ: Right. Okay, so you came to Washington, big metropolis, worked for the FDA.

MOORE: Right.

BERKOWITZ: But already had experience in health. When you studied in college were you thinking about health?

MOORE: No, absolutely not. I had no background whatsoever in health, medicine, no family ties. It's interesting, as I interview people these days I find many young people who want to go into health policy or health financing are daughters or sons of doctors or people who have been in this field before. But I had absolutely no ties to it whatsoever.

BERKOWITZ: I see. So you worked at the FDA at presumably a pretty low level job.

MOORE: I was a GS-7, I got promoted to a GS-9, I got promoted to a GS-11, all those grades as a legislative analyst. And I was lucky to be in FDA at a time when it was expanding tremendously. There was a lot of interest in regulation of drugs. There was a new law passed in '62 to expand the regulation of drugs tremendously. There was also a lot of interest in the mid-'60s in consumer protection, truth in packaging, truth in labeling, those kinds of things. We were just slammed as a legislative office. There were three of us who worked for an assistant commissioner and we were just in great demand on the Hill in terms of hearings. We had a new Commissioner named James L. Goddard who was an M.D. He was the first M.D. to ever run FDA, which had been kind of a backwater, traditional regulatory agency until it was all of a sudden considered kind of a health and consumer protection agency and we had an M.D. director. He was pretty flamboyant and Congressional committees liked to have him come and testify because they got lots of headlines. I think the late '60s were really the beginning, in my view, of Congress becoming a bit aware that you didn't have to be an investigative committee to make some hay and

get some publicity. The aging committees got very good at that in the late '60s. And so Dr. Goddard was much in demand as a witness and we sometimes had as many as two or three hearings a week. So I got thrust into a situation where I got to do lots of things that normally you wouldn't get to do, especially in a stuffy, old-line agency like FDA, at a very young and inexperienced age, including writing testimony and sitting behind the commissioner and shoving pieces of paper at him when he had to answer questions on things that he wasn't completely confident about. So I did that for about two and a half years.

BERKOWITZ: Do you remember who you were appearing in front of?

MOORE: Senator Nelson I remember quite clearly.

BERKOWITZ: From Wisconsin.

MOORE: From Wisconsin. Also Representative Fountain.

BERKOWITZ: He was a very influential fellow. He had an investigative committee on the House side.

MOORE: I think Representative Rogers, who was chairman of the Health Subcommittee. And Representative Harley Staggers, who was chair of what was then called the Interstate and Foreign Commerce Committee as I recall, not Energy and Commerce.

BERKOWITZ: And he was later the head of the whole committee.

MOORE: And I went to many, many, many hearings and took notes and got to know some of the staff and then also hearings where FDA was testifying or other hearings where other witnesses were testifying. I loved working with the Hill. I loved the legislative offices. Lots of people didn't like that because it was sort of fast paced and you had to do it by the seat of your pants. But I loved that. And through my career I really spent a lot of time in legislative offices.

BERKOWITZ: This was post-thalidomide in the FDA. So that they were always afraid that there was going to be another unregulated drug or a drug that they didn't understand the consequences of that would appear and produce these adverse effects, and so on.

MOORE: Right.

BERKOWITZ: Must have been very exciting though. And I guess the Congressional staffs were just sort of gearing up to become as large – you know, as large as they would later be. They were much smaller, I guess....

MOORE: Yes, they were much smaller. There were generally only a couple of people on each committee staff and they handled a whole huge variety of health issues, for example. I cannot remember the name of the Energy – I mean the Interstate and Foreign Commerce Committee staff director who dealt with health, but he handled FDA, he handled all the PHS Act programs, and probably some other things that I didn't know about.

BERKOWITZ: I see. So you eventually left the FDA.

MOORE: I left the FDA in 1968 just during the election time and I went on a detail, ironically enough, to work for a commission that Phil Lee was chairing as Assistant Secretary for Health, although I was very junior and really had very little to do with Phil Lee, didn't know him at all. And it was a commission or a committee on prescription drugs in Medicare.

BERKOWITZ: Which has been much talked about lately.

MOORE: Which of course was the first foray into, can't we put a prescription drug benefit into the Medicare program? And it was my first experience with the health care financing programs. And I was asked to go on a detail to work with this group because I knew FDA and drug policy. The Commission was phasing down and they were just finishing it. A fellow by the name of Mark Novich was the staff director of that. He became deputy commissioner and I think commissioner of the Food and Drug Administration, maybe in Bush 1. He was in Carter and then I think he came back later in Bush 1. In any event, he was the staff director. But then the election changed everything because Nixon was elected. And so I was sitting there in the office of the Secretary on a detail when the Republicans came in. And through some friends I had an interview with Bob Patracelli, who was then the deputy assistant secretary in ASPE.

BERKOWITZ: Assistant secretary for planning and evaluation?

MOORE: Yes, deputy assistant secretary for planning and evaluation in ASPE. And he hired me to work on health issues. And so I went to work then in ASPE right at the beginning of the Nixon Administration.

BERKOWITZ: And they were running this big health insurance experiment, weren't they, at the time? Or about to?

MOORE: They had not started the Rand health insurance experiment yet. I think that didn't start until probably '69 or '70.

BERKOWITZ: It was still in OEO, maybe. It was being….

MOORE: Yes, that's right. It was funded in OEO. I had forgotten that, yes. And OEO didn't merge with the department until '70, '71, something like that, maybe even later than that. So I worked in ASPE on a variety of matters related to health generally, not health financing so much as Public Health Service kinds of things and particularly the White House Conference on Nutrition, which was in 1970 and which came about as a reaction to the War on Poverty and the protests around poverty programs and the Nixon Administration's family assistance program or FAP, which was a proposed federalized welfare benefit.

BERKOWITZ: Introduced in 1969, or so.

MOORE: '69, right. And Bob Patracelli worked with Moynihan, who was on the White House staff and Dick Nathan on that very, very closely. Dick Nathan was at OMB then. And I did a lot of staff work with Bob Patracelli on the family assistance program. But I was pretty junior. I was a GS-12 at this point. I didn't really sit in on big time meetings and so forth but I was exposed to a lot of people and activities and I was the sort of chief staff person in HEW, then-HEW, on the White House Conference on Nutrition.

BERKOWITZ: Was the guy at Tufts involved in that?

MOORE: Yes. Jean Mayer. He was the outside chair of the White House Conference. I don't remember much about him except that he had quite a nice French accent. The White House Conference on Nutrition really was very much a Nixon Administration reaction to the welfare rights people who had been picketing and were very, very vocal and noisy and difficult for them. Bob Patracelli had worked for Senator Javits, and Javits had also been very heavily involved in the hunger issues and the welfare issues from the Committee on Labor and Public Welfare, I guess it was called then. So I worked in the nutrition conference in ASPE in around '69-'70 and then Bob Patracelli and his entire staff, which included about three or four others besides me, were kind of moved out of ASPE and Bob became the deputy undersecretary of HEW. He was like the third ranking person in the department and all of us who worked for him went with him. And our titles became “special assistant to the secretary,” which was kind of nice. At that point maybe I was a GS-13. And at first Secretary Finch – Bob Finch was Secretary. He left reasonably quickly and then Eliot Richardson was

Secretary. So I had the extremely exciting and wonderful experience of being able to work very closely with Eliot Richardson at a very, very young age. He was a magnificent man, magnificent Secretary, very open to having people like me sit around at big meetings and listen and watch and learn. It was quite a wonderful experience to watch him try to organize the department and integrate the department in a way that no one had tried, at least in recent memory, to do. He was not particularly successful at that but he did try. And then we got more and more into health in terms of the department hierarchy and the office of the secretary. Stuart Altman came in to be deputy assistant secretary for health in ASPE in about 1970 and took over much of the health policy in HEW. One of the big complaints about FAP, the Family Assistance Plan, which was the federalized welfare program, was that the health part didn't work. So first they came up with something called FHIP, which was the Family Health Insurance Program and it was kind of a mess. And then later after the welfare reform FAP proposal died because the Senate Finance Committee was having none of it, Stuart Altman and company came up with something called CHIP, a Comprehensive Health Insurance Proposal. I was kind of on the periphery of some of that. And in those days, there were health messages by the president. There were actually annual messages around specific categories of programs. Usually there could be as many as five or six or seven messages in a given year. You would have a State of the Union and then you would have the health message or the welfare message or the transportation message or the whatever. And in one of the health messages – I would say it must have been '71, possibly '72, but I think '71 – at the last minute they stuck in this kind of afterthought about health education because there was all this financing stuff floating around. I think this must have been the CHIP health message, the message that had the outlines of the proposal on health insurance in it. And then I got to have one of my more interesting experiences, which was to go to the White House with Bob Patricelli and use the White House operator to call people up and ask them to serve on this commission. It was considered to be much more likely to get a yes out of people to call them from the White House through the switchboard than from your office at HEW. So we would go and sit and we did this two or three times. We had our list of people that we wanted to serve on this national commission….

BERKOWITZ: On health education.

MOORE: The President's Commission on Health Education. And so the White House operator would say, "It's the White House calling for so and so." And then Bob or I, depending on how important this person was, would get on the phone and say, "We would like for you to serve on the White House Commission."

BERKOWITZ: Did you actually go to the switchboard room?

MOORE: No, we borrowed somebody's office.

BERKOWITZ: In the West Wing?

MOORE: In the West Wing, yes.

BERKOWITZ: Wow.

MOORE: Yes, yes. So we sat there and made our phone calls. We went on two different occasions to do that. That was kind of interesting. And then I staffed that health education group.

BERKOWITZ: Who was that? Who was chosen to be the head of that? Do you remember?

MOORE: Oh, heavens. It was a fellow from Metropolitan Insurance and I don't remember. Don't remember his name. I used to have some files on that. I think I have thrown them all away. At the same time I was working more on health education and nutrition and some other public health, maternal and child health kinds of things. There was a lot of other work going on around me with Bob Patricelli and others that I knew, on Medicaid. And that was my first exposure to Medicaid, probably '69, '70, when they had a commission to look at the extremely high cost of the Medicaid program and how they were going to control that.

BERKOWITZ: It was in HEW?

MOORE: It was an HEW thing. It was chaired by Walter McNerney, who was the president of Blue Cross/Blue Shield. And it was staffed by a young fellow named Larry Lewin, whom I met at that time, who had never done anything in health before and who later built quite a very large consulting firm that got sold and I think is part of some very large company now.

BERKOWITZ: Right. Lewin Associates.

MOORE: Lewin became very well known in the health field but had never worked on health before the Medicaid Commission. It was a good time to be learning health because there were a lot of other people learning health at the same time.

Actually, when my colleague and I, who are doing some interviews on Medicaid history, when we interviewed Stuart Altman he said, "I didn't know health."

BERKOWITZ: He had been in the Department of Defense, as I recall.

MOORE: He had been in the Department of Defense and he had written about unemployed women. He was a labor economist, written about unemployed women, which led him to nurses, which led him to become a health expert very quickly.

BERKOWITZ: I see.

MOORE: There really weren't very many people who were health experts then.

BERKOWITZ: So this Medicaid group was concerned about high costs. I seem to remember that New York was a particular problem in those days. Or is that maybe before this date?

MOORE: New York was a particular problem. The costs were just growing everywhere so much more rapidly than they had anticipated. And they didn't feel like they had much federal control over the program, which they really didn't. I mean, it had been set up as a public assistance-type program that the states were going to run. It was expected to be kind of a minor expansion of the Kerr-Mills program, which had been a relatively small program in most states. And it turned out to be much bigger than that. There are folks who say that Rockefeller as governor of New York used Medicaid as a political tool to gain support in New York City where lots and lots and lots of people were put on the Medicaid program and that that became a political plus for him in New York City, where he needed support, whereas upstate they were always more friendly to Republicans than downstate.

BERKOWITZ: And health and hospitals I guess would have been a good source of getting people on Medicaid in New York City.

MOORE: It was a very expansive program....

BERKOWITZ: And it was an open-ended entitlement.

MOORE: It's an open-ended entitlement. It always has been. There was a fair amount of flexibility in terms of states defining benefits and New York defined a very, very large benefit package. And one of the elements of

their benefit package I think from the beginning has been personal care services so that elderly people or disabled people have been able to have a personal care attendant kind of person to help them. In New York the state paid half and the feds paid half. And that's a very, very large program in New York State. It's been very expensive and it's been there I believe since the beginning of New York's program, certainly since the late '60s.

BERKOWITZ: Let me ask you another question. In those early Medicaid days was there wide variance in patient stays by state or some states reimbursing more days?

MOORE: Yes, and that's still true to this day. It reflects not only the state of health care in a particular – I mean, the way health care is delivered in a particular state – but it also reflects the rules that a particular state chooses to govern their Medicaid program. Some states do limit the number of days that Medicaid will pay for care in a hospital and always have had those limits, although there are fewer of those than there used to be. Now of course if somebody is on Medicaid and they are in the hospital for 25 days and the state only pays for 10 days, somebody is eating the rest of those 15 days. But the state is only paying for 10 days and the federal government is only matching those 10 days.

BERKOWITZ: That's interesting. What were the incentives for a state to make its Medicaid package more liberal?

MOORE: It was internal politics. It was the medical care community, how medicine was practiced. It had to do with whether there was a strong Blue Cross plan and a strong community sense of providing for people who need care – a whole lot of different features, but primarily politics, culture of the state and medical environment.

BERKOWITZ: So now we are up to about 1971 or '72 or so.

MOORE: Yes, Bob Patricelli left the department and his office disbanded. The office was kind of wiped out. Dick Nathan actually came over to take the Deputy Undersecretary's job but he was only going to work on welfare. So those of us who had worked more broadly as special assistants to the secretary doing a whole variety of things scattered to the winds and I ended up in the Social and Rehabilitation Service, or SRS, as the deputy director of their legislative liaison office.

BERKOWITZ: Pretty high up.

MOORE: Well, gee, by then I was a GS-14.

BERKOWITZ: Really?

MOORE: And I then worked almost entirely from '72 to '73, about 15 or 18 months, on the Vocational Rehabilitation Act, which was being reauthorized at that time.

BERKOWITZ: The famous Section 504 was going to be legislated in 1973.

MOORE: Exactly. I was part of the legislative liaison group from the department side that worked on that V.R. legislation, which was a very interesting mix of welfare and health for me.

BERKOWITZ: So you worked on the vocational rehabilitation program at that critical time when the legislation was getting vetoed several times by the president.

MOORE: Yes.

BERKOWITZ: Nixon made it an issue and Congress made it an issue because they picked that program to test the President's impounding of the budget. Does this ring a bell with you?

MOORE: Yes. See, I remember it more in the budget context. These were the days of the Nixon attempts to impound money which eventually led to the enactment of the whole budget structure in the Congress and establishment of CBO to do cost estimates and all of that kind of thing. This was the era of everybody worrying about cost overruns and the structuring of whole new programs in an appropriations bill, rather than in an authorizing bill which of course actually is what happens now because we have omnibus budget reconciliation bills, which is where we structure whole programs. In any event, there was a lot of that flurrying around. But I wasn't as involved in that as I was in the more traditional authorizing side of the legislative process.

BERKOWITZ: That's interesting, too, because they succeeded in making their percentage of matching much higher than 50-50 by 1970.

MOORE: Yes. Then in SRS they offered that anyone who wanted to take their job and their slot, if you will, to a regional office could do so. My husband was just finishing law school. And we decided we would move to Seattle; so we did.

BERKOWITZ: Is that a regional headquarters?

MOORE: There was a regional office in Seattle. So I spent three years in the regional office in Seattle and I worked on a whole variety of things out there. This was the time that they had just closed off the entitlement, the unlimited match for Title 4A, social services. That loophole had been closed in '70 or '71. Actually, maybe it was '72. It was when I was in the SRS legislative office. And there were huge fights between the feds and the states over whether they had appropriately expended social service's funds and therefore were entitled to this – gosh, I think it was a 75- or a 90-percent federal match. I mean, it was a huge match.

BERKOWITZ: It was one of those games where they took things they were doing anyway.

MOORE: Right. And refinanced them. Uncontrollable spending for social services. Anyway, there was a huge lawsuit between Washington state and the federal government and I spent a huge portion of my time on that, trying to negotiate some kind of a conclusion to that. And as much time as I spent on it, I can't tell you very much about it now. It kind of leaves my mind. Another thing that I did, though, was to work a lot on Medicaid and some Medicaid rural health grants that had been mandated in the appropriations bill. It was a set-aside of Medicaid money that went to the Public Health Service to do rural health grants. So I worked as a Medicaid person with the Public Health Service in Seattle to do a lot of rural health grants.

BERKOWITZ: In Alaska?

MOORE: In Alaska. Actually, in Washington State. All over. I mean, there were a lot of rural areas. That's Region 10. Region 10 consists of Washington, Oregon, Idaho and Alaska. So I was in Alaska, in Idaho and Washington State. It was a competitive process so I worked with the PHS people in awarding those grants to little towns. And everybody wanted to have their own hospital. The idea was to make sure there was access but to try to rationalize service delivery a little bit more, a little bit better. I learned actually a lot about rural health, which was fascinating. I also during that time worked on grants to schools of social work, another big emphasis of SRS, which was to try to get more social workers to learn how to manage things. So I worked with a lot of schools of social work.

BERKOWITZ: So what years were you in Seattle?

MOORE: '73 to '76. Then I came back to be the director of planning, evaluation and legislation--that's not quite the right title, something like

that. Those were the three pieces to it in the Medical Services Administration, which ran the Medicaid program.

BERKOWITZ: And part of SRS.

MOORE: It was part of SRS. The Medical Services Administration commissioner was Keith Weikel. I was one of his senior staff people and I had a small legislative staff that did legislative liaison for Medicaid. Then I had a small planning staff that did longer range planning. And then I had a small research staff that related to the SRS research and demonstration office. So this was my first exposure to Section 1115 grants and demonstrations which have come to be such a very large part of the Medicaid program now.

BERKOWITZ: Interesting that you had an office that related to this SRS research and demonstration which related to ASPE.

MOORE: Right, right. Lots of complicated structure. Exactly. Lots of people doing the same kinds of things. We would trip over each other from time to time. So I was in SRS in the Medical Service Administration in 1976 and '77. And lo and behold, in 1977, that spring was when Califano decided there would be a Health Care Financing Administration. I was part of a group that met with Bob Derzon in late March. He had been identified as the new administrator. I can't remember why I was selected, but I was. It was a group of probably 25 people from Medicare and Medicaid and probably some PHS people, since those were the three units that were put together to make up HCFA. And I made this impassioned plea for him to please pay attention to morale because morale in SRS had been hideous until Don Wortman came over as the acting SRS administrator, right at the beginning of the Carter Administration, probably in January of '77. He had just overnight transformed the place by listening to people and paying attention and being a nice human being. So I made this impassioned plea, which I didn't think much of at the time, in late March or early April, that Derzon pay attention to morale because putting these three places together was going to be very hard. And he decided he liked me and asked me later to be his special assistant. So I started as Derzon's special assistant in May of that year and was part of most of the discussions that led to all of the structuring of the agency.

BERKOWITZ: Were you working in Washington?

MOORE: Yes, I was in Washington. Derzon took over the suite that had been the SRS administrator's suite in the South Building .We moved half a dozen people in right away for various and sundry jobs. John Berry was

there. I don't know if you have ever interviewed him for the early days of HCFA. He only stayed for five or eight years and he went off to the private sector. Dave Weinman worked for Derzon. Don Wortman, who was the acting deputy and the acting HCFA administrator until Derzon came in and took over; a couple of others. We were all right upstairs there. And so we put together the agency. When HCFA had its maybe 15th reunion – they had some sort of a celebration in the '80s about – maybe it was the 10th anniversary of HCFA.

BERKOWITZ: That would have been '87.

MOORE: I was at ProPAC then and somebody called me and I went into my old files and I found this agenda for a staff meeting in the summer of 1977. And there were 10 items on it and nine of the 10 could easily have gone onto an agenda for a senior staff meeting in HCFA 10 years later. I remember they used that for some reason. I don't know if I've still got it. I think I gave it to somebody and it never came back to me. But it was interesting to me that the issues had changed so little. And I suspect to this day they have changed little. They are all about cost containment and better access to services, and so forth and so on.

BERKOWITZ: Were you perceived as sort of a Medicaid person or not? At this point you're just trying to put the agency together.

MOORE: I was probably perceived as kind of a Medicaid person, yes, because most of the bodies in HCFA were Medicare people. But most of those bodies were in Baltimore. And in the beginning of HCFA, most of the people who were physically around Bob Derzon were in Washington and had been SRS people.

BERKOWITZ: And therefore Medicaid people.

MOORE: And therefore they were perceived as Medicaid people, although I was the only real Medicaid person. The rest of them were SRS people so they had a broader expanse of experience and range of control, if you will. But SRS and Medicaid were all welfare to the Medicare people. It didn't much make a difference whether it was Medicaid or voc rehab or social services. This was all welfare as far as they were concerned. And there were lots more of them than there were of us.

BERKOWITZ: Who was running Medicare?

MOORE: Tom Tierney.

BERKOWITZ: Yes.

MOORE: Tom Tierney. He was a very tough guy. Yes, he was. Our feeling always was that Tom Tierney was not particularly happy to be reporting to Bob Derzon in Washington.

BERKOWITZ: So do you remember what your thoughts were at the time about how this was actually going to work?

MOORE: There were some really significant problems in putting the agency together. The geography was one of them. I always felt that we should have all gone to some neutral place. Not half or three-quarters of the people in Baltimore and part of them Rockville and part in Washington. And that just wasn't to be. They talked about some kind of a site in Maryland in the suburbs, in D.C., someplace else. But it never happened, for a lot of reasons. I think we ended up with about 300 Public Health Service people coming into HCFA and we really should have had a much larger contingent from the Public Health Service. I always felt like we got short-changed from the PHS line. They were kind of more neutral. I think more of them might have helped a little bit. The worst thing that happened to Medicaid was that eventually after Derzon left and Schaeffer came in they tried to smush the two programs together. Most of the senior people in Medicaid who had been with the program since '65 or '68 or '71 or whatever all left because they didn't want to commute to Baltimore. So the Medicaid institutional history, even the Medicaid files, were lost, for the most part, and never were regained, really, until 1990 when Gail Wilensky reinstituted a Medicaid bureau in HCFA so that there was more of a focus of people who really knew Medicaid and worked specifically and only on Medicaid. I can remember saying to Derzon many times that he needed to understand and appreciate at least a few things about the Medicaid program. Because if we were ever going to have national health insurance it wasn't coming today or next month and this program was alive and it was well and the states were running it and people needed to understand something about it. It was so complicated and Medicare was so much easier because it was only one program, not 50-some programs as Medicaid was, run by the states, that no one ever really tried very hard to learn much about it or to appreciate the strengths of it. There were a few strengths. There were plenty of weaknesses, probably more than strengths. But it was just too hard, you know. It was just too tough to understand. Plus you were always having a fire drill with Medicaid. There was always a nasty, terrible problem with Medicaid. There was a nursing home fire and people were dying. Or there was some other kind of crisis. Medicaid was never easy and it never gave you a lot of positive strokes the

way Medicare, which was out there more easily paying for good things for old people.

BERKOWITZ: Medicaid having a lot of residual sort of welfare-like....

MOORE: Yes.

BERKOWITZ: What was the Public Health Service doing in HCFA?

MOORE: They were part of the PSRO program, the – what did PSRO stand for? Professional Standards Review Organizations, which had been started in the early '70s.

BERKOWITZ: '72.

MOORE: I guess because it was a quality program they were housed in Rockville in the Public Health Service. So when Medicare came out of Social Security and Medicaid came out of SRS the quality program that was supposed to work with both Medicare and Medicaid came out of the Public Health Service.

BERKOWITZ: Right, reflecting Califano's other idea that somehow this was going to be a cost control venture.

MOORE: Yes. Absolutely. Through the history of both Medicare and Medicaid there is an ebb and flow of fraud and abuse and public program integrity concern. It was at one of its peaks in the early '70s. And then again I guess around the time that Califano put HCFA together.

BERKOWITZ: So you worked for Derzon, you worked for Schaeffer.

MOORE: I did not work for Schaeffer. I was actually pregnant when I went to work for Derzon so I worked until the day I delivered and then I took maternity leave in December of 1977. And then I actually replaced myself. I carefully got myself a replacement before I went on maternity leave, when I went back after maternity leave, they were trying to get Dick Heim approved as the director of the Medicaid bureau and they had run into some sort of problems with his approval. It wasn't confirmation because it wasn't a confirmable job but it was a political job. So Paul Willging, who was the deputy director of the Medicaid bureau, was the acting bureau director. And I went back as the acting deputy bureau director for about – I don't know, six months or so.

BERKOWITZ: What year was this?

MOORE: '78, January through about June of '78. Then I was selected at that point for something called the V.A. Scholars program, which was a mid-career professional development program that was jointly sponsored by George Washington University and the Veterans Administration. It lasted for about five years and there were about probably 30 people that went through the program. It was an absolutely spectacularly wonderful program from the standpoint of an individual. We spent about a third of our time doing work in and around the V.A. and issues related to the V.A. And we worked with people there. We spent about a third of our time in group learning experiences. We worked with Peter Vale who was then the dean of what was the business school at G.W. It's been organized into something else now. We structured our own classes. Then the final third of our time we could take individual classes. And we had a little pot of money. I, for example, took a course from somebody at Wharton on health financing because there wasn't anything at G.W. that was offered like that and I wanted to learn.

BERKOWITZ: You went up to Philadelphia?

MOORE: I went to Philadelphia and paid this guy. I took a course from him. I mean, it was a one-on-one kind of thing. I went up there like once a month for four or five months and he gave me stuff to read and we talked for a while and….

BERKOWITZ: That's very cool.

MOORE: Oh, yeah, it was very cool. It was wonderful.

BERKOWITZ: How much time did this thing take?

MOORE: I was in the V.A. Scholarship program for two and a half years.

BERKOWITZ: Really? Full-time?

MOORE: Yes, full-time. It was a reimbursable detail. The V.A. paid for it. I wrote some policy papers.

BERKOWITZ: And you kept your GS level?

MOORE: I kept my GS level. I was a GS-15. Oh, it was fabulous. Unbelievable.

BERKOWITZ: Were you supposed to go in the V.A. afterwards?

MOORE: No, no. Absolutely not. In fact, only some of the people selected were from the V.A. A couple of the people had come from somewhere else and then went to V.A. Let me think about – Don Young, who later was the executive director of ProPAC, then the president of the Health Insurance Association of America and now is back in the department as a matter of fact, was a V.A. Scholar. There are two or three people who became senior executives in V.A. who were V.A. Scholars, a lot of people who just went back to their positions in other agencies or the private sector or academia. There were a couple of people who were from V.A. hospitals. There was a psychiatrist from one of the hospitals out west who was in the program. It was unbelievable. It would be a nice little sort of mini-review to see what happened to all of those people.

BERKOWITZ: Were you supposed to get a Ph.D. or something?

MOORE: No, absolutely no strings attached at all. It was complete career development and I just leapt at it. I mean, I had little kids. And from working in HCFA, which was 60 hours a week then and of course by now it's a lot worse than that, to be able to structure your own life and actually read and think….It was a wonderful experience for me because I had always thought of the public programs as being behind the times, if you will. And what I learned was that the public programs were in many ways way ahead of the private health insurance industry. I worked on a project with a couple of academics – Harvey Sokolsky and Drew Altman, who were both then at MIT – to look at private health insurance and what motivated companies in their health insurance decision-making, which was just a very eye-opening experience for me because I learned that Medicare was way ahead of private insurance in some ways. There were lots of states that were way ahead of private insurance in terms of things like utilization review and in terms of things like automation. Now, there were states that were way behind, too. But it gave me a real interesting new perspective on the public versus the private sector and the fact that in health financing I had no reason to be thinking that public health insurance was bad or behind the times. In fact it was ahead of times.

BERKOWITZ: And you don't think about the fact that the health insurance was a supplemental line with a lot of these companies. They were life insurance companies.

MOORE: Right. Well, and employers saw health insurance as a way to gain and maintain their work force. If an employee got turned down for something because it wasn't medically necessary the employer would very often, as a matter of policy, overturn the insurer and just pay for it because

they wanted to make the employees happy. So there were very different imperatives behind private health insurance than there were in public.

BERKOWITZ: Right. Some of which was the unions' doing. So when did you finish your fellowship?

MOORE: I finished my fellowship in '82. And then I went back to HCFA to be the director of the legislative office, which was then called the Office of Legislation and Congressional Affairs.

BERKOWITZ: For Carolyn Davis?

MOORE: For Carolyn Davis. And I spent two years there. Carolyn loved to testify. We had 50-some hearings one year, I think it was 1983. And it just began to wear me down after a while. It was a wonderful job. I absolutely loved it. The Reagan Administration wasn't one that I was particularly in tune with myself, but I loved the job and I loved the opportunity and I learned just an enormous amount. But it did wear me down after a while.

BERKOWITZ: And 1983 was the DRG year, of course.

MOORE: '83 was the year we enacted prospective payment under Medicare.

BERKOWITZ: So that was probably a big thing.

MOORE: '81 and '82 we had the first OBRAs.

BERKOWITZ: So you were there for all that stuff.

MOORE: I was there for most of that stuff. Then in '84 I went to work for ProPAC because Don Young was the executive director and Stuart Altman was the chair. And I had known and worked with both of them and I wanted some control back in my personal life.

BERKOWITZ: And ProPAC is prospective reimbursement?

MOORE: Prospective Payment Assessment Commission. The Prospective Payment Assessment Commission, ProPAC, was authorized in the same legislation that authorized the prospective payment system for Medicare in '83. The Congress was quite concerned that with this new price regulation system HCFA needed somebody looking over its shoulder. So they enacted

this commission of outside experts, if you will, to really, in my view, look over the shoulder of HCFA and make sure they were doing everything right.

BERKOWITZ: I have been told that one of the other rationales for that was that the Congress was very wary of these changes and didn't want to be in charge of cutting any benefits. So if they are going to cut a benefit, the idea of an outside commission or something was always very attractive.

MOORE: That's part of it. I think also because technology drives reimbursement so much they felt that they would like to have somebody else looking at the technology issues. And so we structured a whole new entity, ProPAC, which later merged with PPRC, which was physician payment. And they both came together and became MEDPAC in the mid-'90s. I was working directly for Don Young. We had a staff of about 20. I did all the legislative liaison. I did the budget work. I did the public relations, public affairs, press relations stuff, wrote testimony, dealt with the Hill.

BERKOWITZ: You must have known the Finance and Ways and Means Committees pretty well at this point.

MOORE: Yes. So I did that for five years.

BERKOWITZ: Were they in Washington somewhere?

MOORE: They were in Washington, about six blocks from the Humphrey Building.

BERKOWITZ: I guess they had to be separate. They couldn't be in the Humphrey Building because they were supposed to be separate and independent.

MOORE: ProPAC was considered a legislative branch agency. We had no approval from OMB for our budget. We went directly to the Hill with our budget. Those were very hard-fought battles in the first year to structure that. The law seemed to be written that way because OTA, the Office of Technology Assessment, which was a legislative branch agency, had the authority to appoint the commissioners. But we worked very hard to make all of those things fall into place so that it really was a legislative branch agency.

BERKOWITZ: And so in many ways it's like a health version of the CBO or something.

MOORE: Yes.

BERKOWITZ: Or GAO.

MOORE: Yes, exactly. And MedPAC is still that way. It is a legislative branch agency.

BERKOWITZ: Was there a Congressional advisory board to ProPAC?

MOORE: No. Just – after OTA went out of business, then GAO became the agency that appoints the commissioners. But in terms of appointing commissioners to ProPAC there is a lot of conversation ahead of time with members and staff of the Finance and Ways and Means Committees. The law states the kinds of organizations that are supposed to be represented: hospitals and physician groups and consumers and so forth. So there is kind of a "one from column A, one from column B" kind of approach to it. And they try to keep a balance of people both in terms of their expertise, their representation, and their politics.

BERKOWITZ: I see. Now, of course Ways and Means also, I guess Commerce committee – they have their Medicaid stuff.

MOORE: Yes, when they get around to ProPAC and MEDPAC and PPRC, though, it's very much Medicare-oriented and they pretty much stick to Ways and Means and Finance. It's an interesting policy technique that I've been sort of surprised hasn't been used in other fields beyond health because it's a nice way to take some pressure off of Congress. In the early days of ProPAC special interest pleaders would go to the Hill and be sent off to ProPAC. It's kind of a nice way to let out steam, you know.

BERKOWITZ: So actually thinking about this Medicaid thing for just a bit, in ProPAC's case they are talking about Medicare reimbursement and the states can do whatever they want for the Medicaid reimbursement. But presumably they are looking at what's going on with the Medicare reimbursement.

MOORE: A lot of states chose to use PPS to reimburse their hospitals, or PPS Minus because Medicaid reimbursement has always been lower than Medicare reimbursement, vastly lower for physicians and somewhat lower for hospitals in many cases. It started out being poor people's medicine and it continued to be that way. The state has a lot of leverage because they are such a big payer in every state. So they have always kind of felt like they could get away with it. And who is to say what hospital costs really are? Nobody knows. They make them up.

BERKOWITZ: So you worked at ProPAC till …?

MOORE: '89.

BERKOWITZ: '89. What got you….

MOORE: I left ProPAC and briefly went to work for Debbie Steelman, who had a social security advisory commission that was going to look at Medicare and Medicaid. I didn't stay there very long. It wasn't a good fit for me.

BERKOWITZ: And apparently, I have heard from Robert Ball that that was not a very decorous group, that they would fight a lot.

MOORE: Debbie is a very bright person and I thought she really wanted to do some sort of major reform thinking in health care. It turned out that she had some really good ideas but she was very hesitant to really put them out there. So I got offered a job in the new Agency for Health Care Policy and Research, now AHRQ. It was then called the Agency for Health Care Policy and Research, AHCPR, and I decided to go there.

BERKOWITZ: Was that within the Public Health Service?

MOORE: It's a separate agency in the Public Health Service. It's the health services research kind of agency. It makes grants for health services research and I became the director of the legislative office and the executive director of their national advisory council. And that was actually very interesting. I enjoyed that. I did that for three years. And then in 1992, Bill Clinton was elected president and I ran into Bruce Vladeck, who had been a ProPAC commissioner and was a friend, at a reception. And I said, "There's a rumor that you want to be HCFA administrator." And he said, "They'll never give me that job. I'm a regulator." And I said, "Well, if they do give you that job you call me because I would love to work for you and I would love to go back to HCFA." And sure enough, he got the job and he called me. So I went back to HCFA in March of '93, actually a few weeks before Bruce came on full-time as administrator and I became executive assistant to the administrator.

BERKOWITZ: In Washington?

MOORE: In Washington. I stayed in Washington except that we all had offices in Baltimore, too. We used to go to Baltimore at least once and sometimes twice a week. Bruce was pretty adamant about the fact that he

wanted to be a physical presence in Baltimore as much as possible. And he really, really did try. It's very hard to get yourself out of Washington when the White House and the Office of Secretary and heaven knows who else, or the Hill are calling you all the time. But he had a day he would go to Baltimore.

BERKOWITZ: Did you get a car when you went?

MOORE: I went with him in his car. He had some sort of an SUV that I could barely crawl in and out of, it was so high off the ground and I am so short.

BERKOWITZ: Did he drive or he had a driver?

MOORE: No, he had a driver. The HCFA administrator has almost always had a driver. That made it a lot easier, but only to go between Baltimore and Washington, not to go home or anything like that. But it made it easier because if Bruce had a speech in Washington or something like that he could still go to Baltimore and get back to the speech and get back to the Humphrey Building and leave his car in Washington. And that's exactly what he did. He would drive his personal car from home into Washington, get in the official HCFA car, go to Baltimore, stay in Baltimore until 5 or 6 o'clock at night, get driven back to Washington, and then get in his personal car and drive home.

BERKOWITZ: I see. Was the new building there?

MOORE: No. In fact, the new building had been authorized in '92. I think it was the appropriations bill in '92. And Gail Wilensky really was responsible for having talked the Appropriations Committee into that building. There was a little flurry at the beginning of the Clinton Administration about whether that building would go out where it is now near Social Security headquarters or whether it would go on a piece of land downtown near the baseball stadium. The employees were dead set against it being downtown. They all lived way out and they didn't want to go into downtown Baltimore to work. So the union was very strongly in favor of what came to be called and still is called single site location.

BERKOWITZ: I have always been struck by the fact that buildings for social welfare things look like the Switzer Building, kind of nondescript. That one is a very fancy one.

MOORE: Magnificent building.

BERKOWITZ: I don't know how they got that one through.

MOORE: Part of it was a very odd coincidence. The fellow who was the acting administrator of GSA when the administrations changed was a guy named Dennis Fisher, who had been a senior executive in HCFA and had gone to work for GSA. All these people – the GSA guy and Bob Streimer, who started the work on the building in his job under Gail Wilensky, and some other key people in HCFA all knew each other. So the whole thing got built really fast and it's a magnificent building.

BERKOWITZ: They have a nice auditorium, in part I think justified as public outreach, which they really can't do anymore because….

MOORE: Nobody can come into the building now, right.

BERKOWITZ: Because the security things changed.

MOORE: They used to use the building for the public activities, let the public use the building in the evenings and stuff. But not anymore.

BERKOWITZ: Now you have to open your hood when you go in there, so....

MOORE: And the trunk, yes.

BERKOWITZ: So things have changed. So you went to work for Bruce when he comes in, in 1993. As …?

MOORE: Special assistant, jack of all trades. I wrote speeches, I interviewed people for jobs. I made sure that all the niceties between the political appointees and the career people got handled and, you know, a little bit of everything. I stayed totally away from health reform. I said in the beginning I didn't want to have anything to do with health reform. I had been there and I had done that and I didn't want to do it again. And I didn't work on a couple of other really critical things that were very political like the Tennessee Medicaid waiver which became a program called TennCare, because those were highly political and Bruce had a political special assistant and he had a career special assistant. So I did most of the career things.

BERKOWITZ: Was Bruce fun to work for?

MOORE: Bruce was great to work for. Bruce was frustrating to work for because there was very little you could do for him.

BERKOWITZ: Right. I've heard that. Other people have made that same point.

MOORE: I have been special assistant to a lot of different people and usually you can help them and you can do things for them and you can explain things for them and you can bring people in to brief them on things. But he didn't need much of that. So in that sense you always felt like you wished you could do some work for him.

BERKOWITZ: He's quick, too. He's very smart.

MOORE: He's very, very, very smart. Very smart man. And then came the opportunity to be the acting director of the Medicaid program because the deputy, Helen Smits, left. And Sally Richardson was moved up to that job as acting deputy. They needed an acting director of the Medicaid program, so I went to do that, which was absolutely the most wonderful job I could possibly have ended my federal career with. I spent a year as the acting director of the Medicaid program, maybe a little bit more than that, and then almost a year as deputy director of Center for Medicaid and State Operations, which was the reorganized Medicaid program. So I went through the whole process of the big major HCFA reorganization in '97. In '96 when I was acting director of the Medicaid bureau we had the welfare reform statute pass, so I got to work with the de-linking of Medicaid and welfare, which was also a fabulous experience for me. I did know Medicaid eligibility relatively well because I had made it my business to learn it many, many years before. And I had always thought that if we could de-link the two programs you could get a much better shot at making Medicaid into a health program and leaving the vestiges of the welfare system behind. I do think it will take some time, but it is happening.

BERKOWITZ: So let me see if I understand. This is the TANF program, the welfare reform. That kind of gives the states lots of flexibility. It's not an open-ended entitlement. And meanwhile the statutory link between categories of welfare and Medicaid no longer exists.

MOORE: Right.

BERKOWITZ: But Medicaid still exists. So Medicaid is income-defined or …

MOORE: Medicaid can be income-defined, but we loosened it up. A lot of states had done these things before 1996 but there is a lot more flexibility in terms of serving the working poor, people who are not receiving AFDC but do have low income. States had picked up some of those options, and

de-linking the program from welfare so that you don't have to go into a welfare office. If the state chooses, they can have a health eligibility office now. That's totally separate.

BERKOWITZ: It can be health-eligible only.

MOORE: Right. Exactly. And that was true before but this just moved it that many more steps.

BERKOWITZ: Are there many people that are health- eligible?

MOORE: Yes, there are a lot of people.

BERKOWITZ: No food stamps and no….

MOORE: Right. Well, most of them would probably have food stamps, too, but no TANF. There are many, many people on Medicaid now who are not on AFDC, TANF, you know, any kind of a welfare program.

BERKOWITZ: That's interesting. So this is in effect a means to health insurance….

MOORE: Starting in the '80s with first voluntary and then mandatory coverage of children, which is something that Congressman Waxman did -- they are called "the Waxman kids," you know. They phased in starting in about '86 or '88 – I can't remember which year – coverage of children up to 100 percent of poverty in every state as a mandatory benefit. It was phased in starting in '86 and going through 2002 I think was the last phase-in, so that it was a lot more painless than just having mandated in 1988 that every state will cover every kid under 100 percent of poverty. And that is without regard to welfare status. So there are a lot of children of working poor parents covered under Medicaid.

BERKOWITZ: The assets tests don't apply. So it's simply a statement of how much the mother makes….

MOORE: Right.

BERKOWITZ: … or the parent makes.

MOORE: Right.

BERKOWITZ: I see.

MOORE: Plus we have always had the spend-down program or the medically needy program, so that if you have extraordinary health expenses you can spend so much and get down to the level of poverty and then Medicaid will kick in. Plus you have now buy-in programs for the disabled so that they can buy into Medicaid in some states.

BERKOWITZ: Aren't SSI people automatically entitled to Medicaid?

MOORE: SSI people are automatically entitled, but even if you are not getting SSI, if you are disabled and go to work under a provision called 1619, you can buy in. And then they have expanded all those buy-ins.

BERKOWITZ: How do they know you're disabled then?

MOORE: You have to meet the SSI eligibility criteria. Or you may have been SSI-eligible and now you are no longer because you have gone back to work.

BERKOWITZ: Sort of suggests that maybe Medicaid could become the basis for some sort of national health insurance program. So you were there for all this stuff.

MOORE: Yes.

BERKOWITZ: And you must have testified then on your own right then in Congress.

MOORE: Yeah, although interestingly, when I testified, I testified on HIPAA.

BERKOWITZ: The Health Insurance Portability and Accountability Act.

MOORE: The Health Insurance Portability and Accountability Act. Because CMSO had the responsibility for making sure that the state portability and regulatory features under HIPAA were met. And there was a huge difference between the Republicans and Democrats as to what that ought to look like. So I testified a couple times on that.

BERKOWITZ: And tell me one more time: this CMSO stands for …?

MOORE: Center for Medicaid and State Operations.

BERKOWITZ: Is there a center for Medicare, too?

MOORE: Yes, there are two Centers for Medicare. One of them deals with beneficiary choices. That's where most of the managed care stuff is. And the other one is the Center for Medicare Management. That's where a lot of the contractor functions and the more fee-for-service focus is.

BERKOWITZ: I see. So why did you leave?

MOORE: I retired.

BERKOWITZ: You had enough years in at that point?

MOORE: I had 32-plus years and I was tired. I wanted to continue to work on Medicaid and I was offered this job here at the National Health Policy Forum to work entirely on Medicaid and Medicaid policy.

BERKOWITZ: Here at G.W.

MOORE: Here at G.W., yes. And so I decided to do that. It is very, very hard to work for HCFA or CMS, whatever name you call it.

BERKOWITZ: Just as hard for CMS.

MOORE: It's just as hard to work for CMS, I am sure, as it was to work for HCFA. It is the most demanding place. There cannot be more than two or three agencies in the government – some places in the Defense Department and the State Department, and probably EPA – that are harder places to work. So many demands, so many crises, so many problems. So much money. And not a huge amount of staff, either. And this bifurcated Baltimore-Washington thing is very difficult. A lot of oversight by OMB because there is so much money involved in every decision and the Office of the Secretary too, because it is such a huge part of the Department of Health and Human Services. So it's a very, very tough place to work. I had to hand it to the people who actually spent 20 or 30 years straight there. I always said I had a love-hate relationship with HCFA. I loved the programs and I hated the agency. Now that's not really true. I didn't hate the agency but I found it a place that I really couldn't work for more than three or four years at a time without needing a break. That made me very unusual because most people in HCFA – and it was HCFA then – that I worked with had never worked anyplace else. Most of the people that worked for me in Medicaid had never worked anyplace but HCFA. So you would say to them, "Well, you know, the maternal and child health program." "Well, what's that?" "It's in the same department. It's another health program." Or you would say, "The substance abuse and mental health programs do thus and such." "Well, who's that? I mean, what do

we know about mental health and substance abuse?" Well, we in HCFA in Medicaid spent more on mental health than SAMHSA did, by far. But we had maybe two or three people who were conversant with those issues, which always seemed like such a shame because there was so little cross-fertilization. I understand Tommy Thompson has tried to do a bit more integration, harkening back I suppose to Eliot Richardson in some ways.

BERKOWITZ: And Joseph Califano.

MOORE: And Joe Califano, although Joe was bigger about talking about it than making it happen. It didn't happen....

BERKOWITZ: So difficult, but rewarding as well.

MOORE: Very rewarding. Wonderful, wonderful experiences. Enormous learning experiences. Fabulous opportunities for me. I retired as an SES and I am very, very proud of all the things that I did in HCFA. But I did find it a tough, tough place to work.

BERKOWITZ: That's a great note on which to end. Thank you.

INTERVIEW WITH BILL GRADISON

Washington, D.C. on March 5, 2004

Interviewed by Ed Berkowitz

BERKOWITZ: This is March 5th, 2004 and I am here in a nice office at Farragut Square on K Street with Willis D. Gradison, who likes to be called Bill, right?

GRADISON: That's right.

BERKOWITZ: And we're going to talk a little bit about health care policy and so on. But I wanted to ask you about yourself first of all a little bit. I see that you're from Cincinnati.

GRADISON: That's right.

BERKOWITZ: And that you went to Harvard and Yale.

GRADISON: Right.

BERKOWITZ: And what intrigued me about your background was that – I was looking at the resume – that in the '50s, you worked in HEW and you worked in the Department of Treasury, which looks to me like you worked for Marion Folsom.

GRADISON: Exactly. I came down to Washington as assistant to Marion Folsom in the spring of 1953. He was then Undersecretary of the Treasury. The way the Treasury was organized in those days, there was a Secretary, the Undersecretary and then some Assistant Secretaries. Mr. Folsom was clearly the number two in the department. He would go to Cabinet meetings if Secretary Humphrey didn't. And more particularly we had reporting to our office the folks that were involved in tax issues. That is, the IRS reported directly through our office and also tax policy, the folks that were working on the Hill at that time with Finance and Ways and Means in what later became the Internal Revenue Code of 1954, which was the first major recodification of the Code in a long time. So anyway, that's just what we were doing. Mr. Folsom had been one of the few businessmen in the country to have supported Social Security from the beginning. And also, perhaps because Folsom in those days, while a native of Georgia, lived in New York State, Rochester….

BERKOWITZ: With Kodak Company.

GRADISON: With Kodak. He actually went to Kodak after the First World War, after Harvard Business School, as assistant to George Eastman. But perhaps because of the New York connection, President Roosevelt named Mr. Folsom to the first Social Security advisory group, the one that Wilbur Cohen was on the staff of. And Folsom was on every one of the advisory groups subsequently until he became Secretary. So he had an abiding interest in these other issues, and his views were quietly sought behind the scenes by Mrs. Hobby, who was the first Secretary of the then-new Department of HEW back in '53.

BERKOWITZ: And before that the Federal Security Administrator.

GRADISON: Yes. It was the Federal Security Agency.

BERKOWITZ: And before that I guess the Houston newspaper.

GRADISON: All I'm saying is that even though his work was focused on the stuff at the Treasury he stayed up with what was going on, and particularly Social Security.

BERKOWITZ: So did you know him? Was it a Harvard Business School connection?

GRADISON: Not at all. I'll tell you the connection was that he had brought down as his top economist to work on tax legislation, Dan Throop Smith, who was professor of taxation at the Harvard Business School. I was then a very junior – very junior – member of the business school faculty at Harvard. And I mentioned to Dan over lunch one day at the faculty club that I was really interested in Washington and government. And he said, "Well, you know, the Undersecretary is looking for an assistant." And within a matter of weeks I was invited to come down, have an interview, and got offered a job. So it was really through my business school connection. I did not know Folsom at all. I didn't know anything about him until this developed.

BERKOWITZ: I see. So you stayed with him when he became secretary of HEW?

GRADISON: That's right. I worked with him for about four and a half years.

BERKOWITZ: I see.

GRADISON: I vaguely recall I might have done a little bit of consulting after I left. But I don't remember what I might have done. I might have been finishing up a few things, but basically it was a full-time activity from the spring of 1953 until sometime in 1957.

BERKOWITZ: So you were at Harvard Business School. You have a doctorate in business.

GRADISON: Doctorate, yes.

BERKOWITZ: So you could have been an academic. Is that what you expected to be?

GRADISON: Not really. It was sort of flukey, what happened. I stayed on at the Harvard Business School after getting my MBA because I was interested in the opportunity that arose there to work with the professor of investment management because investments were the thing that interested me. And this is so naive of me in those days. But keep in mind, I went to Yale when I was 16. I was pretty young even when I got out of Harvard Business School, like 22 or something like that. But one day at the faculty club one of the fellows my age said, "You know, you can do your doctoral work here and they won't charge anything because you are teaching." I said, "Oh?" So I thought about it and I thought, well, some day I might want to go into teaching. And if I did, having a doctorate would be a useful union card. It wouldn't guarantee me a job but it might be useful. So I went in and literally with no preparation – none – I took the first set of orals and I passed. And then I was stuck, because I then had to move ahead with a thesis, which was one of the hardest years of my life. But I did a thesis on the investment of corporate pension funds. Corporate pension funds were just getting started in a big way as a result of a Supreme Court decision entered around 1954, which held that pensions were an appropriate issue for collective bargaining. Those aren't the exact words. It ended up an article in the Harvard Business Review, and this and that. So anyway, that's how I got into it. It wasn't that I thought I would go right into teaching but I just didn't know what the future might hold. And as I say, it was initially a lark, although gathering the material and writing the thesis were hard – and also holding down a full-time job and also having the first few of what turned out to be nine children….

BERKOWITZ: Oh, wow.

GRADISON: It turned out to be a challenging period in my life.

BERKOWITZ: I see. So now let me ask you a Cincinnati question. You're from Cincinnati.

GRADISON: That's right.

BERKOWITZ: I have to ask you: Did you know the Tafts?

GRADISON: Oh, very well. Yes. A little background. My father was first generation. His parents came from Eastern Europe. And Dad had to go to work really quite young because his father died quite young. So he finished high school. That was about it. He got a job in a brokerage firm and did well and worked his way up. He was a messenger. Then he was a board marker when they had chalk to mark the boards. And then he was a bookkeeper. But anyway, he was known as a very solid guy in the community in finance. And one of the people he met along the line was a young lawyer who was just starting his own firm, a guy named Robert Alphonso Taft. His father had been president. Then he started a new law firm. He had just started the firm and they became very close. As time went on, actually our offices were on the fourth floor and theirs were on the sixth floor in the same building. As dad said in his simple way, "He was my lawyer and I was his broker." It was that sort of a thing. But in the late '20s when there were all these financial problems in the securities industry. Senator – then-State Senator Taft urged my father to run for the legislature. So Dad did. In those days you ran county-wide.

BERKOWITZ: Hamilton County.

GRADISON: Hamilton County. And being a Republican in those days it was not hard to get elected, honestly. So Dad served a couple times in the legislature as a result of the specific request of Senator Taft just about the time I was being born. Well, my father continued his political career in the City Council. The connection with the Tafts went back even earlier than that and it continued. The first time I ran for City Council in 1961 the Senator whom I just mentioned – who died in 1953 – his son was my campaign manager.

BERKOWITZ: Who also became a senator.

GRADISON: He also went on to serve in the House of Representatives and then in the Senate. And then his son; I guess I was his at least nominal statewide campaign manager in his first unsuccessful bid to

become governor. He is now governor. So anyway, we've had a long connection with the family. But it was a political business-type connection.

BERKOWITZ: And you went to Yale, I see. Is that because of the Tafts ?

GRADISON: Exactly. Exactly. My father hadn't gone to college. I was 16 years old. I didn't know anything about college. I never set foot on the Yale campus till the day I enrolled there. Dad asked Senator Taft where he would suggest that his son go to college and Senator Taft said Yale, which was understandable since the Taft family had gone to Yale for generations. That's the only place I applied, as I remember. It's a different world. But that's really why I went to Yale – on Senator Taft's recommendation.

BERKOWITZ: And let me just ask you one Jewish question, if I might.

GRADISON: Oh, yes.

BERKOWITZ: Obviously the Tafts were not Jewish, but Cincinnati is actually a big place for Reform Judaism and so on. Were you Jewish in your identity?

GRADISON: Well, that's a good question. I mean, I always thought I was but I'm not sure that the Jewish community paid that much attention to that one way or the other. I did not know until after I got elected to Congress and read some issue of *Hadassah Magazine* that I was the first person of the Jewish faith to be elected to either the House or the Senate in the history of the State of Ohio.

BERKOWITZ: Really?

GRADISON: I didn't know that. I kid about it that if I had known I probably wouldn't have run. It's a good Jewish joke, but – it's an interesting community in that respect. I describe Cincinnati as – I don't know what it is today – but I describe it as pretty conservative, a place with a lot of groups that in other communities you might consider to be not all that conservative. I said the whites are conservative, blacks are conservative, Jews are conservative. And we've had any number of Jewish people in our area who have been office-holders and virtually all of them have been Republicans. But, for example, Stan Aronoff, who ultimately was term-limited out of the State Senate, was THE power in the State Senate. He was President of the State Senate. He had, in many minds of many people, more power than the governors, who sort of came and went. And there were a number of members of our Hamilton County courts. I can think of only one exception of an office holder who was Jewish, but

wasn't Republican. It was just a tradition that we had very close political connections with the Republican organization there and ward chairmen, local office-holders and all that sort of thing.

BERKOWITZ: So I guess that was my next question. There are some cities – most cities you think of as being Democratic places.

GRADISON: Yes.

BERKOWITZ: But there are some – like Philadelphia which has this long history of Republican rule.

GRADISON: They did.

BERKOWITZ: Was Cincinnati like that, too?

GRADISON: Yes, it was. The city isn't now, the city itself. But on the other hand the population of the City of Cincinnati is roughly 20 percent of the population of the metropolitan area. There's more visibility in being an office-holder in Cincinnati than Hamilton County because Cincinnati was a city of half a million in the days that I was involved in politics. It's now an order of magnitude lower, about 350,000. The county is almost 900,000 and the metropolitan area is a million-seven or a million-eight. I may be wrong with my 20 percent but I'm not far off. The politics of Ohio aren't all that complicated. It tends to be Republican from Columbus south and Democratic north of Columbus. And there are some variations. There's one which will be very interesting to watch this year. There's a strip called Southeastern Ohio directly across from Kentucky that is traditionally Democratic but is very traditional in its views. And if you take, for example, a look at President Carter winning Ohio, which was critical to that election, it was because of Carter's success in Southeastern Ohio. He just ran up a hell of a vote there and I think it was the resonance of his Southern conviction and language and choice of words and whatever. And it's kind of interesting to see if that has a bearing this year. It's not a lot of people but it's a swing vote.

BERKOWITZ: Interesting. I want to move on to what I'm supposed to ask you about, which is more your Congressional career, your Washington career. I know you were mayor of Cincinnati, which is interesting.

GRADISON: Briefly, yes. I think I was actually the last Republican, or most recent I guess is a nicer way to say it. Things were changing.

BERKOWITZ: You got elected to Congress in 1974?

GRADISON: That's correct.

BERKOWITZ: Someone might say, "Hm, 1974. Gee, you were a Republican." That class that came in in 1974 was very heavily Democratic, as I recall. That was the Watergate election.

GRADISON: It was almost exactly a flip side of what happened 20 years later. There were an order of magnitude – 94 or 95 new members elected to the House in 1974, of whom all but maybe 17 or 18, again an order of magnitude, were Democrats. And 20 years later, '94 was almost exactly the reverse. I mean, the numbers are just astonishing. I actually ran in a special election in March of 1974 and lost by a couple of points. It happened that the special election was the Tuesday after the Friday when the indictments were handed down against Haldeman, Ehrlichman and Mitchell. My opponent's campaign was, "Send them a message," which was kind of understandable. And it worked. Then eight months to the day later, in a regular election, I beat him by not much, a couple of points. And by the time I was finished there I had 70 percent….

BERKOWITZ: Was that seat Republican traditionally?

GRADISON: Sure.

BERKOWITZ: Was it mostly Cincinnati? What was the area?

GRADISON: Well, it actually started in the downtown area and then it was virtually all in Hamilton County. There was almost nothing outside of it. Later on it became larger because of the redistricting and the loss of seats in Ohio. I liked the original district. It was very diverse. I actually had the second largest black constituency in Ohio, which is a little unusual. But the district had been traditionally Republican. There is no question about it. Nicholas Longworth, after whom one of the House office buildings is named, was a friend of my father's.

BERKOWITZ: And married to Alice Roosevelt, right?

GRADISON: Yes. What a hilarious person she was. Anyway, Nick represented that district at one point. The district changed. Now it's very different. The district that I represented doesn't have the inner city anymore and it extends much further out into additional counties to the East and all the way over to the Indiana line. So it's much more suburban. There's not much rural left down there. There's more in the east. But

while Dayton and Cincinnati haven't grown together they are certainly moving in that direction. It's only 40 miles apart.

BERKOWITZ: So now in that district of yours was Procter & Gamble the biggest employer?

GRADISON: I don't know that they were the largest but they were certainly the largest home-grown one. General Electric makes their large jet engines there. And at the peak I think they had over 20,000 employees. I know it's a lot less now. So I think the answer to your question is probably yes. But certainly in terms of impact on the community Procter & Gamble was far and away above GE, regardless of the number of employees because people at Procter & Gamble were local. The people who came there in management positions stayed there and played major roles in all kinds of civic ventures except politics. For some reason they tended not to get involved in politics. And I say that even though one of the presidents of Procter & Gamble came to Washington as Secretary of Defense, I think with Eisenhower. But that was not considered a political position at all, it was considered a management position. So, yeah, Procter & Gamble was and is to this day a very important part of the community. They have a bunch of office buildings downtown and they have a very large facility just outside of Cincinnati. I believe it is the largest single location for the production of soaps and detergents in the free world.

BERKOWITZ: Really.

GRADISON: Then they also have a little further out but also in the county one of the very largest research operations, a totally separate campus.

BERKOWITZ: I remember that there was a time when Cincinnati had two five-star restaurants and that was unusual. And I always thought that's because Procter & Gamble must have been taking people there.

GRADISON: I don't know. It was the Maisonette , which is still there. And then there was another one, which I don't think is there anymore. But the city has had a tradition of enjoyment of food and good beer, and so forth, which at least I think goes back to the German tradition of the town. One of the things that kind of fascinated me as a local office-holder was to try to understand what this German tradition meant. At one point when I was mayor I was on a foreign exchange visit to Poland and the mayor of Milwaukee was supposed to go with us. It turned out at the last minute he had a budget crisis and he couldn't go. And I remember talking to people about how different the politics of Milwaukee were from Cincinnati even

though they both had a strong German tradition. And the explanation given me – and I don't know if it's correct – is that Milwaukee happened to be settled by people from Northern Germany, the more heavily industrialized areas, Hamburg and all. Cincinnati, I was told, was settled more by people from Southern Germany – Bavaria, which is to this day a much more politically conservative part of Germany, and that they brought their attitudes with them. I don't know if that's true.

BERKOWITZ: That's interesting.

GRADISON: It's an interesting thought. I don't know if it's true or not.

BERKOWITZ: So you get to Washington. It's 1975. How quickly did you get on Ways and Means?

GRADISON: The second term.

BERKOWITZ: Second term. How did that happen?

GRADISON: I'll tell you. There was a Republican member of the House, Don Clancy, from the other side of Cincinnati. There were two of us, two districts of our county, basically, and he had been on the Ways and Means Committee for many years and had been in the House for, I think, nine terms or something like that. And he was defeated. Tom Luken beat me in March of 1974. I beat him in November of 1974. Two years later he moved and he ran against Don Clancy and defeated Clancy, who was a long-term incumbent. That opened up the possibility of a Republican seat on the Ways and Means Committee. It wasn't necessarily a lock for Ohio, but there had been a long tradition of having at least one Republican from Ohio on Ways and Means. I had served as the representative of my freshman class on the Committee on Committees, which is a very senior group. And I was getting along fine with these senior members of the House from other states. Within our own delegation, at least in those days, when something like this came up it was done on the basis of seniority. But our more senior members did not want to give up their seniority on other positions, other committees. We had people who were very senior on Appropriations and Commerce and other committees. So it really came down to Tom Kindness. He was from Hamilton, Ohio and we came in together in '75. Tom didn't make much of a push for it and I didn't really – or at least not that I was aware of. So it kind of worked out for me to go on Ways and Means. I also had encouragement and possibly some behind-the-scenes support, although I don't know this. I certainly had a lot of encouragement from Barber Conable, who was a very senior member of the Ways and Means Committee.

BERKOWITZ: And you also knew Marion Folsom. I know Conable's district was Rochester.

GRADISON: Correct. Yes they were very close. And Conable became my real mentor in the House. He died recently and I wrote a note to Charlotte after his death and I laid out not only how much respect I had for Barber, but how much I learned from him and how, on those rare occasions when I would vote in a different way from him that I really wanted to make sure that was I comfortable with what I was doing.

BERKOWITZ: Now, was he ranking at the time?

GRADISON: Not at that time. Herm Schnably of Pennsylvania was. Then John Duncan became ranking. He died of cancer and Barber became ranking. So Barber was not ranking at that time. But he was highly respected in the Republican conference and we had already come to know each other through the House Wednesday group. So I would see Barber on a regular basis almost every week.

BERKOWITZ: I see.

GRADISON: I saw others, too. But I'm just saying he might have had an effect on the selection. I don't know. But I went on the Ways and Means Committee my second term.

BERKOWITZ: So now that would have been an interesting time on Ways and Means, obviously. It's two years beyond the great change from Mr. Mills and tightly-held. There are mandatory subcommittees on Ways and Means. It seems to me you would be a very logical choice because you have this tax background. Did you have a desire to get into a particular area when you went on Ways and Means?

GRADISON: No, I really didn't. It's pure accident that I got involved in health care. I'm not sure I started on the health subcommittee. I remember when I first was going on there I went to Barber and I said, "Wow, I'm really excited about this and I've got to change my staff and get all ready to serve there. And everybody on the Ways and Means is 10 feet tall." And he said, "Look, I'm going to make a suggestion. Don't hire any special staff on your own staff yet till you've been on there a good few months, until you assess what you really think you need. You've got a small but excellent minority staff. Why don't you just see if they meet your needs." And I'm glad he made that point because I found that in most cases they did and furthermore, that there were issues that came and

went. I was on the Social Security subcommittee for years. There was a time back in '82/'83 when it was the focal point of a lot of legislative activity. But then it sort of waned and if you had had a Social Security person full-time on your staff he wouldn't have had much to do after that. So again I followed Barber's advice and ultimately I ended up having on my own personal staff, one person working full-time on tax and one person on health care because those were both continuing, ongoing activities. You're right that part of the reforms that Democrats put in, in 1974 required subcommittees on Ways and Means for the first time. There wasn't a strong subcommittee tradition. We still did things in full committee. And the full committee, unlike some other committees, had no reluctance to rewrite something that came from the subcommittee. I know there are committees up there where if something comes from a subcommittee it is bad form to make major changes. I don't say we made major changes but there was nothing wrong with offering amendments that struck at the heart of something that came from the subcommittee. It wasn't frowned upon because of the full committee tradition that Ways and Means had.

BERKOWITZ: Can I ask you about the ethos of Ways and Means? How do you balance your local responsibilities as opposed to the essentially national responsibilities that Ways and Means has? Do you see yourself as legislating for your district or legislating for the nation?

GRADISON: There are certainly exceptions on the Ways and Means Committee. But my view of the Ways and Means Committee is that it's national and that you're writing national legislation. Now, I don't want to suggest that I never did anything for a local interest. I'm vaguely remembering one of the tax bills having some provision on it. I don't remember what it was anymore but it was a rifle shot for the Cincinnati Gas and Electric Company. I don't remember what it was about. But by and large we were trying to write uniform national legislation. That was basically in the way in which I looked at my job there. And certainly that view affected anything about the Medicare or Social Security or the Internal Revenue Code. While I certainly acknowledged there were some local issues it's overwhelmingly at least an attempt to reach some uniform national approach. As for subcommittees, once I got on the health subcommittee then I got really interested in health care issues. They became my consuming interest. But it was purely by accident. Indeed, I was very frustrated my first two years in the House because I just didn't think the Banking Committee in those days was all that well run. And I was very interested in banking issues. I had been chairman of the board of the Federal Home Loan Bank for my three-state district of Ohio, Kentucky and Tennessee. I had been in the investment business. Banking issues were just second nature to me. But it was frustrating. I was fascinated with

Ways and Means, and just by pure chance, as I have explained it, I got on it. I had actually thought of what I would do if I didn't get on it and I had this secret plan. I don't know if I could have implemented it, but it was to try to get on the Interior Committee and get on the National Parks Subcommittee because I love the outdoors, and just go a totally different direction. But it never happened and I'm not sure that Interior would have wanted to have somebody from a big city in the east, you know. That would….

BERKOWITZ: I was going to say I don't think there's too many national parks around. Maybe around Dayton there's a national….

GRADISON: Well, there is one up near Cleveland. But I'm just saying that that's where my head was at the time.

BERKOWITZ: I see. So now in terms of health policy.

GRADISON: Yes.

BERKOWITZ: You relate to – you talked about Barber Conable. Mr. Pickle was pretty influential in the Social Security issues.

GRADISON: Well, yes that's right. He was. And Bill Archer was our ranking member on Social Security back in the '82-'83 period. And we actually developed in the subcommittee a bipartisan proposal which compares to the Greenspan Commission and is very close to what they came out with. At least I felt that the creation of the Greenspan Commission was a superb opportunity to take some of these basic principles that we had on our legislation and give them a degree of acceptability and imprimatur, if you will, that would make it possible for them to pass. And that's exactly what happened. I mean, in the end, Claude Pepper took the floor and opposed major elements of that legislation. But the House by a rather remarkable vote did not go along with him. They were a combination actually of some of the things that are being talked about today. The retirement age was increased for receipt of full benefits. The tax side was increased. There were some benefits that were reduced, a few that were phased out. It was a combination of things. But the way I would tell the story is, after this episode and the Congress acted and the law was passed I saw Alan Greenspan.

BERKOWITZ: Who had been the head of the Committee?

GRADISON: Who had been the head of the committee, which played such an instrumental role in paving the way for Congressional approval. "So,

Mr. Chairman, on the basis of your outstanding leadership of this group I am thinking of nominating you for the Nobel Prize." To which – again this is just kidding – to which he is supposed to have replied, "The Nobel Prize in economics?" And I said, "No, the Nobel Peace Prize." But anyway….

BERKOWITZ: Part of that legislation in 1983 was the DRGs. Were you focused on that?

GRADISON: Yes.

BERKOWITZ: Already involved in that type of stuff?

GRADISON: Yes. In fact, I recall vividly when Rostenkowski and I went down to have breakfast with HHS Secretary Dick Schweiker. Bob Rubin was also there.

BERKOWITZ: Assistant Secretary for Planning and Evaluation of HHS.

GRADISON: And they laid this thing out. We moved ahead on it. I mean, the remarkable part on that is that it did go through. Because one could make a good argument that there were disadvantages from the point of view of the hospitals, to say the least, in moving away from a more cost-based system. But it was never a huge issue, really. It made sense and it was approved and it was bipartisan. And I wondered, and your oral histories will help us figure this out, as to why the groups which arguably might have been uncomfortable and unhappy with that, didn't do what they might have done to try to stop it. Dan Rostenkowski, had been chairman of the health subcommittee and then he went on to be chairman of the full committee. And he had a continuing interest in health issues. And while he didn't sit in on our subcommittee meetings, whenever we were doing anything of much substance one of his staff did – which I thought was actually a good way to have some coordination in committee. But there were a few occasions, quite rare, when we would hear that Danny did have a suggestion on something we were handling. And at least some of us would kid, "Well, Danny must have got a call from Sister Sheila," who was affiliated with a hospital in Chicago. She gave him pretty good advice.

BERKOWITZ: So now on the DRGs, were you concerned about urban-rural differentials and also teaching hospitals?

GRADISON: Not as I recall it, no. At that stage those issues were not a particular focus. They became so later on. One of the things that I think is very important in recognizing the later development, although I don't believe this was true at the time the DRGs were adopted, is that the Ways

and Means Committee in those days had an urban orientation and the Finance Committee had a rural orientation.

BERKOWITZ: That's interesting.

GRADISON: Now, if you look at the Finance Committee over the years, they have tended to have very few people from the big urban states. I don't say none, because Moynihan was there.

BERKOWITZ: Right. It's a long….

GRADISON: But really look at it today. The baton is passed back and forth between former colleagues of mine: Max Baucus and Chuck Grassley. So there is another part of this, which it took me years to realize, and that is that every member of the United States Senate is a rural senator. What is the largest agricultural producing state in the United States? California. You say, well, it's a big urban state. Sure, it's overwhelmingly urban. But I assure you those senators pay attention to what's going on in the Central Valley and the Imperial Valley. They do it; it affects their votes. Not every member of the House of Representatives is an urban member. And you get members that are both. But you do get a lot of members that are either rural or urban in the House. Okay, so what happened with this, the urban-rural differential? Over time the rural folks recognized that with the Ways and Means Committee you had a bit of an urban slant. So they developed a very effective, well-led, bipartisan task force or whatever they called themselves on rural health. Charlie Stenholm and others were active. And they would come in with proposals on these issues. So this created a very interesting challenge for the Ways and Means Committee. Pete Stark can go into a lot of detail about this if you want to talk to him. But if we drafted our health care legislation in a totally balanced way right off in the House, and we kind of knew what that balance ought to be, and then with the Senate we'd have to give twice. So we would go into conference knowingly with a little urban tilt. Not grossly unreasonable, but a little urban tilt. Some room to give on rural issues. And the Senate Finance Committee would have a rural tilt, and you would work it out. It wasn't that hard to work out once you got together. And exactly that played itself out last fall, as you saw. Remember when Grassley walked out on the Medicare conference because he wanted to get the rural issues accepted in the conference early on before they got into some of the more controversial issues. And I – no, I'm not trying to read Bill Thomas' mind, which is a very brilliant and complex mind, but the way it looked to me from the outside is that Thomas didn't want to concede those points right at the beginning because it would reduce leverage later on. And I also can understand why Grassley at one point walked out last summer, because he

couldn't get those rural things up front. To me, that was just a replay of something we had seen. In our case it wasn't as visible but it was the same dynamic.

BERKOWITZ: And it's interesting, I was thinking as you were talking about that. That's a very interesting insight which I've never heard before. It's interesting that Medicaid is not done by Ways and Means.

GRADISON: Used to be….

BERKOWITZ: As Medicaid, you would think, is an urban – with a lot of urban interest.

GRADISON: You can take what I say as just a turf issue but I don't think it was good policy to separate the two. And also it has greatly complicated the dynamics of working with the Senate, which has them both in the same committee. We have had situations when I was there – now I'm really thinking of Medicare. But the point is still consistent with what you're asking about. We had situations where we would go to the floor on Medicare and the Commerce Committee would have a provision. The Ways and Means Committee, on the same matter would have a separate provision. The House would not resolve them and we would go to conference with two House positions against one Senate. And I used to think that that was not smart. I used to think that that strengthened the position of the Senate, although the longer I watched it the more I wasn't so sure that I was right about that. But in terms of some comprehensive view of health care we have no health subcommittee in the House. There wasn't one before in the sense that even when Medicaid was in Ways and Means all the public health initiatives, NIH reauthorization and a lot of very important things were in the Commerce Committee. And the rivalry between the two committees is, of course, legend. We would draft all kinds of legislation in somewhat strange ways to keep it within the jurisdiction of the Ways and Means Committee by putting tax provisions in it. They do that to this day, of course.

BERKOWITZ: Who was responsible for this development? Who were the people who were the proprietary ones on the respective committees?

GRADISON: Well, I think it was an institutional thing. I don't think it was any particular member. But it was John Dingell, sure, and Rostenkowski on our side. And another jurisdictional matter, which has a Constitutional basis, was that all revenue-raising measures must originate in the House of Representatives. And so in those instances, which I think were rare, when

the Senate would send over a revenue measure, it was commonplace for the chairman of the Ways and Means Committee to leave it at the desk.

BERKOWITZ: I was just thinking, too, that it was Representative Fogarty, who died I think in 1967, that was kind of a legend in health stuff. He wasn't on Ways and Means, I don't think. So there was lots of leverage that you could exert over things that were related to health that did not involve Ways and Means.

GRADISON: Well, I remember those days because John Fogarty of Rhode Island and Lister Hill of Alabama were the key people in the health field when I was at HEW. And Lister Hill's story is kind of an interesting one because he not only was the senior person on the substantive committee in the Senate but also the appropriations parts. It was a very unusual combination of power. Further, while he was not a physician, he was named after a physician and his family had a long tradition in this field. So, I mean, this is really important to the Senate. Well, my boss, Marion Folsom, grew up in McRae, Georgia, which is a small rural county best known as the ancestral home of the Talmadge family. He went to the University of Georgia. As long as I knew him he had an accent you could cut with a knife. And he was steeped in Southern history, and particularly the Civil War. When he would head for vacations he would get a driver. And they would drive through battlefields and other places related to the Civil War. Okay, so he gets to be Secretary. And so Senator Hill calls him and says, "Mr. Secretary, we haven't met. I'd like to get acquainted. I'd like you to come up for lunch." The Secretary says fine. So they meet in the Senator's office and – this is the way Folsom told the story. So Lister Hill said, "I know you're from the South, from Georgia, and I've got a picture here on my wall I would like to show you. I wonder if you could identify it." Folsom walks over, he looks at it. He said, "Oh, yes. That's a picture of Robert E. Lee when he was a cadet at West Point."

BERKOWITZ: Oh, wow.

GRADISON: They were like this [*crosses two fingers*] from that point.

BERKOWITZ: That's interesting. He also had a lot of power over appropriations. Both of them, Fogarty and Hill, were very strong.

GRADISON: Well, they were very powerful – we had a lot of challenges on the NIH budget in those days. Basically what was happening before is that Mrs. Hobby and the Bureau of the Budget and the White House sent up budgets that were basically whatever the last year's budget was with NIH, figuring the Congress would increase it anyway. Well, Folsom's view was

that wasn't very sensible or logical. So he had these studies made of what were the resources in terms of manpower and lab capability, and what is the capacity of the system. And then he would develop a budget and sell it to the White House and we'd take it up and the Congress would still increase it. So when we were all finished, we weren't so sure whether the prior perhaps somewhat illogical way was any better than the more management-oriented approach that Folsom had taken.

BERKOWITZ: The story that I've heard is that these people would say – in testimony would say, "Well, how are you handling the problem with X? Do you think you might need a little more money to handle X?" That would be prearranged. There were a bunch of well-plugged in bureaucrats at HEW. There was James Shannon at NIH and Mary Switzer in the vocational rehabilitation program.

GRADISON: Oh, yes. I remember Mary very well and I also remember Mary Lasker.

BERKOWITZ: Yes, exactly.

GRADISON: Who probably had more to do with this than anybody up here in Washington in those days.

BERKOWITZ: Let's talk about a little bit later in the decade after DRGs come in. The next one of the big things that happens in Medicare is the catastrophic legislation of 1988.

GRADISON: Yes, '87-'88; passed in '88 and repealed in '89. It was passed under Reagan and repealed under Bush.

BERKOWITZ: That's right. Yes.

GRADISON: One of the biggest mistakes that Congress ever made….

BERKOWITZ: Did you vote for it initially?

GRADISON: Absolutely. And I stayed in support of it when it was repealed. And I was one of the handfull who went down with the ship. When the Ways and Means Committee developed this plan it was done in a very bipartisan manner. Actually, the initiative had been taken by the Reagan Administration in proposing a truly catastrophic element for Medicare. And it was to be financed with an increase in the monthly Part B premium, which as I recall was initially to be six or seven dollars a month. This went to the – now I'm telling you what Rostenkowski told me –

Democratic leadership. And Jim Wright took a look at it and he says, "This is too bipartisan. Why give Reagan credit. And you don't have a prescription drug benefit in there." Claude Pepper, I'm told, was at that meeting, too, and was advocating for this. And so the Ways and Means Committee was basically told if you don't add a prescription drug benefit in committee, we'll add it on the floor. Well, if there was anything Rostenkowski stood for, it was that what he wanted to do was bring legislation out – not just on health care. His basic principle was he wanted to bring legislation out of the committee that "would pass upon the floor of the House of Representatives," exactly the way he phrased it. So we go back to committee, and of course how are you going to pay for this? So that was the origin of the income-related premium. Well, AARP had opposed an income-related premium for understandable reasons but wanted a prescription drug benefit. And so when the prescription drug benefit was added they reversed themselves, basically, and said, "Okay, we'll accept the income-related premium to get the prescription drug benefit." As they say, the rest is history in terms of the flak that they received and the Roosevelt effort to gin up the opposition, the lack of public understanding of how few people would pay the income-related premium. And it was repealed. But the reason I think it was a terrible mistake is that that plan was so far superior to what is on the table now or what is likely to happen for a long time to come that I truly don't think that any fair-minded person can today look at that plan and not say that that would have been a pretty good deal for America's seniors. Now, it had a different approach. There was a significant deductible. The deductible initially was to be in the order of $600 and it was to be indexed. I don't remember whether it was indexed against the CPI or the price of medical care. Nonetheless, by now the deductible would have been a lot higher than $600 and it didn't have a "donut." It combined the catastrophic and it was financed by a flat monthly premium plus the income-related premium. And then there was a request of Gail Wilensky to do a study of the cost of the prescription drug plan. I hate to trust my memory after so many years. My recollection is she thought the initial cost would be five billion dollars a year. And my good friend Pete Stark took her apart, saying there was no way it could be so high, calling her a "tool of the drug companies." I mean, the whole thing is kind of amusing if you look back at the history of it. But anyway, it was repealed and there we were. And I think that was a major setback for a long time because a lot of the people in responsible positions in the Congress had lived through that and they didn't want to live through it again. I didn't do this because you're coming in, but I keep this as a little reminder of the events. This is the signing ceremony for Medicare catastrophic. This is a snapshot taken by Bonnie Brown on my staff. Look at all those happy faces. We're looking into the sun, but relatively happy faces. And within a year the thing was repealed. It was the first time we

have ever repealed a social insurance program in the history of the country.

BERKOWITZ: Just looking at this picture I know that President Reagan is here. Senator Durenberger. This is Mr. Waxman.

GRADISON: Dingell, Pete Stark and Secretary Bowen. Lloyd Bentsen, Max Baucus, John Chafee.

BERKOWITZ: Yes, quite a group.

GRADISON: It was an interesting crowd. We all were younger then. A few of them are dead.

BERKOWITZ: And the President looks very good there, too. So what is he doing here? He is signing the bill?

GRADISON: Or he just signed it and was making a statement about it. This is the table. I think he has signed it and then got up to make a statement or....

BERKOWITZ: So this would have been the very end of his term, right? He looks pretty good, I have to say. No gray in that hair.

GRADISON: Oh, he was remarkable in his appearance. He never could remember any of our names.

BERKOWITZ: But he would know Mr. Rostenkowski's name, probably. So what's the other story you're going to tell?

GRADISON: I was on the other side of this issue so I'll just lay it out. I was the president of the Health Insurance Association of America after I resigned from the House. I resigned to take that position.

MARK SANTANGELO: When was that?

GRADISON: I resigned from the house on February 1st, 1993.

BERKOWITZ: So you had won the election in 1992.

GRADISON: Yes, I resigned right afterwards. I was approached to take this position with the Health Insurance Association. I was 64 years old at the time. I'm now 75. I was really kind of debating whether to do something else. I remember the phrase that kept going through my mind

was a phrase that Barber Conable had used with me when he left the Congress. He didn't resign in the middle of a term, but anyway he left to go over and become president of the World Bank. And I remember he said, "I want to leave before people think I'm just good for cutting the grass." But anyway, I sort of felt that way. So, I'm running the Health Insurance Association and very close to this issue. We ran the “Harry and Louise” ads and all that. But that isn't the point. We're talking about the Ways and Means Committee. One of the remarkable things about 1993-94 is that there was a new president, knowledgeable and committed on health care, elected with health care an important part of his program. He brings together 500 people, puts together this task force, comes up with a legislative recommendation. His party controls both houses. And neither that health plan nor any other health plan was ever considered on the floor of either the House or the Senate. Now, that's a fact. And in the Ways and Means Committee, Rostenkowski was planning to go into a markup on this, which would have meant modifying the legislation in order to get it through his committee. But there was no doubt in my mind that his objective then, as it was in everything else that I ever knew of when we worked together, was to get a bill through the committee that could pass on the floor of the House of Representatives. Okay, he has legal problems and stepped down as chairman. Sam Gibbons took over. I don't mean to be unfair to Sam but my view at the time, at least, and nothing has happened since to change it, is that Sam had a different philosophy. He just wanted to get the strongest bill out of the House Ways and Means Committee he could. And in any event, the fact is the bill that he did come up with, and they did have a markup and they did pass it, was not taken to the floor – which I'm pretty sure means that the leadership felt that it couldn't pass. Now, the Commerce Committee, that was a different situation. Dingell did not have the votes to pass either the Clinton plan or any other plan that he, Dingell, would prefer. So he didn't even mark it up because he didn't want to come up with something that he would not be comfortable with. And I understand that. I'm old enough to remember the Wagner-Murray-Dingell bill. And that was his father and John's long commitment to this cause. And I respect why he didn't do it. But the fact of the matter is it certainly didn't help the Democrats in the next election to have had the stars aligned to do something that the country needed to be done, and then not do it. I don't happen to think it needed to be done in that manner but to have nothing happen? It looked ineffective. And I think Danny stepping down made a difference to the negative in terms of their ability to pass some legislation in this field. Now, on the Senate side, here was Pat Moynihan. He was chairman of the committee. Health care really wasn't his thing. I don't mean he was indifferent to it but there were other issues that were more important to him. And he had been publicly quoted as – don't hold me to these exact words. I can look up what they were. But basically he

said of the financing of the Clinton health plan it was fiction, but clever fiction or imaginative fiction or some phrase. Something like that. I mean, it was very cleverly said. I actually have picked that out of the book I – it's in Haynes Johnson and David Broder's book, *The System*. I was one of the sources for that book. They came over every two or three weeks with a tape recorder and I told them everything we were doing. Oh, here it is. I have the wrong words, I stand corrected. "On *Meet the Press*, Senator Moynihan referred to the deficit reductions in it as a fantasy." That was what was going on at the time. And John wasn't going to move something and Danny….

BERKOWITZ: So there's an interesting little parallel, isn't there. Another time that there could have been health insurance, national health insurance, was 1974. But then Wilbur Mills went into the Tidal Basin so that there's another lost opportunity. It's not exactly the same thing, but he became ineffective and that was taken off the table, essentially. It takes a long time for the stars to align to produce legislation in this stuff. And the catastrophic thing must have been a very sobering experience for everybody. And then Mr. Rostenkowski gets criminal problems and he ends up losing the committee. So that it's as if the legislation is cursed.

GRADISON: Yes, that's true. I get together from time to time with bipartisan groups of people who have been involved in a very senior level in health care, just to talk about things. And I have run into senior Democrats in this town who say with the benefit of hindsight, "We should have accepted the Nixon plan or the Bush plan." Bush 1 had a plan. He had a plan on the table. And, I mean, with the benefit of hindsight, that would have been a plus compared to where we are today. So, you know, missed opportunities. I haven't done a complete history on this but my recollection is that the first conversations about having national health insurance – which is sort of a loaded term, but just as a shorthand way of describing it. But the first efforts I think may have gone back as far as Teddy Roosevelt. Certainly Franklin Roosevelt considered adding it to the Social Security legislation.

BERKOWITZ: Right. But he never made it an official platform. Senator Wagner pushed the idea.

GRADISON: Well, my understanding of the history was that he dropped it because he felt that the opposition of the AMA might kill the whole Social Security bill.

BERKOWITZ: That's right.

GRADISON: It's easy to forget that the dominant force in the Democratic party in those days in the Congress was Southern conservatives. I mean, it's flipped. But, you know, that's down to the committee chairmen.

BERKOWITZ: And it's always people who are speculating in futures. So in 1974 when there was a Kennedy-Mills bill that possibly could have passed they said, "Oh, no, the 1975 Democrats are going to have this huge majority. Let's wait." It's always like that. It just never becomes the right moment. People are always waiting for the next thing.

GRADISON: And look at what's happening now. I have not studied it thoroughly. I'm out of that field and I have not studied it thoroughly. I'm not trying to be self-effacing. I have not studied all of the provisions of the bill that just became law. But to the extent that it becomes a political issue this fall it will be a negative for the Republican party unless they figure some way to turn it around. And that is not me, that's people I've talked to. Now, let's assume for the sake of discussion, that's correct. If this bill, as is entirely possible, leaves a bad taste in people's mouths even if it isn't repealed like Medicare catastrophic, what does that say about the chances of people saying, "Oh, wow, here's a chance to do something about health care." That will be the end of it for quite awhile.

BERKOWITZ: But I thought you were going to say that the trouble with this is that if the Republicans pass this Medicare bill, for example, they are always vulnerable to being outbid by the Democrats. And sometimes you are worse off than putting something on the table.

GRADISON: There was an acronym that wasn't mine, or I'm not using bad language here on tape. But back during the Nixon years there was a group of Republicans in the Congress that really felt that they had an opportunity and a responsibility to come up with alternatives to proposals of the Democrats. And some wags developed an acronym to refer to this whole package of things as Constructive Republican Alternative Programs, C-R-A-P. It was an inside joke at the time. But even to this day I know when I talk to sitting members and issues come up that they are grappling with they say, "Look, we know we can never outbid the Democrats." And this budget is hilarious to me. I mean, I was on the Budget Committee for 10 years. I was ranking on the Budget Committee for a long time. And I don't think it's a partisan comment. It's just amusing that – and I'm a Republican but the Democratic leadership of the House says these deficits are too large, but there's not enough spending in the current year appropriations bills. I said, you know, that's all right, consistency being the hobgoblin of little ... But, you know, you've got to – if you don't – if you

can't smile about this, shouldn't work – shouldn't live in this town, you know.

BERKOWITZ: Can I ask you one last question? So you are very involved in the substance of policy. You have this background that would facilitate that and you are a very active member. You served for many terms and then you go to HIAA. And I'm curious what it's like. So this guy that used to be your colleague a month ago, now you have to make an appointment to see him. How does that play out?

GRADISON: First of all, under the rules you are not permitted to contact members of Congress or their staffs for a year with the intent to influence legislation. The phrase in the law is "with the intent to influence federal legislation" or something very close to those words. One year after I resigned from the House I am a witness before the Senate Finance Committee on this health care bill. And Jay Rockefeller and Tom Daschle were really, really giving me a going-over. I forget which one, but one of the two said something like, "You don't seem like the same Bill Gradison that used to serve…." I was very polite. But afterwards I'm walking out in the hall and this television reporter has got a microphone. He says, "Congressman, you just testified before the Finance Committee. How do you feel about this prohibition upon your contacting members of the House and Senate for a year?" I said, "I wish it were five years." There were a few instances during that year where I would have contacts with members because they asked to see me and I was permitted. And I had been one of the organizers of the joint committee on the reorganization of Congress, which actually laid the basis for many of the changes the Republicans later made. It's an interesting thing. This group came up with all these proposals and the Democratic leadership couldn't go forward with it because of the opposition of the committee chairman, which was perfectly understandable and anticipated. But during that period I had very little contact with the Hill. But I didn't have much after that either, because our lobbying was done by our staff. My job was more working with my board and setting policy and strategizing. And I didn't have a lot of personal contact. I didn't do much personal lobbying even when I was with Patton Boggs during the four years before I was here, I wasn't on the Hill a lot. I'll tell you why in both cases. My experiences were that the most effective lobbyists are the clients that are directly involved. And I think some of the most useful things I did – not that it was unique with me – in assisting clients when I was at Patton Boggs was helping people who had very little contact with Washington. Some of them had never even been into the town before. We would help arrange the appointments. But they would go in, the people that were directly involved, and talk to the staffs and the Members. And so, running a trade association to me didn't involve much

lobbying; hardly any. And indeed, working with a lobbying firm had surprisingly little direct contract with members or their staff. It may sound surprising but that was my experience.

BERKOWITZ: It is surprising. Did you bring in Chip Kahn?

GRADISON: Yes. He probably did more lobbying. He was heading up a lot of those activities. We worked very well together. And then surprisingly – and it was a surprise – the Republicans took the House. It was not a surprise to me after that when Chip said they had asked him to come back on the Hill. Chip then came back to us later as my successor-designate. I had served two three-year terms as head of Health Insurance Association. They asked me to serve another year. I said, "No, thank you." It was time to make a change. And a lot of people said it would never work. "You can't have your successor-designate sitting right there next to you. You've got to get out." I said it's going to work out fine. Chip said the same thing. It worked out fine. We had a very smooth transition. I was president. He was president-designee for six months or more. We just got along fine. We still do. There was never a problem.

BERKOWITZ: I see. Well, very good. Thank you so much for talking with us.

INTERVIEW WITH CHUCK BOOTH

Parkville, MD on March 29, 2004

Interviewed by Ed Berkowitz

BERKOWITZ: Today is March 29th and I am here in Parkville, Maryland right outside of Baltimore along with Mark Santangelo. We are here talking with Chuck – Charles is it? – Charles Booth?

BOOTH: Charles is my official given baptized name, but I go by Chuck.

BERKOWITZ: Chuck.

BOOTH: Whenever possible.

BERKOWITZ: I see. And I wanted to talk to you about your career in the federal government and particularly at HCFA. You just told me that you go back to the Bureau of Health Insurance. Where did you grow up, if I may ask?

BOOTH: I grew up in Chicago for 11 years and then Florida for six years and then prep school for a year in upstate New York and then four years of college in Rhode Island. And then from Brown I went to the Social Security Administration. I worked in four different district offices in California.

BERKOWITZ: When did you start to work for SSA?

BOOTH: July 2nd, 1959.

BERKOWITZ: Post-SSDI ? Pre-Medicare?

BOOTH: The disability program was in. Self-employed farmers were already covered. Medical doctors were covered. Self-employed ministers were covered. And the tax rate was three percent on the employers and employees.

BERKOWITZ: That dates it.

BOOTH: Certainly.

BERKOWITZ: A little bit higher now, I believe.

BOOTH: I think it's just a little.

BERKOWITZ: Where was it that you worked in the field office?

BOOTH: I worked in four different Social Security district offices, all in California. I worked in Berkeley, Visalia, Stockton, and San Francisco.

BERKOWITZ: So they're all sort of around San Francisco? Is that right? Is Visalia around San Francisco?

BOOTH: Visalia is 250 miles southeast of San Francisco.

BERKOWITZ: Oh, I see. I know the name.

BOOTH: Sort of in the center of the state. Its claim to fame is that it is the gateway to Sequoia National Park. But it was basically a farming community; a lot of citrus fruit, cantaloupe and cotton in that part of the San Joaquin Valley.

BERKOWITZ: I see. I assume you took a Civil Service exam at some point?

BOOTH: Yes.

BERKOWITZ: What made you want to do that?

BOOTH: Take the Civil Service exam?

BERKOWITZ: And decide on that as a possible career?

BOOTH: I actually really did want to work for the Social Security Administration because I had learned that it was a very good agency, helped people, and so I applied, took the Civil Service exam, and on the Civil Service exam you basically automatically applied for a job in the Washington, D.C. area. You could pick one other region in which you wanted your application considered. And I picked California because my wife at the time said she wanted to live at least 400 miles from her mother. Her mother lived in Rochester, New York. I said, "Is California far enough?" And she said, "Barely."

BERKOWITZ: I see. So had you learned about Social Security at Brown?

BOOTH: Basically through a couple of history courses and a political science course, yes.

BERKOWITZ: Okay, you worked in district offices. And you must have gotten somehow into the central office, I would imagine, at some point?

BOOTH: Well, that is a long story.

BERKOWITZ: Well, tell me about it.

BOOTH: Okay. I was a field rep in Stockton, California and I had worked for a guy named John Crossman, who was the assistant district manager. And John had been promoted and went into the regional office as the staff assistant for management in the San Francisco regional office. This was in late 1964. In late winter of 1965, when the Medicare law was being considered, the San Francisco region was going to host the first manager's conference for the year of 1965. And because the potential for the '65 amendments was so vast, somebody in the central office decided that they wanted to tape record all of the speeches at the managers' conference that the central office participants gave, so that in case some of them couldn't make later managers' conferences they could send a tape. Because I had worked with John in Stockton, John knew that I could run a tape recorder. So John basically called the manager in Stockton, Ara Zovickian, and said, "I want Chuck at the managers' conference." So I went to the managers' conference to tape record all these speeches: Bob Ball, Art Hess, Alvin David, Hugh McKenna, Tom Parrott, on and on and on, all the agency big wheels. And one of the people I met there was a guy named George Rawson. Rawson was the head of the Central Planning Staff. That was the staff at the time that was concerned about where Social Security was going to be in five years or ten years. He gave a speech about the kinds of things they were doing. I saw him later and basically said, "Well, you have some nice ideas but what's going on in district offices is not what you are saying or what you said is going on in district offices. You probably need some more people who have had more recent field experience to sort of weigh in on some of these things." It turned out that he couldn't hire me at that time because he didn't have a job. When Medicare got started, he came over to Medicare from the central planning staff sometime in early I guess 1966.

BERKOWITZ: Right at the beginning then.

BOOTH: Well, after the law was passed but before the program started. And he was looking around for people and found my name in his file, I guess, and called and basically asked if I wanted to come to Baltimore.

The regional rep in San Francisco said, "Yes, Chuck does want to go to Baltimore and he will be there on July the 18th." So I came to Baltimore and I never went back.

BERKOWITZ: Wow. So this fellow that recruited you, was he working for Art Hess?

BOOTH: No, he reported directly to the commissioner. Art Hess then was appointed the first director of the Bureau of Health Insurance. And I don't know whether George was there when Art came over or whether it was the other way around. Because there was a guy who was acting head of BHI named Jim Murray who was from the Atlanta regional office and for some reason he didn't get the job permanently. Art Hess, who had been head of disability, came over to be, as I say, the first permanent director of BHI.

BERKOWITZ: Did you move to Baltimore?

BOOTH: Yes. Bought a house in Catonsville.

BERKOWITZ: So you lived near the Social Security building, and went to work where?

BOOTH: We worked in the operations building.

BERKOWITZ: In back of the Altmeyer then or whatever that is, yes, okay.

BOOTH: Right. Most of the Medicare folks when I got there were on the fourth floor of the operations building. They had moved over a few months earlier. Some of them had been in the Gwynn Oak Building. But by the time I got there in July of '66 virtually all of the worker bees were on the fourth floor of the operations building.

BERKOWITZ: And I guess Arthur Hess was in the Altmeyer Building?

BOOTH: Room 700 of the Altmeyer Building.

BERKOWITZ: And Bob Ball was on the top floor?

BOOTH: And Jack Futterman was in between.

BERKOWITZ: I see. And you had a dumbwaiter to send things back and forth, I believe. So you worked for the Bureau of Health Insurance. What was your portfolio? What was your assignment when you got to BHI?

BOOTH: In the beginning of Medicare, if a patient went to a hospital, the hospital sent what was called an admission notice to its fiscal intermediary and the fiscal intermediary sent the admission notice electronically to Baltimore to find out whether the individual was eligible and what the individual's status was with respect to their spell of illness or benefit period. The same thing was true for physician services or outpatient services under Part B. In this case the bill came in to the intermediary or carrier and the intermediary or carrier electronically sent a query to Baltimore to find out whether the individual was eligible and whether the individual had met his or her deductible for the year. The area that I started to work in had to do with the queries and admission notices that were being sent, how it got from one place to the next. By the time I got there the program had been in operation for two full weeks and there were a lot of questions about what the different codes on the admission notices and queries meant. And there were questions by the intermediaries and carriers. There were questions in the central office. There was miscommunication: What does this mean? For one thing, when they originally designed the admission notice query system they said, "Well, how many open admission notices do you think there are going to be?" Because when the patient was admitted to a hospital you said, "Jim Smith was admitted to Johns Hopkins Hospital on July 7th." And that admission notice stayed on the record until the bill came in and then the bill would say that Mr. Smith was in the hospital for eight days and so he doesn't have 60 days anymore, he has 52 days left in the spell of illness. Well, originally they said, "Well, we probably only need to have four of these admission notices on the record." About the time I got there they had already had a number of beneficiaries who had more than four admission notices open on the record. It turned out that there were a bunch of people over 65 who were basically drug addicts who would go into a hospital, be admitted, get a fix, be discharged. A couple of days later they would go back in, do it all over again. So about the day I got there or the day after, they moved that from four admissions to 16. And then I think they went to a much higher number. So it was an interesting perspective which nobody had thought about before.

BERKOWITZ: When you said that they queried electronically to Baltimore, what did that mean in 1966, electronically?

BOOTH: Well, for the intermediaries the hospitals and skilled nursing facilities and so forth had the ability to nominate their fiscal intermediary.

BERKOWITZ: Right.

BOOTH: The American Hospital Association on behalf of all its hospitals nominated the Blue Cross Association to be the intermediary for all the

hospitals. And about 90 percent of the hospitals took them up on that, if you will, and chose Blue Cross to be the intermediary. Blue Cross had in place a system for sending queries within the Blue Cross system that they were using for, among other things, federal employees, because all the federal employee records were kept in Washington at the time. Now, the "electronic system" was paper tape.

BERKOWITZ: Paper tape.

BOOTH: Paper tape. And their whole system was paper tape. They got paper tapes in from all their plans. They consolidated that and sent it to Baltimore every day.

BERKOWITZ: Now, paper tape means tape with little holes in it….

BOOTH: Yes.

BERKOWITZ: I see. And it was played on what? I'm just trying to picture what the technology was like.

BOOTH: It looked like a reel-to-reel tape recorder, if you will, but it dealt with paper tape rather than magnetic tape.

BERKOWITZ: I see.

BOOTH: I mean, it's a little more elaborate than that because we're sending a fair amount of data, but that's basically what it was.

BERKOWITZ: I see. And how would the machine read that paper tape then? You put it in like a tape recorder?

BOOTH: Yes.

BERKOWITZ: I see, okay. Just curious how this stuff evolved over time. So how did your job change over time?

BOOTH: I did that for a couple of years, believe it or not. There were questions about whether this beneficiary was really in the first spell of illness or the second spell of illness. There were all kinds of interactions going on. And when I got to Baltimore the manuals weren't even final. They were still interim manuals and some of the intermediaries and carriers didn't know whether they could trust them or not. They didn't understand in many cases, as I said, what the codes meant. It took months, literally, for some of the more esoteric codes to become second nature to them. I'll

tell you it was bad enough at the beginning. In the operations building, because it is so big, every 25 feet there is a round post that goes from the bedrock all the way to the roof. And I actually had a desk that was next to one of these posts that's probably two feet in diameter. The third day that I worked I took the manual pages with all the query and admission notice codes to a Xerox machine, photocopied them, and taped them to this post. Now, everybody laughed at me for about first two days. By Friday when they had a question, rather than getting their manual out of the drawer and opening it up, they would come over and look at what I had put on my post. It was right next to the phone, so when somebody called and said, "I have a response to an admission notice with such and such a code," I could just look and say, "Okay, I know what that is, I know what to do," without fumbling around. Saved a lot of time. The first year I was probably on the phone six hours a day.

BERKOWITZ: Really? To intermediaries across the country?

BOOTH: Intermediaries, carriers, and in many cases regional offices because the intermediaries and carriers were supposed to go to the regional office if they had a question. Unfortunately, the regional office didn't know any more than the intermediary and carrier because this was a fairly specific area. So somebody in the regional office would say, "Well, I have to call Baltimore." So then they would start calling Baltimore and it didn't take long to figure out who was doing what. There weren't that many of us at the time. I was really the only one doing queries and replies. I worked with a guy named Wayne Fowler and he was essentially the lead analyst responsible for this, but he had other responsibilities and he just turned the admission notice and queries and replies over to me after about two weeks.

BERKOWITZ: And who are you interacting with in the agency? Who is supervising? Do you have staff meetings and does it get up to the level of Art Hess or would it be someone below that?

BOOTH: It would definitely be below that. I probably saw Art Hess twice.

BERKOWITZ: Really?

BOOTH: While he was head of BHI. Because I had a first line supervisor that I reported to at the beginning who was Vic Kandel who had come to work for Social Security in I think 1936. His boss was Dan Baker, who is actually still working at CMS, who has 64 years of federal service and counting.

BERKOWITZ: Wow.

BOOTH: And then Dan worked for George Rawson and Rawson worked for Hess. That was the order. So there were several layers. Vic would have staff meetings occasionally. I interacted with Dan Baker, oh, every week or so. Every month or so I was probably in a meeting with Rawson and virtually never with Hess. I got to know Hess later, but not then.

BERKOWITZ: I see. So when HCFA was created, which was 1977….

BOOTH: March the 8th.

BERKOWITZ: Right. Where were you at that point in your career?

BOOTH: I was still in systems. Sometimes it was called methods and procedures and sometimes it was called systems but it was still the same general area. But I wasn't doing the same thing. In 1967, Vic Kandel took another job within systems, and a guy who worked in the department named Bill Lanning came to work as our supervisor. Together we found out that a number of carriers in particular had gotten a contract and figured they would run the Medicare business the way they ran their own business, which was all manual, a number of them were saying, "Wait a minute. The volumes are too great. We actually need to start automating. We need to develop a computer system in order to deal with this much volume." So we decided that, rather than having every carrier in the country – and there were 43 or 44 of them at the time – come in and spend $300,000 to $700,000 for a computer system, that we would develop a computer system and we would give it to them and they could run their claims on that computer system. So beginning basically at the end of 1967 to mid 1968 two or three of us – John Dobson in particular and I – went to a bunch of different carriers to see what they were doing. And then we designed a computer claims processing system. We hired a contractor through – actually through a carrier, the Pilot Life Insurance Company in North Carolina. They hired somebody to build this computer system but we were the ones who actually developed it and gave direction to the contractor, which was McDonnell Douglas Automation Company in Saint Louis, Missouri. From basically mid '68 on, I was working for what we called the Part B Model System Group. And we developed the system, we installed it at Pilot and then began installing it at other carriers around the country.

BERKOWITZ: Did you have experience in design of computers, that sort of thing? Or did you just rely on your consultant and then you said, "We

want to be able to do this, we want to be able to do that"? Seems like a very technical thing.

BOOTH: Well, John Dobson was a computer programmer.

BERKOWITZ: So he knew how it worked.

BOOTH: He knew how the coding worked. I by then had been to enough intermediaries and carriers that I had a pretty good idea of what they did, not necessarily always how they did it. But we began to learn that. But we combined that knowledge and the design of the claims processing system. I had no formal training, if you will. But I was a philosophy major and I have sort of a logical mind. So between us we were able to meld this system. We were the ones who sat and figured out what we wanted the system to do, what order it needed to be done, and then we worked with the contractor to accomplish that.

BERKOWITZ: And then it was ultimately made by McDonnell.

BOOTH: They did the programming.

BERKOWITZ: Were there machines that were sold to these guys that you bought for them?

BOOTH: No, no, no, no. This was all software.

BERKOWITZ: I see.

BOOTH: This was all computer code.

BERKOWITZ: I see.

BOOTH: And the instructions that went along with it. But we built the system to run on a small IBM computer, a 360 model 30, which has less memory than your average PDA now does.

BERKOWITZ: And was probably pretty large, too.

BOOTH: Yes. It would fit in this room. You know, a typical 12-by-15 room. You might be able to get one in it assuming you had the subflooring because all the wires were in the floor. But we ended up putting that system in 20 or so carrier locations before we were stopped.

BERKOWITZ: Why were you stopped?

BOOTH: When Elliott Richardson was secretary….

BERKOWITZ: Circa 1972, that would have been.

BOOTH: Yes, roughly. He formed a group called the Perkins Committee. I can't remember what Perkins' first name was.

BERKOWITZ: Roswell Perkins, maybe?

BOOTH: Could be. Anyway, EDS, which was owned and operated by H. Ross Perot, had a competing system that was installed at several carriers. And I gather that Perot complained to the administration, perhaps Mr. Richardson directly, that we were lessening competition by having this system that we would install and the carrier could run it without cost. The Perkins Committee decided in 1974 that it was sort of a restraint of trade issue and maybe the government shouldn't be in this business. So we basically stopped installing the system and by 1976, I guess, we were out of the computer system business. Interestingly, a couple of the guys that worked with us in BHI saw the handwriting on the wall. They talked to probably 10 carriers who were using the system and basically said, "Are you happy having somebody else maintain the system for you?" And when the answer was yes to that, the second question, I guess, was, "Well, if the government stopped maintaining the system, would you be interested in having a private contractor maintain the system?" When enough people said yes to that, they quit working for the government. They went to work for themselves, and they formed a company called VIPS which now has a 15-story building in Towson to house their various enterprises. They have expanded considerably since then. But the start of this was they basically took over the Part B Model System and maintained it privately. They had Tom Gildey, who was the brains behind the outfit. He made a lot of money and retired a long time before I did even though he was younger than I.

BERKOWITZ: So that's a good example of the federal government paving the way for the private sector and have someone taking advantage of it.

BOOTH: We did all the research and they got all the benefit just like the drug companies today.

BERKOWITZ: So by the time of HCFA then this Part B software system is no longer a going concern.

BOOTH: I think we had pretty well gotten out of that business by '77. I think there was some lingering work that happened in '77 and '78, but by and large we got out of the Part B model system business.

BERKOWITZ: So how did HCFA change your life, if at all, then?

BOOTH: HCFA? HCFA didn't change my life.

BERKOWITZ: You continued to do the same work.

BOOTH: At first John and I had been running the Part B Model System. In '71, John took a job with what was called the FAP task force.

BERKOWITZ: Family Assistance Plan.

BOOTH: Which became SSI, basically. I think John got burned out and wanted a different challenge. When John left then I of took over running the Part B Model System and I did that until the end of November of 1973. And then at the end of '73 I got a promotion and began as branch chief for the Part A Systems Branch.

BERKOWITZ: Still in Baltimore.

BOOTH: Oh, yes. I've always been in Baltimore. I never left Baltimore after I came here. So basically from 1968 through 1973 I had been on the carrier side. And then from '73 to '79 I was head of the Part A Systems Branch, which involves not just the computer systems but all the procedures, the manual procedures. One of the problems with Medicare at the beginning was that all the hospital bills, including the outpatient bills, came from the hospital to the intermediary on paper. And at least for the inpatient hospital bills, the skilled nursing facility bills and the home health bills, those bills all came to Baltimore on paper.

BERKOWITZ: All bills, including from all across the country.

BOOTH: From all across the country because the Office of Research and Statistics coded the diagnosis and procedure codes and they wanted the original bills on which to do that. And they had a bunch of people in Baltimore called “nosologists” that did that for a living. It quickly became clear and it had already become clear by the late 1960s that Medicare was going to grow fast enough that that system was not sustainable. So a subculture was developed to see what we could do about moving to some sort of automated bill processing operations, not only at the contractors but ultimately for the carriers and for the physicians and the hospitals. What

we began to develop in '72, I guess, and then accelerating through the late '70s was a standardized claims form originally called the UB-16. Our purpose for developing this standardized claims form was twofold. One, so that the hospital could fill out the same claim form regardless of which insurance company they were dealing with, whether it was Medicare, Medicaid, Blue Cross, commercial insurance, because at the time everybody had his own claims form. So a hospital would have 20 or 30 claims forms that they would have to deal with. So we set about trying to develop a uniform claims form. That was called the UB-16 because the AHA board of trustees agreed that they would support the development of such a form. And it was in its 16th iteration at the time. They approved the UB-16 and we never changed it even though we went through a few hundred iterations after that. But we made it clear at the beginning with Blue Cross and the different hospital groups that were represented that we wanted a claim form because we wanted a format, not a form. Because as soon as we got the form we would have a format. If we had a format, we could automate it. And when we could automate it, then the hospital could put its bills on a computer, send them by computer to the intermediary, who in turn would process them, and we could get rid of a lot of paper.

BERKOWITZ: Were they using different Medicare forms, depending on who the intermediary was?

BOOTH: No. The Medicare forms were standard.

BERKOWITZ: It was always the same, no matter what part of the country.

BOOTH: Right.

BERKOWITZ: Whoever was the intermediary.

BOOTH: If there was an inpatient form it was a 1453. If it was an outpatient form it was a 1483.

BERKOWITZ: And you're talking about standardizing these forms for everyone, including for a young person that goes into the hospital who has private health insurance?

BOOTH: Yes.

BERKOWITZ: I see. This is a big thing then.

BOOTH: Well, we thought it was.

BERKOWITZ: It went beyond Medicare.

BOOTH: Right. But it was already clear that we were going to end up being the 900-pound gorilla.

BERKOWITZ: You would be the largest single payer.

BOOTH: Right. At least in terms of money. So that was one of my prime foci, if you will, from 1973 until we got it done in 1982.

BERKOWITZ: Was the hospital able to say, "I'm sorry, I don't like that form. You can use that form for other hospitals but we're not using that form"? Or could you then say, "Oh, you can use that form but you won't get any Medicare money from it"?

BOOTH: We could have. And we ultimately sort of did because we did away with the 1453, the inpatient form, and the 1483, the outpatient form. And we said, "We're not furnishing those anymore. We're not printing them, we're not supplying them, we're not doing anything with them." But the prime groups that were involved here were Blue Cross, the American Hospital Association, and us. There were people from the federation of private for-profit hospitals as well. They were involved. And there were people from the commercial health insurance people. But they weren't the major players. They were important, they were cooperative, and I think they realized, too, that this was the direction that things were going. And as a result, we actually got a fair amount of cooperation. However, as health insurance evolved, as contracts evolved, and so forth, there was a lot of wrangling. I mean, I probably spent 15 percent of my time from 1973 till 1982 getting this done. And we really got done because the hospital association finally put somebody in charge of this project who was willing to come to closure and not just sort of fumble around in the dark forever.

BERKOWITZ: Who was that?

BOOTH: His name was Larry Goldberg and he now actually works for Deloitte and Touche but at the time he worked for the American Hospital Association and we were able to come to closure. And meanwhile, the Blue Cross plans individually had seen the advantages of automation and they were beginning to work on different forms of automation and working with some of the hospitals as well. We finally had to basically tell the Office of Research and Statistics that they were no longer going to get pieces of paper.

BERKOWITZ: Now, this Office of Research and Statistics that you called "nosologists," they're not paying claims, they're just gathering data. Is that going to go into the creation of DRGs or something? What are they going to do with that data that they collect?

BOOTH: Well, I think ultimately they planned to use it for DRGs. But I don't know what they were doing with it originally.

BERKOWITZ: But they weren't paying the claim, right? That was being done elsewhere.

BOOTH: No, the claim was paid. Everything was done. The bill came into Baltimore. It was processed through the Baltimore computer system and they got it and they put these codes on samples of bills or all the bills or whatever.

BERKOWITZ: I see.

BOOTH: I think it was all the skilled nursing facility bills and 40 percent of the home health bills and 20 percent of the hospital inpatient bills and I think 5 percent of the outpatient bills, as I recall.

BERKOWITZ: So that's quite a database they had.

BOOTH: It was worthless, but it was quite a database. Well, it was worthless because the hospitals didn't care what diagnosis and procedures they put on there. It didn't matter to them what they put down because it wasn't going to affect their payment. They were being paid on the basis of reasonable cost. So as long as they didn't put down cosmetic surgery or experimental heart problems….

BERKOWITZ: Yes, something that could potentially be disallowed.

BOOTH: Something that might actually catch somebody's attention and might not be paid. But if there was a surgical bill and they put appendectomy on every bill….

BERKOWITZ: Nobody would care.

BOOTH: It wouldn't have made any difference other than ORDS's statistics would have been worse than they already were.

BERKOWITZ: But they couldn't put hysterectomy ... just appendectomy ...

BOOTH: No, they could only put those on half the bills.

BERKOWITZ: That might have caught somebody's attention.

BOOTH: But what happened was that when we did get to DRGs in '84 and '85, it became clear that the diagnoses and in many cases the procedure codes that were on the bills before the DRG system came into effect were just wrong because the weights for the DRGs changed fairly dramatically in '85 and '86 as we got the numbers on which payment was being based and we realized that a lot of the stuff that we had gotten before wasn't very good. Now, I don't know what ORDS – I guess it was Office of Research and Demonstrations by then – ever did, but that wasn't my problem. I was still in operations – well, by then I was in policy. But I was still sort of in operations.

BERKOWITZ: I see. Let me ask you now another question then. I wanted to ask you about life at Woodlawn. When you were working all these years in the '60s and the '70s, was that the kind of place where people came there and went home to various parts of the metropolitan area? Or was there esprit de corps? Was there a life that was sort of based around work the way there is some places? Or how would you describe it?

BOOTH: I had very few work associates who lived in my neighborhood. So there was home life and there was work life. People really were scattered all over the place. Other than occasionally going to dinner at somebody's house or having somebody over to our house, there really wasn't a lot of interaction. Some people became close friends. I mean, there were poker groups and that sort of thing. But Woodlawn was not a company town, if you will. There really were people from all over Baltimore City, Baltimore County. A lot of people who worked in BHI ended up in Howard County, in Ellicott City and Columbia, so there wasn't any sort of neighborhood SSA/HCFA area, if you will, where people lived. I had thought about that before I came to Baltimore. The first sort of sub-development I lived in was Westview Park, which was just sort of south and west of the complex. And I sort of wondered, would 60 percent of the people be working at Social Security? Well, it turned out, no, that wasn't the case. It just didn't work out that way.

BERKOWITZ: I see. Did you used to go some places for lunch and that kind of thing or did you mostly go to the cafeteria there? They had a big cafeteria there at SSA.

BOOTH: Had several.

BERKOWITZ: Several. It's kind of a little bit hard to get out. It's not like walking down the street or anything.

BOOTH: No, but you could get in your car and go to Franklintown or Westview, or there were any number of little eating establishments. In most situations there wasn't that much time for lunch, particularly at the beginning so you either went to the cafeteria or you brought your own lunch. For the first couple of months my family was in Rochester, New York and so I was eating in the cafeteria because we bought a house but we couldn't move in right away. We ended up not moving in until I guess close to Labor Day. So my three kids and my wife spent the summer in Rochester, New York with some friends. And then I would probably go to the cafeteria half the time, bring my lunch half the time. More and more as I worked I evolved into bringing my lunch, particularly as I got more responsibilities and I had more meetings and less time. I was answering phone messages and stuff on my lunch hour and spending the rest of the day in meetings, seemingly.

BERKOWITZ: Did you evolve a kind of standard working hours? Did you get there the same time and leave at the same time? Or was it more that people got there all sorts of different times and left at different times?

BOOTH: Well, at the beginning everybody in Woodlawn had a shift just because of the traffic flow. So there was a 7 o'clock shift, a 7:15 shift, a 7:30 shift, up till 8:30. And I think when I first came to Woodlawn we were on the 8:00 to 4:30 shift for the most part. But if you didn't get to the parking lot by about 10 minutes to 8:00 you probably wouldn't find a place to park. So they later expanded the parking lots. But as Woodlawn grew it became problematic from time to time. But I got there on July 18th. The first Saturday I was there I worked overtime and I was working overtime probably a couple of nights a week almost from the beginning just because there was so much to do. So I sort of evolved into a 9- or 10-hour-a-day habit pretty early.

BERKOWITZ: So now you started to talk about DRGs and so on in the 1980s and you said that you were working in policy at that point?

BOOTH: Well, I worked in the Part A Systems Branch from 1973 to 1979. And in 1979 the HCFA reorganization finally mattered because we merged functions with Medicaid and I became a division director. So I had Part A and Part B and I also had some responsibilities for the Medicaid standard systems. And I had basically a branch of six or seven people who had come over from Washington who did some of the systems work in Medicaid working for me, because Joe Califano put Medicare and Medicaid together so we would work "cheek by jowl." And in systems we did work. I mean, we had all the functions. The claims processing functions and systems functions were in one place, the eligibility functions were someplace else, so that we really did work as closely as possible. It turned out not to be a particularly good marriage, if you will, because of course the laws were quite different. The responsibilities were quite different: Medicaid obviously run by the states and there's an oversight role but there's no direct involvement the way there was with Medicare and the contractors.

BERKOWITZ: Did any state have it integrated with their intermediaries or carriers also paying Medicaid claims so that a hospital would only have to deal with one system? Was it well integrated?

BOOTH: No intermediary tried that. But there was a provision in the law – it may still be there – under which a Medicaid state agency that wished to do so could become the Medicare carrier for welfare beneficiaries. The first state to do that was Nebraska, which did it at the beginning of the program. Nebraska's welfare department was an abysmal failure. By November of 1966 they had a five-year backlog. Now, the backlog was measured by the number of claims that you processed, let's say in a week, divided into your pending. And that would give you your week's work on hand. Well, in their case it was years' work on hand. They set up a filing system under which they couldn't find anything. And by January it was apparent even to them that they probably shouldn't have chosen to do that. So they quit. And the claims that they had were transferred to Mutual of Omaha, which was the carrier in Nebraska. I think Mutual brought some people in a couple of Saturdays and had the backlog worked off in virtually no time at all. The second state, and the only other state to do that was Oklahoma, and they had a weird political situation in Oklahoma. But they decided to do that in July of 1967 and I think they did it for three years and then they quit.

BERKOWITZ: They had a famous welfare director, by the way.

BOOTH: Lloyd Rader.

BERKOWITZ: Yes. You knew him?

BOOTH: I know him well and – he's probably dead by now.

BERKOWITZ: He was very close to Senator Kerr.

BOOTH: Well, Lloyd was actually the most powerful man in the State of Oklahoma because one percentage point of the sales tax revenue in Oklahoma went to the welfare department which Lloyd Rader ran. So he actually had more money than the governor. He decided he wanted to do this, and so he did it. And it was an interesting relationship. I guess he thought he could do to the federal government what he had done to Oklahoma, which was if he said he wanted something, he got it. And we didn't exactly work that way. So it was a tense relationship for a couple of years. I actually spent three or four days in Oklahoma City when they first started.

BERKOWITZ: He was also very close to Wilbur Cohen. He was close to Senator Kerr and there was a relationship between Kerr and Wilbur Cohen and Lloyd Rader. He was very powerful among the welfare directors, too. That's interesting. Did you find, by the way, that there was this amalgam of the people from SSA and from the Social and Rehabilitation Service? Some people might say that you would expect the Medicare people to be better and to know more about systems or whatever. Was that true or is that just a myth?

BOOTH: The Medicare people clearly knew more about Medicare systems but I don't know if we knew more about systems. Some of the folks that had worked for SRS and came over were very knowledgeable in the jobs that they did. Now, because of this sort of massive reorganization, there were a lot of ill feelings, you know. "My job changes. Why is my job changing?" Because we are supposed to integrate with Medicaid. Well, you know, they don't do any of the things we do. Where is this integration making sense? So it was difficult for a while. And we tried, with Bill Hogston's leadership, to actually have each of the individual functions as together as possible so that we had former Medicaid SRS employees in each of the different branches and divisions that we had within systems. In other parts of HCFA they were separate divisions, as opposed to separate sections or branches. And I think that made things worse because you were over here and we were over here and never the twain shall meet. And we weren't talking any more than when you guys were in Washington and we were in Baltimore or whatever the situation was. And I heard a number of people complain that all they got was transferred to Baltimore and nothing else changed. Now, of course when this happened in June of 1979 the folks that worked for the Public Health Service who were doing

the quality assurance stuff came over with the PSROs and they were off in a separate bureau. And they were in a totally separate building. So they were even more isolated because by now we had outgrown the East Building, East High Rise and East Low Rise. As a matter of fact, we sort of outgrew the East High Rise and Low Rise by 1972. And we put people back in the Gwynn Oak Building.

BERKOWITZ: Is that the one across the street?

BOOTH: It's the one behind the bank. If you're at the Altmeyer Building and you are looking out from the Altmeyer Building you are looking at Gwynn Oak Avenue.

BERKOWITZ: Right.

BOOTH: There is a building on the right-hand corner across the street. But if you go down the street about a half a block on your left is the Gwynn Oak Building.

BERKOWITZ: Toward Woodlawn, in other words.

BOOTH: Toward Woodlawn. And it was originally a warehouse. It actually only has four floor-to-ceiling windows on the east side and no other windows. It's a one-story building and it's behind the bowling alley parking lot.

BERKOWITZ: I see. That's pretty isolated. And if those people had to move from Washington to work there they probably were not too thrilled.

BOOTH: Well, they didn't go to the Gwynn Oak Building. By then we had begun working in other buildings around: the Meadows East Building and the Dogwood Buildings, East and West. It was the Dogwood East Building into which the PSRO people went. And then the end-stage renal disease people were in the Dogwood West Building, and on and on and on. It was just a mess.

BERKOWITZ: Each time Congress would add a little something another little part of the agency would have to implement that and run it, such as the end-stage renal disease program in 1972.

BOOTH: Well, end-stage renal disease was pretty much a separate entity. And because the disease was so specific and everything about it was different, they formed a separate group to run that for quite a while before they basically integrated it into the rest of the agency, which made it more

isolated, and nobody knew what was going on. And they didn't write manuals, so who knew what was going on? It was sort of a difficult decision.

BERKOWITZ: I think also that the agency heads were not thrilled with it, if I understand it. They didn't think it was the right way to go, to have a disease-specific category like that.

BOOTH: Well, this was Russell Long's attempt to begin national health insurance. He was going to do it one disease at a time.

BERKOWITZ: Would have taken a while.

BOOTH: Well, unfortunately he picked the wrong disease because the actuary told him there were about 20,000 people in 1972 who could benefit from dialysis. But once the benefit came into place the numbers just multiplied. So now there are, what, 250,000 people who are receiving dialysis three times a week? I mean, the actuary said, well maybe in 20 years there would be 30,000 or 35,000. Well, that was totally off the wall. And the expenses for dialysis have just gone up.

BERKOWITZ: Right. And that's for any age, right?

BOOTH: It's national health insurance if you have end-stage renal disease.

BERKOWITZ: For that particular thing, not for all of your health but just for the end-stage….

BOOTH: No, no, no, no.

BERKOWITZ: For everything?

BOOTH: You're covered….

BERKOWITZ: Full Medicare package.

BOOTH: Full Medicare package.

BERKOWITZ: I didn't know that.

BOOTH: But in addition, of course, you get this little add-on, which is dialysis, which is, what $50,000 a year? Just for that very expensive

population and a very high mortality rate, which doesn't seem to get better.

BERKOWITZ: I see. So now you stayed with the agency through the move to the big new building, and you retired when?

BOOTH: March 2nd, 2001.

BERKOWITZ: 2001. So this was about a year or so into the new building?

BOOTH: No, we moved into the new building in 1995.

BERKOWITZ: Oh, really? Okay, so you had a few years in that.

BOOTH: Right.

BERKOWITZ: Did that improve all these things, having that new building? Everybody is together now?

BOOTH: Well, everybody is not together now. We have already moved the PRRB out.

BERKOWITZ: And where are they now?

BOOTH: I don't know. They're a separate building in someplace over there. I mean, they weren't happy being there in the first place. But we spent all that money building those nice hearing rooms for them. They didn't want to be there. And so when we outgrew that building they were one of the first groups that moved out. I don't know where they are but they're in a separate building. And now I guess they're going to have to build another building to take care of the people who are going to administer the drug benefit.

BERKOWITZ: Looks like such a big building from the outside, but I guess it's full.

BOOTH: Well, GSA does not build buildings with excess space. And so, you build – they built the building to house the people who were there in 1990 or 1991, whenever they signed off on the specifications for the building. But, you not only have the 2,500 or so HCFA people, you've got the inspector general's people, you've got some GAO people, you've got some GSA people, so on and so forth. So there are any number of people who are not actually employed by what is now CMS.

BERKOWITZ: And when you left was it a question of just reaching retirement age or were there any other issues?

BOOTH: Well, I was under CSRS during my career. I did not switch to FERS. And under CSRS you sort of reach your full retirement potential with 41 years and 11 months of service. I cheated. I retired with 41 years and 8 months of service. So I was getting close to the edge.

BERKOWITZ: In other words, your retirement benefits at a maximum wouldn't have increased.

BOOTH: Right. And besides, I got married eight days after I retired. So that had something to do with it.

BERKOWITZ: I see.

BOOTH: I decided, if I was going to change my life I might as well change it all.

BERKOWITZ: I see. Was it a better or worse place to work when you retired than when you came in 1966?

BOOTH: Oh, in many ways it was vastly better. In some ways it was worse. I think when I first came there was a greater ability to take a project and run with it and accomplish it, dealing with the people you needed to deal with. There are always problems in government about accomplishing many things. But I think it was easier then partly because the agency was small, partly because nobody knew all the answers. And we actually had a fair amount of freedom. Wayne Fowler used to say, "You know, you can do anything you've got guts enough to do." And at the beginning he was probably right. Now they have created this functional organization which in many ways doesn't function. You can't do anything unless everybody has a say in it. So there is less ability to actually move a project forward without consulting with so many people and somebody seems to object to everything. It's sort of like being politically correct, that I think it's much harder to accomplish what needs to be accomplished. And then as we grew, we put all these extra layers of approval in place. When I was a branch chief in the mid-1970s, we would write claims processing instructions for intermediaries and mine was the last substantive signature. By 1982 every transmittal had to be cleared by the deputy administrator. I mean, that's ludicrous. Now, I actually worked for the deputy administrator in 1984 and when I was there I set up a fast-track approval process with the Office of Issuances so that we didn't delay things. But

that was only because I knew enough about the stuff that was going out, because I had worked there long enough, that I was able to do that. And I was able to assure my boss, the Deputy Administrator, that he wasn't going to get burned. But it just became a terribly cumbersome process and a process that worked so badly that now you can't believe anything you read in the manuals.

BERKOWITZ: So one last question. So when you retired, what was your job at your retirement that you held in the agency?

BOOTH: I was responsible for the agency's spending. I was in the office of financial management and I had the day-to-day responsibility for overseeing how much money are we spending, and how much money should we be spending?

BERKOWITZ: That's a big job now, sounds like.

BOOTH: Well, it's a job in which your only hope is to have everybody equally angry with you because nobody is going to be your friend. But I worked in policy for 11 years and that job, it seemed to me, was bigger because I was responsible for 10 of those years for how much money we paid hospitals and skilled nursing facilities and doctors and end-stage renal disease facilities and so forth. So that's probably the biggest job.

BERKOWITZ: What was the title of that job?

BOOTH: Mostly Director of Payment Policy. The names change.

BERKOWITZ: Director of Payment Policy for?

BOOTH: Bureau of Policy Development.

BERKOWITZ: For the Bureau of Policy Development.

BERKOWITZ: I see. Well, okay, that's good. I think that's a good place on which to end.

BOOTH: Okay.