# TRANSITIONS IN PUBLIC ADMINISTRATION THEORY THROUGH PRESIDENTIAL APPROACHES TO HEALTHCARE POLICY

by

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#### **ABSTRACT**

## THEORIES OF PUBLIC ADMINISTRATION THROUGH PRESIDENTIAL

## APPROACHES TO NATIONAL

# HEALTHCARE POLICY

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Through interdisciplinary research of twelve presidential administrations and their various approaches to national healthcare policy, a better understanding of the borderless transitions (which I term "melting points") within Public Administration Theory can be pursued. Can key components or characteristics of these transitions in Public Administration be revealed through a President's approach to healthcare policy?

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#### CHAPTER 1

#### INTRODUCTION TO PUBLIC ADMINISTRATION THEORY

Urban policies are complex and require an understanding of many disciplines. The academic act of deconstructing these complex policies can be pursued through various fields. Because Urban Affairs is interdisciplinary in character, and frequently organized around public policy issues that tend to emphasize the problems and questions related to life in urban communities; deconstruction of a policy or policies can take place among, within or around many disciplines. This approach offers an opportunity for both scholars and practitioners to investigate policies from a multidisciplinary perspective on specific issues of relevance.

It is the theoretical frameworks of public administration and the characteristics they hold, which impact policy, administration, and individual citizen's everyday. Working to identify these frameworks as they are applied to policy will result in better decision-making for public administrators. According to Frederickson and Smith (2012), a theory is useful if it accurately describes or depicts a real event or phenomenon while at the same time, explains the phenomenon being described. Using these criteria, this study focuses on five significant "melting points" within public administration theory: Traditional (economics-based) Bureaucracy, Organizational

Behavior, New Public Administration, Management and Rational Choice, and the Reinventing and Governance movements.

Public administration as a discipline acknowledges the frames and ideas held within these theories and thus debate often takes place in and around these components. This study will concede those arguments and propose these are more akin to "melting points". Because many of the theories are found to overlap one another, it can be said that these theoretical overlaps morph into slightly altered versions of their initial components resulting in new theories as they grow and are fostered into existence.

The purpose of this study is to explore the descriptive power of the above-mentioned theories by comparing decision-making within health care policy. Due to the vastness of health care policies, the use of historical documents and presidential records will be utilized. Outlining specific executive actions and legislation as well as highlighting philosophical foundations of twelve past presidents, will serve to answer the question of whether these coalesced public administration theories can be identified through the ever-evolving U.S. health care policies.

Of the many policies to consider analyzing, none seem as pertinent to the times as health care policies. The variables of healthcare are far too numerous to address in their entirety but can similarities or consistencies within the general presidential, public, or political attitudes be identified? Do past and current public policies involving healthcare run parallel to the theoretical frameworks and transitions occurring within public administration over the same period of time?

This paper will identify specific presidential decisions, actions, attitudes and organizational traits through twelve presidential administrations that positively reinforce these research questions. As the theoretical frameworks of public administration transitioned through the past decades, presidential management and favored organizational forms have reflected many of these transitions. Presidential administrations have brought their preferences to the White House and in many cases they have shown them in their handling of national healthcare policy. Reflecting upon the many characteristics demonstrated by administrations- from espousing the power of an individual's independence, or advocating the power of professionalization, we find a developing characteristic taking shape- the governance approach. The office of the president has provided excellent insight into public administration theory through the fact that most, if not all, "administered" public health policies originated in the Oval Office.

Public Administration theory can provide valuable insight into past economic, and political decisions. Originating as a necessity to combat the corruption and connections that were becoming more apparent within the representative government structure, scholars from various fields began to search for solutions. In the years after Andrew Jackson's Presidency, the spoils system and the federal bureaucracy grew; job seekers and acquaintances were increasingly harassing Presidents. It took the assassination of President Garfield by a disgruntled job seeker, for Congress to pass the Pendleton Act. The goal of the law was to require federal government jobs to only be granted based on merit, and open and competitive exams.

Woodrow Wilson then progressed Public Administration theory a bit further into mainstream discussions. Advocating for a science of public administration, an administration that should be developed with professional standards as a foundation and be structured similar to businesses. These changes were meant to promote efficiency and effectiveness in government operations and would lead Wilson to become known for the development of the "politics/administration dichotomy". This is a powerful dichotomy. Simply stated, Wilson believed that administration is void of the political activity that develops policy and law.

A system based on a "Wilsonian" dichotomy was contentious. Even now, the debates within Public Administration theory are still based on whether it is possible or desirable to separate politics from administration (Kettl, 2000). Identifying this dichotomy within the context of American health care policy exposes the theories in a new light.

#### 1.1 Historical Context of the 1920's and 1930's

Beginning this investigation with a review of historical context is natural for Public Administration. As mentioned above, Public Administration relies heavily on this context as foundations for its theoretical debates. That said, researching U.S. healthcare policies of the 1920's and 1930's can provide much insight into the situation within the country at the time as well as allow for comparative study in frameworks. The same model that was applied to the field of Economics and business was applied to United States healthcare policy.

Adam Smith's "Classical" economics as described in his book, "The Wealth of Nations" was working wonderfully at the turn of the century as capitalism was flourishing. American's perceived this "market-based model" as bringing benefits galore to the function of daily life; improvements in work efficiency, growth of personal income and newly created access to credit. The model was being applied to all aspects of American life. However, public administration was still considered as a sub-discipline within political science at the time, and "advocates of this approach saw no barrier to its ability to improve government- if only government administrators could be protected from political meddling" (Kettl, 2000). These market ideals began to gain more value within Traditional Public Administration theory.

Healthcare policies during the turn of the century were delivered along the same perspective- individualism. Open markets and light regulation through most of the early 1900's ensured that those with means were treated and those that were without relied on voluntary, church or community services. This "independent" culture would soon change as economic crisis brought many of the citizen's together and collective actions and policies were fostered.

The fact that the Great Depression stretched from coast to coast and impacted millions is used as a means to highlight an important transition that was taking place throughout the country. Citizens were in fact connected and they were undoubtedly impacted by the decisions and actions of others. Administration and politics did in fact meddle and the laissez faire attitudes of many classical and traditionalists were gone, a central government did have a place in creating policies. As it turned out, citizens

enjoyed their new, pro-active government and the traditional thoughts in public administration began to melt with new beliefs- ones that distanced themselves from the "Madisonian well of distrust of administrative power" (Frederickson and Smith, 2010).

#### **CHAPTER 2**

# TRADITIONAL AND BUREAUCRATIC BEGINNINGS OF UNITED STATES HEALTHCARE POLICY

#### 2.1 Franklin D. Roosevelt

Roosevelt's first year in office focused on the direct, immediate rescue of the economy. Roosevelt then quickly turned the recovery focus onto the "long-term economic security threats" facing the country. It is with this redirection (to economic threats) that national health care policy is first addressed. The newly commissioned Committee on Economic Security (CES) was assigned to "explore thoroughly the possibilities of a unified social insurance system affording protection [against] all major personal hazards which lead to poverty and dependency". Out of this committee came a recommended program known now as Social Security. "bureaucratically-based" solutions such as these were put into place and it is evident why Frederickson (2012) believes that the "theories of bureaucratic politics" developed as a rejection to the politics-administration dichotomy in an effort to explain the policy-making role of administration and bureaucracy.

Arguably seen as one of the most important social programs in the history of the United States, the Social Security Act of 1935 changed America and the perceived role of government forever. A direct shot at those "Madisonian" and traditional public administration theorists, as it came to life because of a transitioning attitude within

<sup>&</sup>lt;sup>1</sup> Edwin E. Witte, *The Development of the Social Security Act* (Madison: University of Wisconsin Press, 1962), 8.

society that played out through the administration of health care. The transitions within theories of public administration are evolving once again and melting into new forms.

As research expanded and evolved, many academics came to believe that administration is not strictly technical and it is not a value-neutral activity that is separable from politics. Evolving from the traditional and economic model and into a more bureaucratic model fundamentally altered public administration. Because this new approach still held many of the traditional components, I propose this as one of the "melting points" in public administration theory. Although Waldo's claims that "administration is politics" (Frederickson, 2012, p. 41); and Gaus' argument that "bureaucracy obviously wields political power" (Frederickson, 2012, p. 42) would come to light many decades later—highlighting the strength of bureaucracies—FDR seemed pleased to be proving this idea correct.

FDR was wielding this bureaucratically derived political power like no president prior to him. Healthcare was under the influence of Roosevelt's pro-bureaucracy approach to policy creation. In fact, the day after signing the SSA, Roosevelt created yet another committee. This new, Interdepartmental Committee's activities would consist of bureaucratic management duties, and in his own words include, "a complete coordination of the government's activities in the health field". FDR now used the bureaucracy itself as a requirement for moving healthcare policy through and, as noted by Blumenthal and Morone (2009), although the CES originally included provisions

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<sup>&</sup>lt;sup>2</sup> Franklin D. Roosevelt, "Presidential Order Creating the Interdepartmental Committee," August 15, 1935, Official File 1731, Interdepartmental Committee for Coordination of Health and Welfare Activities, 1933–1942, FDR Library.

that would create a national health insurance program for all Americans, opposition from the American Medical Association (AMA) prompted the removal of the provision. However, the provision had such a startling impact that in one January 1936 speech, FDR reassured the industry that the fears of "socialized medicine" were unfounded. He stated "... and these professions can rest assured that the Federal Administration contemplates action only in their interest".<sup>3</sup>

The blending of bureaucracy and traditional approaches to healthcare began to play out in public and would devolve into conflict between competing interests. The AMA believed that after hearing statements like those directly from FDR, they had his support, but they didn't. The back and forth fight between the two resumed as the AMA extended an invitation for Roosevelt to address the annual meeting (in January of 1937) and he declined. He declined the offer through letter referencing his inaugural speech in which he had addressed the problem of inadequate medical and hospital care in America. In his letter (and with the tone of curt frustration), he declined the invitation and instead proposed the AMA take advantage of the concentration of members and address the issue, writing, "... It would seem to me that there is no better time for the American Medical Association to give careful consideration to the problem".

When viewed through the lens of public administration theory, this action will highlight Waldo's voice in his pronouncement that the "administrative" theory is one of "political" theory (Frederikson, 2012). He argued that public administration theory

<sup>3</sup> Franklin D. Roosevelt, "Letter to the American Medical Association," February 3, 1938, President's Personal File 3467, FDR Library.

revolves around a core set of beliefs of efficiency and democracy, but these constraints actually hamper the development of the theory. He maintains the belief that administrative theory is basically influenced and driven by a particular philosophy of politics. And, although Waldo challenged the Hamiltonian theory of centralized power that many scholars of public administration were embracing at that time, he would assert that administration is considered to be at the core of modern democratic government, which "implies that democratic theory must deal with administration, and that administration theory must deal with democratic politics" (Frederickson, 2012, p. 44).

Amalgamation of Presidential decision-making and personal motivators led to an evolving national healthcare policy- both in ideology and in delivery. Many of these transitions include attributes commonly identified in prior research in the field of public administration. One of these attributes is found frequently in the Roosevelt administration- Waldo's assertion that the tolerance for bureaucracies will begin to wane as the politics within strengthens. As the health care debates continue for FDR, the tone began to change. Senator James Lewis (D-IL) threatened that if doctors did not address the healthcare needs of the indigent, the government would take over the health care system and that doctors might then be treated as though they were "an office of the army". Because of statements like these, combined with the fear of "nationalized doctors", the tides began to turn and the AMA changed strategy from total opposition to

<sup>&</sup>lt;sup>4</sup> M. H. McIntyre, letter to Senator J. Hamilton Lewis, July 2, 1937, President's Personal File, Box 3467, FDR Library; "Nationalized Doctors," *Time*, June 21, 1937.

that of give-and-take.<sup>5</sup> Undeterred, President Roosevelt ordered the bureaucracy to make further recommendations on plans for a national health insurance program.

To the end of his term, Roosevelt stood as a "bureaucratic" President. He is a shining example of another argument that Waldo voiced- bureaucracies pushed some values over others, and that sometimes bureaucracies themselves behaved as power brokers among competing special interests. It is because of this, that policy-makers are highly influenced by the expertise and opinions of administrators. This highlights the point Waldo was making- a core value of public administration is efficiency. But, efficiency is not value neutral and therefore its relationship with democratic principles had to be recognized (Frederickson, 2012).

In regards to healthcare reform during the Roosevelt administration, many of the attributes put forth later by Waldo can be seen as correct. Roosevelt did in fact push his values into policy through his reliance on bureaucratic management. He pushed them through the gathering of information, he used bureaucracy as he found valuable, and he turned and formed a grand bureaucracy to deliver his pinnacle landmark legislation—The Social Security Act of 1935.

<sup>&</sup>lt;sup>5</sup> The Evolution of Medicare: From Idea to Law (Washington, D.C.: U.S. Social Security Administration, Office of Research and Statistics, 1969), Ch. 2; pg. 14 Peter Corning, The Evolution of Medicare (Washington, D.C.: U.S. Social Security Administration, Office of Research and Statistics, 1969), Ch. 2, www.ssa.gov/history/corningchap2.html; Witte, The Development of the Social Security Act, 24.

#### **CHAPTER 3**

#### HEALTHCARE POLICY DIRECTED TO MEET HUMAN NEEDS

## 3.1 Harry Truman

Truman faced a tough time fighting for health care reform. In many ways he displayed some of the same value-based, bureaucratic approaches to public administration as FDR. In his book, "Memoirs", he stated "I have had some bitter disappointments..., but the one that has troubled me most, in a personal way, has been the failure to defeat the organized opposition to a national, compulsory, health insurance program." Truman's use of "personal" in discussing this failure highlights an interesting philosophical belief- one that public administrators acknowledge. From Truman's own notes he cited his support for the middle class as motivation for fighting for a national insurance program. "I am trying to fix it so the people in the middle income bracket can live as long as the very rich and the very poor."

In the middle of a melting point within public administration theory, we find Truman constantly fighting a losing battle. He understood what FDR had done with proposals and his skills of talking directly about policy. At an "address at the dedication of the Norfolk and Bull Shoals Dams" in July of 1952, he once again stood in support of healthcare as an essential component of citizenship. He glowingly referenced the adolescence of the American social welfare state and New Deal principles as a feature

<sup>&</sup>lt;sup>6</sup> Harry Truman, *Memoirs* (Garden City, NY: Doubleday, 1955), 2:23

<sup>&</sup>lt;sup>7</sup> Papers of Harry S. Truman-President's Secretary's Files, B File, Folder 12, Truman Library. This quote is from the notes, written in the president's own hand on White House stationary for the dinner.

of the modern society, stating, "Because of the national policies of these 20 years have [been] directed to meet human needs, and not just to meet private greed." I found this statement to be extremely valuable because as public administration evolves we are left with whether or not policy is actually "directed to meet human needs". This statement also leaves no doubt as to whether philosophical foundations were considered behind policy creation. The humanistic, communal, needs of a society were met with government policy. And they relied on bureaucracies to deliver them to citizens.

Truman sent his health care plan to Congress in fall of 1945. It included five areas to directly focus on in reform: increased hospital construction, expanded maternal and child health services, a broad program of medical education and research, national health insurance (presented simply as "prepayment of medical costs"), and disability insurance to protect workers from sickness or injury. Truman was attempting to answer the call for more inclusive and need-based health care policy. But again, the AMA takes on the approach of a "traditionalist". Releasing a statement that read, "Obviously this is the beginning of the final showdown on collectivist issue. Not one day dare be lost... Do not underestimate the crisis... Fight for personal freedom and professional independence."

<sup>&</sup>lt;sup>8</sup> Harry S. Truman, "Address at the Dedication of the Norfolk and Bull Shoals Dams, July 2, 1952," in *Public Papers of the Presidents of the U.S.: Harry* S. *Truman, January* 1, 1952 *to January* 20,1953 (Washington, D.C.: U.S. Government Printing Office, 1966).

<sup>&</sup>lt;sup>9</sup> Harry S. Truman, "Special Message to the Congress Recommending a Comprehensive Health Program, November 19, 1945,"

<sup>&</sup>lt;sup>10</sup> George Coleman, "Emergency Bulletin, National Physicians Committee for the Extension of Medical Service, Nov 23, 1945," Samuel I. Rosenman Papers, National Health Insurance File, Truman Library.

Times were changing for Truman. But, it could be said that times were changing for health care policy as a whole. Business and interest groups began to find worthy allies in the Republican Party as they sought to take control of Congress. In a hearing before the Education and Labor Committee, Robert Taft, a conservative, anti-New Deal Ohioan, pressed his belief that the proposals before committee were socialist in nature. "I think it is very socialistic... It is, to my mind, the most socialistic measure that this Congress has ever had before it."

Rhetoric like this proved powerful and control of messaging began to slip for those in favor of health care reform. The back and forth debates stalled both proposals long enough for the midterm elections of 1946. Odds for national health insurance or any bureaucratically based program passing collapsed because, for the first time since 1928, Republicans won control of both houses of Congress.

We can see that Truman was left to follow the paths of presidents before him in attempting to address healthcare. However, this President found the philosophical debates within public administration standing in the way of action. Just a few years before, bureaucracies- and the professionals that filled them- were the solution. By the end of Truman's presidency bureaucracies were disparaged by well-funded interest groups as the problem. Not just the problem, but Anti-American. One only has to look at the rhetoric coming from the new Speaker of the House, Joseph Martin who warned about "subversionists high up in the government" and with that, Republicans began

<sup>&</sup>lt;sup>11</sup> U.S. Senate, "National Health Program, Hearings before the Commit- tee on Education and Labor, 79th Congress, 2nd Session, Part I, April 2-16, 1946," 47-52; "Civics Lesson," *Time*, April 15, 1946, 20.

their historic attack on communist sympathizers.<sup>12</sup> Traditionalists are back from the dead. Using business and organizational influences as vehicles to cruise into play on an increasing basis- and thus melting into institutional frameworks. This is documented by historian Donald McCoy, who reflected and modified former Budget Director Frank Pace's suggestion that Truman had "created the institution of the presidency" by focusing on the fact that "Truman finished the transition that FDR had begunthe presidency became as much an institution as a personal office" <sup>13</sup>

This is worth noting for public administration theorists. In terms of organizational behavior, it is important to note the reliance Truman had on his cabinet officers, the Council of Economic Advisors (which Truman organized in 1946), the National Security Council (1947), the Bureau of the Budget, and various formal commissions. Truman's use of commission reports in helping to steer his administrations decision-making was no different for healthcare policy. In fact, I suggest that it was one of these commission reports that identified the main flaw faced throughout the history of healthcare reform. The statement reads, "Private health insurance covered a fraction of the population, offered inadequate coverage, and was hardest to get where the need was greatest. The entire system of private health insurance had failed." Time will show that even after analyzing data and providing facts to those

<sup>&</sup>lt;sup>12</sup> National Affairs: Special Section: "A Few Party Members, Using Many Lines " Message from Moscow to Those Who Toil and Tremble ... Pulpit, Press Stage, Screen Offer Sounding Boards ... But Men Who Have Learned the Tricks Expose Their Work ... " *Newsweek*, June 9,1947, 23-31; Morone, *Hell-fire Nation* (New Haven: Yale University Press, 2003), 388-96.

<sup>&</sup>lt;sup>13</sup> McCoy, The Presidency of Harry S. Truman, 164

<sup>&</sup>lt;sup>14</sup> Oscar Ewing, "The Nation's Health: A Report to the President" (Washington, D.C.: Federal Security Agency, September 1948), 86-87.

in decision-making capacity, philosophical foundations and personal influence took control of the entire healthcare paradigm.

The return to classic, traditionalist, economics- based force was stalling all movement and impacted the debates to such a degree that even out on the campaign, Truman blasted Republicans as living in the past and promoting ideals of the elite over the future of the country. "Your typical Republican reactionary is a very shrewd man with a calculating machine where his heart ought to be." Continuing, "These Republican gluttons of privilege are cold men... They want a return of the Wall Street economic dictatorship... (Referring to retiring Senator Ed Moore from Oklahoma) They are living back in 1890". Attacks like these helped Truman win reelection and simultaneously engaged the nation back into support for healthcare reforms. But, this also meant Truman needed a new "melted" approach to public administration in order to move forward on any healthcare reform. The strictly traditional approach was not acceptable by "human needs" and the strictly bureaucratic approach was battered by special interests and Truman did his best to confront this conundrum.

In Truman's inaugural address he revealed a new tag line- a "Fair Deal" but to no avail. It was too late. The layer of public administration differences was too thick to penetrate to create policy. Were newly developed concerns hampering the entire process? New concerns such as those over the impact reform would have on a budget, or the individual concern a politician has while toeing the line between being "in accordance with" and "formally endorsing legislation". Was Truman's healthcare

<sup>&</sup>lt;sup>15</sup> Quoted in Poen, Harry S. Truman versus the Medical Lobby, 130.

reform success or lack thereof a result of the new presidential role? An evolving presidential role- one of coordinating executive agencies, gathering information from specialists, confronting economists and budgets, rallying the public for support, and finally negotiating a bill with Congress?

As the paradigm within public administration theory, and the approach to practice shifts- the elections of 1948 and the midterm elections of 1950 found the Democrats evading healthcare reform. In an effort to confront healthcare reform head-on and take control of the terms and conditions of debate, the AMA reversed a longstanding position and claimed that it had been for private insurance all along. With rhetoric came the public's support of expanding the private insurance model. This became the solution promoted to cure any of America's healthcare problems- not a national insurance program.<sup>16</sup>

The challenge Truman faced in confronting the private interest groups was tremendous. Perhaps underestimating the power in messaging put forth by the AMA, Truman let the national discussion become one of expansion of private delivery rather than public delivery of healthcare. This new approach from opposition interests highlights the suggestion that the highest hurdle Truman faced was not in the actual creation of the health care programs but rather in handling the transforming institution of the presidency. We will find that the new aspects of the modern presidency revolve around managing interests. How much political capital to spend or which advisor,

16 Harris, A Sacred Trust, Ch. 8.

17

specialist or interest group should be prioritized between competing concerns as it relates to public policy.

#### **CHAPTER 4**

# THE ORGANIZATIONAL MASTER AND EMPLOYER SPONSORED HEALTH INSURANCE

#### 4.1 Dwight Eisenhower

Eisenhower unknowingly faced the changes within theories of public administration the only way natural for a conservative bureaucrat—by organizing. He demonstrated his traditional roots within organization theory through his use of a strictly managed cabinet. He believed that properly organizing within an organization was absolutely essential to any successful enterprise. His cabinet as well as his general approach to governing demonstrated such. They (organizations) should "simplify, clarify, expedite, coordinate and offer a bulwark against chaos, confusion, delay and failure". His White House emphasized formal processes, meticulous staff works, the delegation of authority to cabinet secretaries and a team-based approach to decision-making. As Blumenthal notes, this is a leadership style no other Democrat presidents would pursue, but almost all Republican presidents would emulate.<sup>17</sup>

Eisenhower worked with the fact that New Deal programs were in place and were not going away, however, he sought to push the government into more private markets, entrepreneurship, smaller and balanced budgets, and increased authority for state governments. Following free market ideals, the administration helped to secure employer provided health insurance as the policy for the country. Employers, backed by federal incentives including tax breaks, would offer benefits such as health insurance to

<sup>&</sup>lt;sup>17</sup> Dwight Eisenhower, *Waging Peace: The White House Years, L956-* I96L (New York: Doubleday, I965); *630-38* 

most workers and their families while everyone else would be protected under a patchwork of federal and state programs. This "shadow welfare state," as political scientists have dubbed the result, remains in place to the present day.<sup>18</sup>

Simon's *Administrative Behavior* (1947) helps to provide a touch of insight into the theoretical context of the time. Simon had the desire to restructure the study of public administration through focusing on the decision-making within an organization. This was not a small request, it required a fundamental change in approach- the move away from administration based on common principles and into one based on a science of administration. It is within Simon's arguments that we find the concepts of bounded rationality and satisficing. He asserts that it is important to separate issues dealing with facts and issues dealing with values. Arguing that science is "conceivable if it limited its attention to decisions centered on facts as opposed to values. Decisions of fact are central to the administrative realm and could be scientifically guided toward the overall goal of efficiency" (Simon, 1947).

It can be said that Eisenhower made the nation's largest healthcare decision based on values as opposed to facts when he decided to promote private health insurance as the main delivery system for coverage. As previously stated, in 1948, Truman could dismiss (with supportive empirical evidence) private insurance as a failed idea, a system that left most American's out, but by the end of Eisenhower's presidency it had become the American way.

<sup>&</sup>lt;sup>18</sup> The phrase comes from Marie Gottschalk, *The Shadow Welfare State* (Ithaca, NY: Cornell University Press, 2000); see also Christopher Howard, *The Hidden Welfare State* (Princeton, NJ: Princeton University Press, 1999) and, for the most comprehensive treatment, Jacob Hacker, *The Divided Welfare State* (New York: Cambridge University Press, 2002).

The blending of compassion and conservatism birthed private insurance. "Eisenhower introduced a Republican healthcare policy that reflected his own personality: a man of liberal and compassionate instincts, unusually solicitous to the people around him, always wrestling with a flinty conservatism." Within his conservative, philosophical underpinnings, Eisenhower tried his best to extend private insurance to groups left out of employer sponsored insurance, but with the temporary policies of tax breaks for employers providing insurance to its employees, Eisenhower faced tough budget constraints he had sponsored. Basically, his weight in budget constraints kept him from expanding coverage to anyone but the employed. And for them- a tax break. In what many historians have come to agree as his single most important healthcare act, the Revenue Act of 1954, which formalized and expanded the tax break, health insurance premiums would be paid by employers and be tax-free. (Blumenthal, p.113)

Eisenhower was able to transform healthcare insurance in a fundamental, paradigm-altering manner. Now that most workers were going to be covered through employer-sponsored insurance, the debates moving forward would revolve around a much different context. The federal government might not be offering the insurance plan itself, but it is highly involved through the tax incentives it provides. This Eisenhower approach of mixing social concern, federal money, state decision-making, and reliance on private markets all formed a solid foundation that every Republican

<sup>&</sup>lt;sup>19</sup> Dwight Eisenhower, At Ease: Stories I Tell My Friends (Garden City, NY: Doubleday, I967), 69.

administration going forward would return to in their attempts to confront the American healthcare system.

Eisenhower's support of delivering health care insurance through employers, led employees to become increasingly bound to their workplace. This was occurring as society was beginning to break down long held barriers in race, gender and education arenas. In 1958 and the midterm landslide election (that gained Democrats 50 seats in the House and 15 in the Senate), Democrats pushed health care back into the agenda. With their return to power, was it too late for the "human-need" based policies that Truman espoused?

#### CHAPTER 5

#### NEW PUBLIC ADMINISTRATION AND FOUNDATIONS IN VALUES

### 5.1 John F. Kennedy

"The disciplined organizational chart- so beloved by Dwight Eisenhower-seemed cautious and stuffy to the JFK team; the new thinking put Ike's style down as rigid, cautious, and tradition-bound. Kennedy threw that aside for a freewheeling, unscripted, ad hoc executive style. Rather than assign aides to defined tasks, the Kennedy White House expected generalists to move nimbly from issues to issue, free of red tape or formal policy procedures." For a public administration theorist, this was identified as one of many of Kennedy's departures from his predecessors. From organization style to personal style, Kennedy returned to personalizing the office, institution and in turn, policies.

As President he used his personal charisma and strategy to reframe the debate once again. In his 1962 State of the Union address he repeated what many Presidents said before when referring to the elderly, "Private health insurance helps very few- for its cost is high and its coverage limited." He continued, "Social Security has long helped to meet the hardships of retirement, death, and disability. I now urge that its coverage be extended without further delay to provide health insurance for the elderly." Kennedy's use of economics in his argument for health care reform while

<sup>&</sup>lt;sup>20</sup> Frederick Dutton, from "Reflections on the New Frontier," transcript of a conversation recorded at the JFK Library among former Kennedy staff in January 1981, available at the JFK Library; Dallek, *An Unfinished Life*, 306-7 [the transition].

<sup>&</sup>lt;sup>21</sup> John F. Kennedy, "State of the Union Address, January 11, 1962, Presidency Project, www.presidency.ucsb.edu/ws/index.php?pid=9082.

also criticizing the inefficacies in private insurance delivery was a return to prior decades. The fundamental idea of a for-profit, market-based delivery of health care was again seen as a divisive issue.

Many times Kennedy would return to this economically reasoned framing of medical insurance for the elderly. "All these arguments were made against Social Security at the time of Franklin Roosevelt". Where Kennedy saw the need to push health care reform back into the spotlight; he was doing so amongst chaos. Returning to Blumenthal, he found that "Kennedy oversaw a willfully disorganized administration marked by little systematic process and even less policy analysis."

If Truman experienced a modern presidency, was Kennedy's approach to the presidency indicative of an even more evolved, modern presidency? Will the vagueness or light analysis of specific aspects within policies become the new way for presidents? Will the budget overrule all? Blumenthal suggests the following, "The contrast between Eisenhower and Kennedy introduces a heretical theme that will become more vivid in future administrations: the more sophisticated the technical analysis, the dimmer the political prospects for health reform. Put bluntly, careful budgetary and policy analyses subvert the political prospects of covering more people" (p. 162).

The reality of budgets, business interests, philosophical differences in government, and active social movements left public administration facing a direct

<sup>&</sup>lt;sup>22</sup> John F. Kennedy, "Address of the President at the Rally of the Three Generations, Madison Square Garden, May 20, 1962," Papers of Theodore C. Sorensen, JFK Speech Files, Box 68: New York City, 5*lr8/62-5120162*, Folder: Medical Care Rally *5120162*, JFK Library. A recording of the speech is available online at www.presidency.ucsb.edu/ws/index.php?pid=8669.

<sup>&</sup>lt;sup>23</sup> Harris, A Sacred Trust, 156-57

challenge: remain abstract in direct application or focus on engaging citizens? The answer is revealed as "New Public Administration" comes to life. Based on the concept of citizenship, NPA is a vision of the informed and active citizen participating "beyond the ballot box" in various public activities with both elected and appointed public servants. As Barber (1984) points out, this perspective is rather like the "strong democracy" argument and is relatively compatible with the contemporary communitarian movement. This melting of theories within public administration is based on the assumption that citizens do in fact have much more than individual and self-serving interests in government and public administration. Was this foundation of "New Public Administration" theory the key to the largest expansion of civil rights, education and health care in United States history?

#### **CHAPTER 6**

#### CREATING HEALTHCARE POLICY WITH NEW PUBLIC ADMINISTRATION

### 6.1 Lyndon B. Johnson

In brief, New Public Administration favors policy relevance, broader citizen participation, and decentralization of government decision-making. Using organizational change with the aim of promoting greater social equity in the form of public decision-making and better management. Taken together, these attributes melt into the development of a more ethical public administration. Research into the Johnson administration, and the policies that came out, reflect many of the characteristics within the theory of New Public Administration.

By acknowledging and confronting social needs directly with a Truman-like concern and using a similar form of bureaucracy that was found in FDR's administration, Johnson pursued a humanistic and ethic-based approach to healthcare reform. The ability to melt these characteristics together enabled him to infuse many of his own personal or political values into public policy. Although he was known for governing strictly and getting policy passed, he repeatedly pushed his values-infused policies regardless of subject. One of his most famous quotes reflecting this approach came in response to his War on Poverty program, "You just make this thing work, I don't give a damn about the details." Johnson delegated details, with his eye on his principles, and oversaw every bit of the internal politics.<sup>24</sup>

<sup>&</sup>lt;sup>24</sup> On measures of presidential success in Congress, see Andrew Rudalevige, "The Executive Branch and the Legislative Process," in *The Executive Branch*, eds. Joel Aberbach and Mark Peterson (New York: Oxford, 2005), 419-51 (data cited from 431).

Johnson himself told his biographer, Doris Kearns, "[The challenge ... was to learn what it was that mattered to each of these men; understand which issues were critical to whom and why." Without understanding their personal desires and their organizational needs, said Johnson, "nothing is possible." Knowing it "let me shape my legislative program to fit both their needs and mine". We see this tendency with several of Johnson's policies but with attention to health care policy, we find Medicare and Medicaid to be among Johnson's proudest legacies.

The Johnson administration and its approach was the definition of New Public Administration. A perpetual tutorial in managing Congress he consciously built organizational capacity to handle the stream of programs he sent up Pennsylvania Avenue. Johnson never left legislation to chance. He loved the process and personally pushed his Cabinet continuously. White House tapes capture him poking Vice President Humphrey about being more aggressive in pushing legislation. "The President can't go see 'em [congressmen]. Hell, I'd love to ... I want to go to the Texas delegation.... That's where I want to be every day.... I don't want to be sitting down here receiving the ambassador from Ghana.... But I can't do it and the Vice President can". 26

The impact of this hands-on approach the Johnson administration took could be felt all the way to the local level. Desegregation, educational reform, health care reform and other Johnson policies were guided based on "values"- with many of the program goals only being met if they had a direct difference on someone's life. These "values"

<sup>&</sup>lt;sup>25</sup> Kearns Goodwin, Lyndon Johnson and the American Dream, 186.

<sup>&</sup>lt;sup>26</sup> Hubert Humphrey, audiotape, 11:25 A.M., March 6,1965, "Recordings and Transcripts of Conversations," Citation 7024-7025, LBJ Library.

mattered to Johnson. "We think the average mother wants peace, she wants her husband to have a job, and they're looking for somethin' to take care of 'em in their old age, and that's what we're trying to do, is to give them a government that appeals to 'em.?" <sup>27</sup> For Johnson, this is what government was fundamentally about- harnessing the "values" that are common to American citizens and developing policy around those "values" that make a nation.

Johnson took Kennedy's legislative program and used his skills to push Congress into action. "I don't know why," said Wilbur Mills, "but he wanted to do everything Kennedy had espoused in 1960. He had this tremendous loyalty to John Kennedy. Unbelievable. He had to enact everything. Johnson kept saying, 'I've got to do it because John Kennedy espoused it." Later, Johnson would tell his biographer Doris Kearns, "Everything I had ever learned in the history books taught me that martyrs have to die for causes. John Kennedy had died. But his 'cause' was not really clear. That was my job. I had to take the dead man's program and turn it into a martyr's cause."

Johnson returned to using philosophical principles in professing his desires to the American people. As Blumenthal and Morone (2009) note, in May 1964 Johnson posed a choice between greed and shared purpose that would test the "quality of our American civilization." With a resemblance of Franklin D. Roosevelt, Johnson told the new graduates, "Your imagination, your initiative, and your indignation will determine

<sup>&</sup>lt;sup>27</sup> Myer Feldman, telephone audiotape, 11:I5 A.M., September 3, 1964, "Recordings and Transcripts of Conversations," Citation 5444, LBJ Library.

<sup>&</sup>lt;sup>28</sup> Wilbur Mills, oral history, taken by Michael L. Gillette, interview 2, tape I of 2, March 25, 1987, LBJ Library.

<sup>&</sup>lt;sup>29</sup> Kearns Goodwin, Lyndon Johnson and the American Dream, 149; Dallek, Lone Star Rising, 147-57.

whether we build a society where progress is the servant of our needs, or a society where old values and new visions are buried under unbridled growth. For in your time we have the opportunity to move not only toward the rich society and the powerful society, but upward to the Great Society."<sup>30</sup> For public administration theorists, this is Johnson's call to New Public Administration. Whatever the foundational disagreement in regards to administration, politics and values being involved in policy-making, for Johnson and his health care policies, they needed to be based on "human need" rather than "greed". Truman would be proud.

However, once again, businesses and special interest groups rose in opposition to this return to considering values in policy-making. A month after being nominated by the Republican Party, Barry Goldwater, and the leaders of the American Medical Association organized a "Doctors for Goldwater Committee". On the other side, Johnson had the skills with voters. As journalist Richard Harris stated, "Johnson made a great many promises in the campaign, but none as often or as fervently as the promise to pass Medicare". Both presidential and congressional elections, decisively tipped the legislative balance toward the president's agenda. Three Medicare opponents on the Ways and Means Committee went down. No one could miss the implications for Medicare.<sup>31</sup>

Johnson again called for a Great Society that "asks not how much but how good; not only how to create wealth but how to use it; not only how fast are we going but

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<sup>&</sup>lt;sup>30</sup> Lyndon B. Johnson, "Commencement Address, the University of Michigan, May 22, 1964, Ann Arbor, Michigan," Presidency Project, www.presidency.ucsb.edu/wsfindex.php?pid=26262.

<sup>&</sup>lt;sup>31</sup> Harris, A Sacred Trust, 171-72; Marmor, Politics of Medicare, 42-43.

where are we headed."<sup>32</sup> For Johnson, he was headed to the largest health care reform in history. Truman's "human need" and Johnson's "how good" approaches to public policy highlight their respective places in time within the timeline of public administration theory. Had the public returned to the days of Roosevelt and the belief that the government could help solve societal issues collectively? The answer was yes. The Johnson landslide election had brought in, by one count, forty-four new Medicare advocates, and the administration needed almost every one. But, on July 30, 1965, the victorious White House team, the congressional leadership, and an ecstatic former President Truman met in Independence, Missouri, for an emotional signing ceremony.

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<sup>&</sup>lt;sup>32</sup> Lyndon Baines Johnson, "The State of the Union Message, Monday, January 4, 1965," Presidency Project, www.presidency.ucsb.edu/ws/index .php?pid=26907.

## CHAPTER 7

## MANAGEMENT THEORY AND THE INDIVIDUAL MANDATE

## 7.1 Richard Nixon

For public administration, the 1960's and 1970's was a turning point. For health care policy it was a defining point. Nixon's organizational and managerial style while in the White House has been well documented, and the spillover into policies reflects many of his traits. He came to the presidency well prepared to run the office, having served as vice president for eight years in Eisenhower's tightly organized White House. Like most Republicans, Nixon favored methodical processes. He personally reshaped the Executive Office of the President by creating the Office of Management and Budget (OMB) during his term, and his strong management style resulted in a White House that made its own policies.

But, Nixon's own character kept him from taking full advantage of his redesigned White House operation. He simply could not stand the personal interactions it required. However, this did not slow Nixon down in the arena of national health care policy. Blumenthal and Morone (2009) believe Nixon did more than any other Republican, and more than most Democrats, in health care innovation through devising breakthrough strategies and new legislation. Overall, the Nixon administration addressed health care in two phases.

During the first term, 1969-72, it showed methodical Republican policy development in its entire splendor. In March 1970, the administration proposed that Medicare and Medicaid patients be permitted to enroll in health maintenance

organizations- the first time the federal government championed HMOs.<sup>33</sup> During the second, 1973-74, as Watergate tore through the White House, a desperate administration took big gambles. In both phases, Nixon showed himself a capable public manager, delegating detailed policy work while driving the big picture. Quickly, the administration's health policy team rolled out a big idea.

Because the administration's leaders (including Nixon, Finch, and Erlichman) were from California, they were familiar with the Kaiser Permanente Health Plan- one of the original prepaid group practices. A group of health policy advocates had been promoting this type of plan as a more efficient way to provide health care. The idea caught the imagination of Nixon administration officials, who coined the term Health Maintenance Organization (HMO) as a catchy way to sell the concept. Nixon was interested enough to invite Edgar Kaiser to come brief him on the concept. He told his aides in February 1971, "This (the HMO idea) is a private enterprise one. The reason he can do it- I had Edgar Kaiser in here to talk about it and I went into it in some depth- the reason he can do it is all the incentives are towards less medical care."

The administration's program was released on February 19, 1971, and it was groundbreaking in two ways. First, the Family Health Insurance Plan would provide health insurance to all poor and unemployed Americans with an income up to \$5,000 while those with higher incomes would share premium expenses and the very poor

<sup>&</sup>lt;sup>33</sup> No author, "Health Message Chronology," no date, White House Staff Files, Staff Member and Office Files, John D. Erlichman, Alphabetical Subject Files, Box 19, Folder: unmarked, Nixon Library; Richard D. Lyons, "US to Seek Rise in Medicare Aid," *New York Times*, March 26, 1970.

would get free coverage. Second, the plan would, for the first time, require private employers to provide health insurance to their employees- an employer mandate.

For many scholars, Nixon's legacy is often thought to rest in the Watergate scandal, however, I propose it rests in healthcare policy. His concentrated power and private-market specialist meant Nixon would be the first Republican to propose the employer mandate. It was this employer mandate that served as the foundation for historic debate for forty years. Nixon's proposal meant federal authority would reach into the private health insurance market in an unprecedented way; although the required benefits were limited, administration officials were proposing a "comprehensive" plana genuine alternative to the Democrats.

Among the many reforms sprinkled through the bill (more community health centers, more money for the war on cancer, more physicians), the administration promoted a nationwide network of HMOs. Nixon extended a Republican line of reasoning that had begun under Eisenhower: The United States should continue to rely on private health insurance, but the system had failings that government could remedy.

Although an executive-like manager, Nixon acted within his philosophical foundations to deliver that management. During an Oval Office meeting, He told the president of the AMA in September 1972, "The proposal on the Democratic platform-the Kennedy proposal- we have a lot of reasons why we would hope to whip it ... - just talking politically which you can't do. And one of the reasons is that this kind of philosophy must be put down. Put down really good right now." ... "We all fight for the establishment. We don't want to change the way things are. We don't want to do things

in a different way because it may endanger our way of doing things.... I don't mean ... some screwball scheme like this 60- billion-dollar one- but on the other hand, you must not just stand on the status quo.... We must not just stand there".<sup>34</sup>

"We all fight for the establishment" and referring to the defeat of Kennedy's (national health insurance single-payer system) as needed in order to "put down this kind of philosophy", points to the importance placed on any reformation of health care policy. Upon re-election, the president gave general directions to his staff. Create a "public-private" plan that assured universal insurance that augmented private sector coverage and used government to fill gaps. For public administration theory, it is important to note that this new idea came directly from a group of specialists; specialist who repackaged Kaiser Permanente as a model suitable for injecting market competition into the national health care system.

Nixon and his health advisors came to see the idea of HMOs competing for enrollees as a solution to every health care problem- costs, access, coordination, and preventive care. The idea was fostered because it met multiple administration needs: it promised cost-reduction and efficiency that would contain Medicare and Medicaid costs and provided a dramatic new approach to delivering health care. Using this new domestic policy approach, Republican policy management reached new heights and the result was the first fully developed Republican national health insurance proposal.

With the heavy reliance on healthcare experts to manage policy we can identify the melting taking place within public administration theory- the act of meeting or

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<sup>&</sup>lt;sup>34</sup> President Richard Nixon, audiotape, conversations in the Oval Office, Conversation No. 786-21, 12:49 P.M.-1:09 P.M., September 25,1972.

delivering a societal need, a humanistic or collective need, through services offered by private enterprise. This use of experts within federal policy creation, implementation and management will lead to the perception of the president as a "Chief Executive Officer" of the United States.

Roosevelt, Truman, Eisenhower, and Johnson pushed for reform under a particular philosophy, but Nixon incorporated management into the equation in a much broader scope. Managing an organization and managing a process are very different. It can be said that Nixon restructured the paradigm and opened the debate for Public Management theory over the next thirty years - particularly in addressing health care reforms. We can identify two of these concepts based on management- the use HMOs to improve efficiency and mandating employer insurance to increase access to the market.

As Nixon resigns from office and the public's distrust of government increases, it ironically bolsters the shifting paradigm toward New Public Management. The public is removed from the benefits that many experienced through government policies of the past and now begin to see public administration differently. The growth of the private sector, the benefits from the manufacturing boom and pro-business trade agreements combined with the distrust of government, led to consideration and acceptance of solutions based- once again- from within the "market arena"- A form of public administration management theory.

This difference identified in Nixon's approach to healthcare reform- and management theory- only reinforces Frederickson's belief that, "From the 1950's

through the 1970's, with the exception of a continuing interest in budgeting and personnel staff functions, the arguments of New Public Administration, and a brief interest in 'management by objective', academic public administration had little to say regarding management in the practice of public administration" (p. 98). Nixon was able to infuse those commonly shared "value" (health care coverage), with market-based solutions, and concern for the budget impact. This was Nixon's style and it left policy-makers, managers and public administration professionals struggling to understand its impact on their respective fields.

## **CHAPTER 8**

# PUBLIC ADMINISTRATION THEORY AND HEALTHCARE POLICY CONFRONT ECONOMICS

# 8.1 Jimmy Carter

The tables were stacked against Carter when he took office. As mentioned above, the distrust in government was strong, the economy was shifting from one based on manufacturing to one based on banking and services. Accomplishing any transformative policy would have been near impossible. Political scientist Steven Skowronek believes Carter offered a "passionless vision of reorganizing the old [Democratic] order without challenging any of its core concerns."<sup>35</sup>. President Carter placed a high degree of emphasis on efficiency, detail, procedure, reducing governmental waste, and streamlining bureaucracy. When it revolved around health care, President Carter's attention was geared toward costs and the overall economics of the profession.

Business interest and professional organizations were already lined up in opposition to any Carter sponsored, cost-oriented health care proposals. In fact, the Georgia Medical Association was already familiar with Carter as it fiercely opposed his bid for governor in 1970.<sup>36</sup> Party lines have been drawn, interest groups and individual politicians have partnered, and each player has dug in based on principles.

<sup>35</sup> Stephen Skowronek, "Presidential Leadership in Political Time," in *The Presidency and the Political* System, ed. Michael Nelson (Washington, D.C.: CQ Press, 2006), 125.

36 Joseph Califano, interview with Blumenthal and Morone, October 6, 2006.

For Carter, principles were very personal and as psychiatrist and longtime Carter advisor, Peter Bourne concluded, Carter's personal view of health care problems, profoundly affected his policies and his approach to health care reforms. "He did not see health care as every citizen's right," concluded Bourne, "nor did he think government has an obligation to provide it." Rather, Carter "preferred to talk movingly of his deep compassion and genuine empathy for those who suffered for lack of health care, as though the depth of his compassion could be a substitute for embracing a major new and expensive government solution."

Understanding the humanistic aspect of health care helped Carter with what he perceived to be the most efficient administrative decision. Cost control. To do this, Carter sought it necessary to return to a strong cabinet. His governmental ideal involved appointing strong managers and delegating authority to them. Carter relied heavily on his Cabinet- a throwback to the Eisenhower administration. He sought to roll back the management changes of the Kennedy, Johnson, and Nixon administrations and restore power to the Cabinet.

In healthcare policy, Carter's decision to focus his efforts on cost control- not on expanding coverage- caused some members of the Democratic Party became roadblocks and was dismissive of any attempts at reform. Carter pressed on, often talking about prevention, about redistributing physicians, about efficiency in health services, and in the end he cautiously edged up to national health insurance keeping the door open for action. In a speech to the United Auto Workers Union (UAW), he said, "We must

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<sup>&</sup>lt;sup>37</sup> Peter G. Bourne, *Jimmy Carter: A Comprehensive Biography from Plains to Postpresidency* (New York: Scribner, 1997), 432-33.

achieve all that is practical while we strive for what is ideal, the accomplishment of comprehensive national health insurance will not be quick or easy. It requires a willingness to seek new solutions, to keep an open mind. The problems are obvious, the solutions less so." For Truman, Kennedy, or Johnson, extending health insurance was the unfinished task of the beloved New Deal. By the late 1970s, a band of Democrats still kept the faith.

Carter was unfazed, "Cost containment is the most important immediate health policy issue facing the administration." The administration might introduce "modest new health benefits," but such benefits-along with any speculations about national health insurance-would have to await "an evaluation of their conceptual, political and administrative compatibility with the Administration's cost containment strategies." Ted Kennedy wanted the administration to stop dragging its feet, put a plan on the record before the 1978 election. Carter was stuck between a national health insurance program and realities of economic costs associated with the delivery system of health care. Without a massive overhaul of the entire health care system, from top to bottom, the costs of such a program were unattainable. In fact, just releasing a plan concerned the Council of Economic Advisors and the Office of Management and Budget. Fearing "that the announcement of any NHI initiative-broad or targeted-could discredit our

<sup>&</sup>lt;sup>38</sup> The Presidential Campaign 1976, Volume I: Jimmy Carter (Washington,

D.C.: U.S. Government Printing Office, 1978).

<sup>&</sup>lt;sup>39</sup> Unsigned, memo to Jimmy Carter, undated, Staff Offices, Bourne, Box 4, Folder: Health Issues *12120176-1/31/77*, Carter Library.

current efforts to combat inflation and to construct a credible, coherent economic policy". 40

The New Deal coalition was cracking up- and ironically, health care was one of the major issues causing the disintegration. Was another issue caused by Nixon's foray into the cost aspect and management of the health care delivery system itself? Of course there is no direct answer to the changing tide in perception of government. But, Democrats lost their last chance at health care reform for the next thirty years. A new revolution was brewing. A Reagan Revolution.

On June 6, 1978, California voted for "Proposition 13," which sharply limited property taxes. The great Republican tax rebellion had begun. The vote, said Joseph Califano, fell like "a bombshell" on Washington, D.C. The most powerful populist movement of the last quarter of the century- the force that would give the Republican party its fire and propel it into the majority- had crashed onto American politics. Everyone immediately knew that this was big. President Jimmy Carter- immersed in policy details, full of dry, good government reforms, presiding over a broken coalition-had no answer for the hot, anti-tax, anti-government, anti-Democrat tide rolling in from the west."

For theorists in public administration, Califano was spot-on. New Public Management melted into a new form that will seek to incorporate an individual's behavior into public administration. Rational Choice can be thought of as neoclassical

<sup>&</sup>lt;sup>40</sup> Stuart Eizenstat, briefing memo to President Carter, May 31, 1978, Staff Secretary File, Box 88, File: *611178*, Carter Library.

<sup>&</sup>lt;sup>41</sup> Joseph Califano, 2006, see also White House Central File, Insurance, Box IS-2, Folder: IS *1120/77-1120/81*, Carter Library.

economic theory applied to the public sector. It tries to connect microeconomics and politics by exploring the actions of the citizens, politicians, and public servants and analogous to the actions of self-interested producers and consumers (Frederickson, 2012). As mentioned earlier, Adam Smith was one of the pioneers of the rational choice theory. Smith believed that people acting in pursuit of their own self-interest could, through the mechanisms of the "invisible hand", produce collective benefits that profited society as a whole. For example, a businessman might be motivated only by a desire to enrich himself, but their ability to turn a profit depends upon producing cheaper, better quality goods than their competitors. (Frederickson, 2012)

Are citizens consumers? Rational choice theory is anchored to the belief that the central behavioral assumption of the neoclassical economic paradigm is universal: Self-interest drives out decisions and actions, whether these are purchasing a car, voting, or formulating a public budget (Frederickson, 2012). Moreover, Buchanan and Tullock provide two key assumptions of the rational theory. First, the average individual is self-interested in maximizing utility. This means that the individual knows its preferences or goals, can rank-order them, and when faced with a set of opinions to achieve those preferences will choose those expected to maximize individual benefits and minimize individual costs. The second key assumption is that only individuals, not collectives, make decisions. This is also called methodological individualism, and it presumes that collective decisions are aggregations of individual choices, and a unique property of the group (Frederickson, 2012). Is it possible to include this assumption-based on behavior and choice-when creating a national healthcare policy?

The public administration paradigm bomb has been dropped on healthcare reform. How can agents- from President to city manager follow self-interest and still deliver a communal need? Tullock sought to explain what a bureaucracy would look like if bureaucrats were self interested utility maximizers. He believed that a rational bureaucrat will highlight information that reflects favorably upon himself and will repress information that does not. Distorting information in this way will create a host of problems. Lacking accurate and complete information, agency leaders and external political actors will form skewed expectations about an agency's performance and capabilities. The same lack of information will concurrently diminish their ability to hold the bureaucracy accountable (Frederickson, 2012). Tullock also argued that bureaucrats did in fact pursue their own goals rather than the public missions associated with their agencies thus engaging in "bureaucratic free enterprise" (Frederickson, 2012). With this definition, one would be hard-pressed to find a more accurate portrayal of those characteristics outlined by Tullock than what the incoming Reagan administration demonstrated during its pursuit of healthcare reform.

## **CHAPTER 9**

## RATIONAL CHOICE AND THE HEALTHCARE REVOLUTION

# 9.1 Ronald Reagan

Roosevelt, Truman, Kennedy, and Johnson had all passionately believed in the power of collective action to raise individual lives; even Nixon had announced, "I am a government man." Not Reagan. Government was no instrument for the common good; on the contrary, it was elitist and tyrannical, a dead weight on the shoulders of the common man. Reagan promised to chop taxes, cut spending, roll back regulations, and shrink the federal government.<sup>42</sup>

Reagan's White House was full of Rational Choice. Everyone in it seemed to be after his or her own desires. In OMB director David Stockman's view, the genius behind Reagan's numbers, offered perhaps the most accurate misjudgment: "His (Reagan's) conservative vision was only a vision.... He had no concrete programs." Men such as David Stockman, Bud McFarland, and Don Regan (the second chief of staff)- policy mavens with their eyes fixed on programs, numbers, and detail- left this White House shaking their heads in frustration. In contrast, political visionaries thrilled to Reagan's big picture. "Those who found him 'vague' and impossible to pin down," comments John Diggins, "were looking for his persona"---or his policies- "when they should have been looking at his politics."

<sup>&</sup>lt;sup>42</sup> Ronald Reagan, "Inaugural address, January 20, 1981," Presidency Project, www.presidency.ucsb.edu/ws/index.php?pid=43130.

<sup>&</sup>lt;sup>43</sup> Marilyn Berger, "Clark Clifford, A Major Advisor to Four Presidents is Dead," *New. York Times*, October 11, 1988

"A bureaucrat... is neither omniscient or sovereign. He cannot acquire all of the information on individual preferences and production opportunities that would be necessary to divine the public interest" (Frederickson, 2012, p. 199). Highlighting Frederickson's belief that the challenge revolves around the fact that bureaucrats have different ideas about what constitutes the public interest and what should be left to private interests. Thus, no individual has all the information required to make a definitive claim that his or her conception of the civic good is the correct one (Frederickson, 2012). As we research national healthcare policy under the Reagan administration, we find that this debate among bureaucrats does exist.

Reagan came to Washington pitching a big idea. As he put it in his first inaugural address, "Government is not the solution to our problem, government is the problem." But, by the time he left office, President Reagan ended up overruling almost all his advisors and sponsoring the largest expansion of Medicare- in fact, the largest health care entitlement-in almost forty years (from 1966 to 2003). How would this happen under such a conservatively principled President? The same guy that blasted ideological rhetoric at every opportunity he had. The same guy that was the former host of the General Electric Theater between 1954 and 1962, and throughout the week personally visited some of the 139 GE plants around the country to talk to employees about Communism, healthcare, government, and the benefits of free enterprise.

It was in one of these speeches to the GE employees that ended with an exuberant attack on Lyndon Johnson's Medicare proposal: "The doctor's fight against socialized medicine is your fight. We can't socialize the doctors without socializing the

patients. Recognize that government invasion of public power is eventually an assault upon your own business." Those who refuse to fight alongside the physicians, continued Reagan, just "feed the crocodile." Ever the politician, Reagan then conflated the "us versus them" patriotic rhetoric with the idea that any attempt at healthcare reform would fundamentally be anti-American. "If all of this seems like a great deal of trouble, think what's at stake. We are faced with the most evil enemy mankind has known in his long climb from the swamp to the stars. There can be no security anywhere in the free world if there is no fiscal and economic stability within the United States." Reagan insinuated a small slip from Medicare to "the most evil enemy mankind has known in his long climb from the swamp."

Repeatedly, and with more comfort, Reagan relentlessly attacked Medicare. "If this program passes, behind it will come other federal programs that will invade every area of freedom as we have known it in this country until we wake to find that we have socialism.... I have dozens of quotes from socialists' boasting that [Medicare] is only designed to establish the principle so that socialized medicine can follow." Seventeen years later as he ran for president in the 1980 campaign, Reagan seemed to be concrete in his resolve when he assured a supporter: "I am opposed to socialized medicine."

President Reagan exemplified Rational Choice with each election. He would reassure older voters that he meant their entitlements no harm. Even his most famous

<sup>&</sup>lt;sup>44</sup> Reagan, *An American Life*, Ch. 18; for an extended account of The Speech, see Thomas Evans, *The Education of Ronald Reagan* (New York: Columbia, 2006).

<sup>&</sup>lt;sup>45</sup> Ronald Reagan, letter to Lorraine Wagner, August 16, 1962, and letter to Professor Vsevold Nikolaev, November 13, 1979, both reprinted in *Reagan: A Life in Letters*, eds. K. Skinner Kiron and Annelise Anderson (New York: Free Press, 2003), 343-44.

debate quote was made in regards to entitlements, "There you go again," he responded in both campaigns, suggesting that harsh cuts were the furthest things from his mind. And, when the Reagan administration faced its gravest crisis and as the polls plummeted, the president seized on Medicare expansion for political relief. However, as Reagan stood before Congress on April 28, 1981, and launched his revolution, the administration squeezed a \$750 billion tax cut and more than \$35 billion in domestic program reductions out of Congress. The administration's actions removed 400,000 people from the food stamp program, closed the public health service hospitals (which dated back to 1798), eliminated grants to HMOs, cut funding for social science research, and combined twenty-one separate grant programs into four large block grants that reduced both federal discretion and budget commitment.

As all public administrators know, budgeting is political in nature and Reagan's budget has been pointed to as the zenith of political budgeting. Bolstered by his belief that Social Security had become "closet socialism" and the only way to end "Big Government" was to confront its "original sin", the Reagan budget promised \$44 billion more in "unidentified savings" with a direct bulls-eye on social programs. Administration aide David Stockman later gloated that "future savings to be identified later ... was nothing more than a euphemism for 'we're going to go after Social Security." He even advocated for carving another \$110 billion out of the program (which totaled \$645 billion in the 1982 budget)."

<sup>&</sup>lt;sup>46</sup> David Stockman, *The Triumph of Politics: How the Reagan Revolution Failed* (New York: Harper and Row, 1986, p. 182)

Reagan became so enthused at the prospect; he approved it on the spot. "It represents everything we've always said should be done," gushed the president. "Let's go forward with it." He had no clue about the details, bragged Stockman. And now because Reagan had cut off his political advisors, there was no one who could reverse an enthusiastic presidential decision. The move backfired in a major way. President Reagan's approval rating plunged 16 percentage points and the Democrats came to life. "From that day forward," lamented Stockman, "Social Security, the heart of the US welfare state, was safely back in the hands of actuaries who had kept its massive expansion quiet over the decades." Small-government conservatives thought the Social Security rout meant the end of the Reagan Revolution. However, it was not the end; it was just the beginning.

This realization that Social Security was off-limits for major reform, is where economics and healthcare merged forever- but rational choice took center stage. The political atmosphere was toxic and any mutual agreement on policy was near impossible. New York Democrat Senator Moynihan went so far as to accuse Reagan and his administration of intentionally creating the nations fiscal chaos in order to subvert government programs. Later, administrative aide David Stockman would half-agree. He explained in his book, that without making cuts to Social Security, they knew that the tax cuts would not generate enough revenue to avoid incurring massive deficits.<sup>47</sup>

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<sup>&</sup>lt;sup>47</sup> Stockman, *The Triumph of Politics*, p. 193

Reagan found that his ideologically pure, small, fiscally sound government impossible to create. But, as a researcher of public administration, I suggest the Reagan Revolution might have had an impact on healthcare reform far more pronounced than expected. They built limits into the national government. Now, citizens psychologically doubted their government could deliver social programs in an adequate manner. And, addressing "human need" became limited to the powers of budgeting. As the past thirty years have shown, any new government program often faces its largest hurdle in receiving adequate funding.

The National Commission on Social Security, led by Alan Greenspan, included a bipartisan group of Washington all-stars. The commission unwittingly enabled a paradigm change in the American healthcare system based on budgetary concerns. Members had laid down their ground rules at the start: they would operate by consensus; Congress would vote the entire proposal up or down without amendments from the floor; and Medicare was off the table- the commission was focused entirely on keeping Social Security solvent. <sup>48</sup> However, as the plan went through Congress, Representative Dan Rostenkowski, chairman of the Ways and Means Committee, ignored the ground rules and slipped a Medicare provision into the package. The maneuver, which received almost no notice or discussion, was approved.

Medicare would now pay a fixed fee that was set in advance and based on the patient's diagnosis, regardless of how many days the patient spent in the hospital or how many services the hospital performed. These new payment rules, known as Diagnosis

<sup>48</sup> Alan Greenspan, *The Age of Turbulence* (New York: Penguin, 2007), 94-96.

Related Groups or DRGs, changed all the financial incentives. With the Medicare fee now set in advance, hospitals could enhance the bottom line by providing less care to elderly Americans.

Ironically, Jimmy Carter had fought hard for his Hospital Cost Containment measure and only managed to squeeze the reform out of one chamber before it got buried. Now, a variation of the same reform flew right through Congress. Many hospitals did the math and discovered they would prosper under the new pricing scheme. And for those hospitals that wouldn't, Congress sweetened the package. For instance, teaching hospitals- typically the ones with more expensive cases- received double the ordinary DRG rates.<sup>49</sup> Perhaps a Democratic administration might have touched off hard questions about bureaucracy, budgetary concerns and undue regulation, but Ronald Reagan's celebrated victory-markets are good, government regulations bad.

President Reagan's broad, conservative rhetorical framework facilitated a federal intrusion into hospital practice so pervasive that he was able to alter the entire political, administrative and ideological argument. Proponents were able to dub the new Medicare pricing system as "competition" and praised the incentives it gave hospitals to be efficient- after all, the hospitals would prosper as long as they did not lavish too many resources on patients. However, the fact of the matter was that the federal

<sup>&</sup>lt;sup>49</sup> Rick Mayes and Robert Berenson, *Medicare Prospective Payment and the Shaping of US Health Care* (Baltimore: Johns Hopkins, 2006), esp. 43-46; James Morone and Andrew Dunham, *The Politics of Innovation: The Introduction of DRGs* (Princeton, NJ: HRET Press, 1983).

government- not the hospitals- would set the price for medical services to Medicare beneficiaries.

This is important as related to public administration theory because Reagan managed to make tremendous cuts to the budgets of bureaucracies while simultaneously placing more managerial burdens on their shoulders because of the expansion. Repeatedly we find personal and Presidential choices Reagan made were largely of self-interest. I suggest that because of this, his healthcare policies and the Medicare expansion were cobbled together in a manner that promoted his self-interest; his self-interest in the free-market, among providers and among the beneficiaries themselves.

Hospitals now had the financial motivation to keep their income up by shifting the costs from payers that effectively reduced their hospital payments (such as Medicare) to those that failed to squeeze (the private insurance companies). The other payers scrambled for their own ways to control hospital payments. The American hospital system entered a new era of shifting costs (from payer to payer), competition (between payers), and bargaining (between payers and the hospitals). This is yet another shining example of Reagan's "everyone is best seeking their own interests" principle-and the impact it had on the healthcare system.

Reagan's new pricing scheme shifted power relations within the hospitals. The era of the totally autonomous physicians- prescribing whatever they thought "best" - came to an end. Lavish testing, multiple procedures, and long hospital stays (which had traditionally brought in big revenues) now all cost the hospitals money. This meant that for the first time, hospital administrators began overseeing physician behavior. The

quiet change in payment methods introduced a cascading set of changes- dramatically shorter hospital stays, fierce competition among healthcare payers, and new limits on physician autonomy.

The Reagan Revolution principally aimed to put an end to cross-subsidies running from one group to another. And the looming deficits-now running \$200 billion a year-frightened the Democrats out of their traditional social insurance faith; any benefits would have to be paid for by the beneficiaries themselves. These constraints meant the Democrats would now have to use general revenues to pay for these newly increased Medicare benefits. Ever the rational choice, self-interested politician, President Reagan was back on the radio charging that this funding problem was the fault of Congress. They had taken his "sound, sensible program, and more than tripled the costs," and doing so had "threatened ... the entire Medicare trust fund." 50

Democrats were lost for direction as they found themselves arguing against Reagan around long held treasures by the party- social programs. These programs were now being used against them with the federal budget as the weapon. Any proposed measure to finance coverage would be sold as a tax increase, while any opposition to expansion- even without proper financing, would be sold by Reagan and future Republicans, as attacking seniors. Medicare was turning into a program, said Democrat Congressman Henry Waxman, financed by "our most vulnerable citizens." <sup>51</sup>

<sup>&</sup>lt;sup>50</sup> Ronald Reagan, "Radio Address on Catastrophic Illness Medical Insurance, July 25, 1987," Presidency Project, www.presidency.ucsb.edulws/index .php?pid=34603

<sup>&</sup>lt;sup>51</sup> Richard Himmelfarb, Catastrophic Politics: The Rise and Fall of the Medicare Catastrophic Coverage Act of 1988 (University Park: Pennsylvania State University Press, 1995), p. 36

The administration was able to push the nation toward the ideological right even while it was expanding a large social program like Medicare under the cover of rational choice principles favored by Reagan. As an example, the administration tried to bury the idea of social insurance and aimed to destroy the great web of cross-subsidies that marked New Deal and Great Society programs. There would be no intergenerational equity or any subsidies from young to old or (if the Reagan team had had its way) from rich to poor. Beneficiaries paid for it all. More than just shades of individualism expose themselves in the evidence of Reagan's actions in public administration.

In the end, he was able to face down his own economists largely based on his personal philosophical arguments rather than quantitative arguments. Looking back, in terms of an institutional matter, overruling economists became more difficult in each successive White House. Lyndon Johnson could insist on going the extra billions for education and healthcare regardless of cost. The Nixon administration made it harder by inaugurating a new fiscal manager- the Office of Management and Budget. And, the Reagan administration raised the technical ante in health care still higher when it endorsed DRGs. Future debates would revolve around this arcane formulae and, although the Reagan administration did not design or sponsor the DRGs, the ideological Reagan brand full of deregulation, government bashing, and cheers for markets, all helped this massive regulatory intrusion slip through Congress and into the doctors' world.

As national healthcare policy devolves and takes shape around the ancient, turnof-the-century, privatized, market-model, we find that this quasi-neoclassical approach to healthcare often ignores its own solutions due to the conflict of its two main assumptions- that individuals know their preference in making healthcare decisions and that collectives participating in healthcare have no unique properties of their own. The return to the market-model in delivering healthcare fit well into the Reagan narrative. Gone were the pro-public policies of FDR, Truman and Johnson eras. The new frontier was ahead, and as Reagan left office, the concept of a government program or being a professional, career-based public or civil service worker was perceived by half of the public drastically different than a generation prior.

With his healthcare policy pursuits and the changing frontier of public administration under Reagan, we can identify the suggestion put forth by Frederickson in 2001 that "The most important management and leadership difference between new public administration and reinventing government is the obvious commitment to an effective professional public service and the equitable implementation of public policy on the part of the new public administration and the systematic bashing of bureaucracy in the reinvention movement. Although this bashing is denied, the public service is routinely held up to ridicule in the reinvention movement. When this is pointed out to reinvention advocates, they reply, "We are only ridiculing bureaucracy, not bureaucrats. We believe bureaucrats are good people trapped in bad systems." (p. 267).

The healthcare system largely shaped by Reagan's personal beliefs led to an interesting paradox. By fundamentally transforming politics and building these ideological and budgetary limits into the discussion, future healthcare reform would rely heavily on Republicans. History shows that any reform or expansion sought by

Democrats would face budget barriers imposed by Republicans. But, healthcare reforms or programs promoted by Republicans would often find no such opposition from Democrats. We will see this rational choice, individualistic approach return later when the George W. Bush administration reverts back to the old Republican playbook and expands Medicare prescription coverage while cutting taxes, growing deficits, and locking the Democrats into the budgetary deficit straitjacket.

#### CHAPTER 10

## REINVENTING HEALTHCARE THROUGH REINVENTING GOVERNMENT

# 10.1 George H.W. Bush

The next melting point in public administration carries both corrective and directive components as it relates to national healthcare policy. Bush was an experienced and masterful foreign policy president but on the home front he never projected the leadership that the modern presidency demands. And, the timing couldn't have been worse because even before he was in office, President-elect George Bush inherited Ronald Reagan's fiscal mess. As mentioned earlier, Presidential advisor David Stockman admitted that Reagan's tax cuts would never generate sufficient gains from economic growth to offset losses in revenue. He was right and by 1989, federal deficits exceeding \$150 billion a year and stretched into the future as far as anyone could see.

Bush's most important health care decision of 1989 was to stand aside while Congress repealed the Medicare catastrophic insurance amendments that Ronald Reagan had signed into law a little more than a year earlier. The financial logic of the reform- that it would be self financed by seniors- now came back to haunt it as more affluent beneficiaries rebelled against the \$800 annual surcharge for benefits that many already enjoyed anyway (rational choice goes both ways).

Bush would face this healthcare/economic reality through actions like: supporting maternal and child health through fully funding Medicaid and by offering support to community health centers. He would also invest in disease prevention and attempt to bring the malpractice system into check. It is interesting to note the

difference a Reagan presidency had made to the healthcare system in under a decade. A return to cost control, prevention, malpractice reform, and maternal and child health were all small, safe advances that might improve health while not stressing the budget. Without Ted Kennedy "rattling the rafters about coverage, Jimmy Carter might happily have seized on exactly the same set of issues."

It can be said that the Bush administration took a very passive approach to health care reform. Some Republican's were concerned with this approach and two respected congressmen from the House Ways and Means Committee, Bill Gradison (R-OH) and Nancy Johnson (R-CT), wrote Bush Chief of Staff Sununu to sound an alarm. The Democrats, they warned, would desire to make health care a major issue in the next session of Congress "because of growing public concern about the availability of affordable health care and the ramifications for our economy of continuing health care inflation..." Because of this, they pushed for Bush to propose measures that would help smaller employers obtain coverage for employees, as well as promote various managed care and cost control measures.<sup>53</sup>

Was Bush unknowingly participating in the public administration reinvention movement through requests like these? He knew that the limits of the budget, the constraints of philosophical ideals and the interest groups (for and against reform) would be hitting him hard. He also knew that not taking action would lead to massive

<sup>&</sup>lt;sup>52</sup> George H. W. Bush, "Remarks at the Centennial Celebration of the Johns Hopkins University Medical Institutions in Baltimore, Maryland, February, 22, 1990," Presidency Project, www.presidency.ucsb.edu/ws/index.php?pid=I8178.

<sup>&</sup>lt;sup>53</sup> Bill Gradison and Nancy Johnson, letter to President George H. W. Bush, December 17, 1990, Korfanta Files, DPC, Subject file: Health Care Reform OA/ID 01861, Bush Library.

economic problems as well as defeat in his re-election. It seems as though Bush just tried to hang on through the turbulence.

However, Bush was not able to dodge the issue long enough. Senator John Heinz (R-PA) died in a flying accident; and former Governor Dick Thornburgh stepped down as Bush's attorney general and entered the race to replace him. As a prohibitive favorite with three months before the election, he had a 40-percentage-point lead in the polls. In what would become a major turning point for healthcare reform, during his first debate with Thornburgh, Democrat Harris Wofford waved a copy of the Constitution and launched his celebrated slogan: "If the Constitution guarantees criminals the right to a lawyer, shouldn't it guarantee working Americans their right to a doctor as well?" Thornburgh stuck to the Bush administration playbook. He campaigned with Secretary of HHS Louis Sullivan and, echoing President Bush and past Republican Presidents, he blasted the Democrats' folly: "a massive, federal bureaucracy to run a centrally directed health care system." This typical conservative approach did not work this time. Wofford won by 10 percentage points and national health insurance shot to the top of the nation's domestic policy agenda. <sup>54</sup>

President Bush took notice and became a sudden convert to health care reform. At a press conference in Rome on November 8, reporters peppered the president about whether he would respond to Wofford's victory with a "comprehensive" reform plan of his own. He replied: "I'd like to have a comprehensive health care plan that I can vigorously take to the American people. We're moving forward with certain portions of

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<sup>&</sup>lt;sup>54</sup> Michael Decourcy Hinds, "Race for Senate Shows Big Split on Health Care," New York Times, October 31,1991

health care now, as you've heard from Secretary Sullivan. It's a matter of concern. And I think the answer to your question will be, yes." <sup>55</sup> Now that health policy mattered, OMB director Richard Darman took charge. The Darman team at OMB needed to find the money, and the solution they hit upon was to cut the tax breaks (dating back to the Eisenhower administration) for employer-sponsored health insurance.

This cut had been long advocated by economists and OMB policy-works of both political parties. But the politics were fatal. In his State of the Union address, Bush glided over the specifics and outlined the familiar conservative principles- markets would be far more efficient than government. "Really there are only two options. And we can move toward a nationalized system, a system which will restrict patient choice in picking a doctor and force Government to ration services arbitrarily. And what we'll get is patients in long lines, indifferent service and a huge new tax burden. Or we can reform our own private health care system, which still gives us, for all its flaws, the best quality health care in the world. Well, let's build on our strengths." 56

The market-based solutions rose to the top of heap again. Bush laid out his plan: First, tax deductions of up to \$3,750 to help low and middle- income Americans buy private health insurance. Second, local networks of insurance purchasers would help individuals and small groups to buy cheaper private plans with less administrative overhead. The plan would attempt to reform the insurance markets so that insurers could not deny coverage to people with pre-existing illnesses; and people would also be

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<sup>&</sup>lt;sup>55</sup> George H. W; Bush, "Statements at Press Conference," November 8, 1991, FOIA Box 39: OPD JKF Folder Health Reform-Inside the Complex OA/ID 08189, Bush Library

<sup>&</sup>lt;sup>56</sup> George H. W. Bush, "State of the Union Address, January 28, 1992," Presidency Project, www.presidency.ucsb.edu/wS/index.php?pid=20544.

able to take their plans with them when they moved from one job to another (these insurance market reforms would later become a standard feature of Democratic proposals). Third, the Bush plan promised cost savings through malpractice reforms, the elimination of state mandated health insurance benefits, and the use of information technology to improve the efficiency of insurance claims processing. Lastly, the plan would also allow states greater flexibility in their Medicaid programs. <sup>57</sup>

Bush was facing another hurdle in any health care reform effort- they could not use deficit financing. Because the budget deal of 1990 required that any increase in federal outlays be matched with a revenue source, the so-called "pay-as-you-go" or "pay-go" budgeting rules. The budget weapon hit Bush and the administration wound up with a fragmented and incomplete set of provisions that eventually floated up to Congress between three and five months after the president's original call for comprehensive health care reform. The administration had failed to gain any traction on the issue and by now decided the best way to handle healthcare reform was to "Reagan 'em" and blast Congress for inaction.

Time and time again, we see the same maneuvers. If you can't create a policy, just return to the old "Individualistic" (Freedom) vs. "Collective" (Communism) presentation to the people. And, that is exactly what Bush did. Taking Reagan's hyperbole one-step further by using the fall of Communism to hit the Democrats. "The biggest story of our time is the failure of socialism and all its empty promises, including

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<sup>&</sup>lt;sup>57</sup> George H. W. Bush, "Remarks to the Greater Cleveland Growth Association in Cleveland, Ohio, February 6, 1992," Presidency Project, www.presidency,ucsb.edu/ws/index.phpjpidezo570.

<sup>&</sup>lt;sup>58</sup> Robert Grady Files, Memoranda concerning Various White House Initiatives Including Health Care [no order-retrieved from Burn Bag], Box 15 08841, Bush Library.

nationalized health care and government price setting. But somehow this news that shook the world hasn't seeped through the doors of the Democratic cloakrooms on Capitol Hill. And that's why I am asking your help. Let's get them the message."<sup>59</sup>

To show his stripes and solidarity with the market-based constituency, Bush followed up by inviting interest groups that supported his plan to the White House. He and his staff met with congressional leaders, especially Republicans, to broker common positions on health care issues and to urge movement, especially on health insurance market reforms. Unfortunately for Bush, the administration was not getting results either in Washington or with the public.

The tables were turning back as citizens were acknowledging failures within the healthcare system and the solutions offered by the past two Republican Presidents were off target or not properly addressing the needs of society as a whole or individually. This realization became stunningly clear during the nationally televised presidential debate of October 11, 1992, when moderator Jim Lehrer asked President Bush to respond to Bill Clinton's healthcare proposal. Bush bobbed, weaved, and barely coherent finally stumbled back to the solid ground of malpractice while Governor Clinton clicked off two main fronts: "You've got to take on insurance companies and bureaucracies." <sup>60</sup>

<sup>&</sup>lt;sup>59</sup> George H. W. Bush, "Radio Address to the Nation on Health Care Reform, July 3, 1992," in *Public Papers of the President: George Bush, 1989-1993* (Washington, D.C.: Government Printing Office, 1992)

<sup>&</sup>lt;sup>60</sup> George H. W. Bush, "Presidential Debate in St. Louis, October 11, 1992," Presidency Project, www.presidency.ucsb.edu/ws/index.php?pid=21605.

Clinton beat Bush to the punch. Clinton's healthcare reform plans included ideas based in the reinventing government movement. Taking on the bureaucracy and fixing it, rather than repeating the same proposal both Eisenhower and Nixon offered the nation- a "Republican" vision for making a flawed health care system more equitable and efficient through the use of market-mechanisms. Each proposal rejected the Democrats' reliance on regulation and government sponsored health insurance; each aimed to make private insurance more affordable and the healthcare delivery system more efficient. But, the public had realized that the health care system had badly deteriorated since Nixon's time, and the rightward tide in national politics had turned Nixon's approach toward mandating employer insurance- into a Democratic strategy that was now unacceptable to Republicans. The GOP was now in need of a new approach in healthcare reform.

Efficiency. The GOP's most innovative proposals involved ways to make the health care system more efficient. The possibility of applying industrial quality management approaches to health care delivery. If Reagan failed due to the individuals not having complete information within the market, Bush would seek to turn the focus to addressing information in hopes of returning healthcare to more of a free-market approach. In 1992 Bush stated such, "The single most important way to improve quality of care is to provide the public with information that allows them to compare the quality of different providers. This will create consumer demand for quality. However, automation of clinical information is needed in order to provide the raw data on which

to base a thorough analysis of quality."<sup>61</sup> Of note, when his son- George W. Bush released his 2008 healthcare playbook he focused on this same subject and made health information technology and consumer empowerment major priorities for his administration.

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<sup>&</sup>lt;sup>61</sup> Health Care Briefing Document, April 10, 1992, J. Kuttner Files Health Care Reform-Intra-Administration: Policy Development- Post Announcement 1992 OA/ID 08799, Bush Library.

#### CHAPTER 11

## MANAGEMENT AND REINVENTING HEALTHCARE

## 11.1 Bill Clinton

In 1991, Christopher Hood publishes "New Public Management" introduced a new concept in approaching public administration. Recommending a blend of various characteristics that were specifically centered on business-model structures. Gearing public administration to focus on improving efficiency and effectiveness, the author called for fostering more competitive environments (in public management) while also enforcing outcome-based measurements of performance. Clinton's health care proposal would revolve around a form of this idea of "Inclusive Competition Within a Budget".

By addressing both main "constraints" to reform- the budget and philosophical frameworks- Clinton sought a different path than prior Presidents. First, Clinton sought to create greater competition in employer sponsored health insurance market by establishing "Health Purchasing Alliances" that would pool purchasing power of many companies and individuals. These regional alliances would approve budget-capped plans to be offered, and the overall savings would go to vouchers for those unable to purchase plans.

Clinton thought that by incorporating business and re-inventing government, he could produce a health care policy that would accomplish wide spread coverage while also enabling choice among competing plans within these "Alliances". In doing so, he would be able to address the ever-elusive cost controls with caps placed on overall spending. Reflecting on the approach to reform from earlier administrations, we find a

hint of Eisenhower, Johnson, Nixon, and Carter in Clinton's attempts to reform health care. He looked for a third way in politics that shunned both big government and unfettered markets. <sup>62</sup>

He was genuinely skeptical of taxes and regulation, but not of government, which he felt should be both smaller and more activist; public policies, he thought, should be different, new, and unprecedented. This infatuation with combining seemingly contradictory political ideas into some dazzling new package would powerfully shape Clinton's health policy agenda. He drew lessons from the masters: "Califano was articulate in his defense of the President's more incremental approach to healthcare reform, but Kennedy won the crowd with an emotional plea for ordinary Americans to have the same coverage that his wealth provided for his son, Teddy, when he got cancer." Clinton added the inevitable bottom line- "I enjoyed the national exposure." There were memorable lessons: health care could be a big-time issue, and bold policy trumped incrementalism.

But the lure of a bold "third way," Clinton's skepticism of traditional liberal nostrums, and Magaziner's access to Clinton doomed efforts of the "Washington" clique to make this case to Clinton." Ira, Magaziner, Atul Gawande, and Paul Starr (a Pulitzer Prize-winning Princeton sociologist), refined the concept of managed

<sup>&</sup>lt;sup>62</sup> John F. Harris, *The Survivor: Bill Clinton in the White House* (New York, Random House, 2005), p. xiv

<sup>63</sup> Jacobs and Shapiro, *Politicians Don't Pander: Political Manipulation and the Loss of Democratic Responsiveness* (Chicago: University of Chicago Press, 2000), 79.

<sup>&</sup>lt;sup>64</sup> Bill Clinton, My Life (New York, Vintage, 2005), 260.

<sup>&</sup>lt;sup>65</sup> Jacob Hacker, *The Road to Nowhere: The Genesis of President Clinton's Plan for Health Security* (Princeton, NJ: Princeton University Press, 1997), 110.

competition. Their health plan would organize a new regime of competing managed care organizations. The competition would be orchestrated and controlled by the federal government to assure that it was fair and that the desired savings were achieved. To assure universal coverage, the plan advocated an employer mandate-all businesses would have to insure their employees. The implicit tax of pay-or-play disappeared, but insurance for all-the liberal mantra-remained. Tensions between new and traditional Democrats, between managed competition and tax-or-regulate immediately reemerged.

Clinton only restates what is now perceived as conventional wisdom: "I decided Hillary should lead the health-care effort because she cared and knew a lot about the issue, she had time to do the right job, and I thought she would be able to be an honest broker among all the competing interests.... I knew the whole enterprise was risky: Harry Truman's attempt to provide universal coverage had nearly destroyed his presidency, and Nixon and Carter never even got their bills out of committee."

By turning to Magaziner and his wife, Clinton was also continuing a trend to centralize control of health care policy in the White House. Their power came only from their relationship with the president. Clinton wanted health care policy development under his thumb. Delegating to Feder and company-the Washington establishment-had failed.

Ultimately its many subgroups would encompass over 600 health care experts, congressional staff, and stakeholder representatives. As noted earlier, between 1965 and

<sup>67</sup> Clinton, My Life, 482.

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<sup>&</sup>lt;sup>66</sup> Jacob Hacker, *The Road to Nowhere: The Genesis of President Clinton's Plan for Health Security* (Princeton, NJ: Princeton University Press, 1997), 108-11.

1968, Johnson had relied on small, short-lived groups of policy analysts- very different from what the Clinton process would become- drawn from within and outside the Washington establishment, to develop new policy initiatives. Under Johnson's guidance (and with shrewd help from his chief domestic advisor, Joseph Califano), the administrative approach had worked well- quickly producing bold ideas that the two men could move into active policy. <sup>68</sup>

Clinton himself later concluded that he had made some important mistakes during his transition. "Looking back, I think the major short- comings of the transition were two: I spent so much time selecting the cabinet that I hardly spent any time on the White House staff; and I gave almost no thought to how to keep the public's focus on my most important priorities, rather than on competing stories that, at the least, would divert public attention from the big issues." By early February, however, Clinton's economic advisors seemed to have settled in at the vital center of the White House policy serum. In the complex contest between progressive and conservative groups that had always roiled the Clinton camp, voices of caution-in the form of Secretary of the Treasury Lloyd Bentsen and National Economic Council Chairman Robert Rubin-prevailed.

They convinced Clinton that deficit reduction should be his first priority. The rationale: it would result in lower interest rates and a burst of economic growth. After

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<sup>&</sup>lt;sup>68</sup> Jacob Hacker, *The Road to Nowhere: The Genesis of President Clinton's Plan for Health Security* (Princeton, NJ: Princeton University Press, 1997), 112.

<sup>69</sup> Clinton, My Life, 467.

<sup>&</sup>lt;sup>70</sup> Robert Reich, *Locked in the Cabinet* (New York: Knopf, 1997)

all, Clinton had been elected in no small part because of the economic slowdown that had plagued the latter part of the Bush administration- "It's the economy, stupid!"<sup>71</sup>

Once again, health reformers ran headlong into economic advisors- a great debate that has marked every administration back to Truman and that become especially vivid after the Nixon administration and the creation of OMB.

On February 17, Clinton spoke to a joint session of Congress and served notice that he would make balancing the federal budget his first goal. Included in his budget proposal, to the chagrin of his health policy team, was a substantial reduction in Medicare and Medicaid spending.<sup>72</sup> In his memoirs, Clinton flatly states what many other presidents before him experienced: "In the second week of February, we decided to kick the health care can down the road and complete the rest of the economic plan."

Jacob Hacker summed it up by pointing to the fact that the Clinton strategy was driven almost entirely by policy considerations: each time someone raised a problem; the specialists hammered out a technical adjustment.<sup>74</sup> This was great but as we have seen with prior attempts at reform, technical adjustments are no answer to political attacks.

The opposition letters came in the form of highly professional grassroots organizing and media campaigns fueled by millions of special-interest dollars. Leading the effort were the Health Insurance Association of America (HIAA) and the National

<sup>&</sup>lt;sup>71</sup> Gwen Ifill, "The 1992 Campaign: Political Memo; Clinton's 4-Point Plan to Win the First Debate, " *The New York Times*, October 9, 1992, http://query.nytimes.com/gstlfullpage.html?res=9EoCE4DDI4 3EF93 AA3 5753 CIA9649 58260& seceScsponeccpagewantede I.

<sup>&</sup>lt;sup>72</sup> Haynes Johnson and David S. Broder, *The System: The American Way of Politics at the Breaking Point* (Boston: Back Bay/Little Brown, 1997), p. 122.

<sup>&</sup>lt;sup>73</sup> Clinton. My Life. 492

<sup>&</sup>lt;sup>74</sup> Hacker, Road to Nowhere, p. 179.

Federation of Independent Business (NFIB). The former saw red over the total reformation of the insurance business that the new Clinton plan would have required, which included regulation of premiums. The NFIB attacked the employer mandate. Together with a coalition of like-minded interest groups, HIAA and NFIB had begun organizing to beat the Clinton plan in May I993-four months before Clinton's speech. For its part, the NFIB began a nationwide campaign to mobilize its small business constituents throughout congressional districts of America. The small business lobby allied itself with the hot, savvy, rising Republican conservatives in the House.

As the health plan began a free fall in the polls, the Clintons decided to take the health care reform issue to the American people, but they failed to pull off their campaign. Clinton had not organized a pro-health reform movement that remotely competed with the swelling, well-funded opposition. The Clintons had hoped that some large businesses would stand with them-after all, companies that offered generous health benefits were at a distinct disadvantage in a global economy-but in the end, they, too, backed away. It was exceedingly difficult to combat the insurance and small business lobbies-or, more important, to intimidate some Republicans in the Senate (they needed at least four to get to sixty) and to entice conservative Democrats in the House to support the bill.<sup>76</sup>

Skocpol added, "Ira Magaziner and Hillary Rodham Clinton coordinated extensive resources to devise the technical details that went into the Clinton Health

<sup>&</sup>lt;sup>75</sup> Johnson and Broder, *The System, 196*.

<sup>&</sup>lt;sup>76</sup> See Lawrence Brown, "Dogmatic Slumbers: American Business and Health Policy," in *The Politics of Health Care Reform*, eds. James Morone and Gary Belkin (Durham, NC: Duke University Press, 1994), 206-23.

Security proposal. But no comparable organizational effort was made on the political side, because for many months there was a remarkable vacuum of top-level White House leadership for the politics of health care reform." <sup>77</sup> Too tight an organization can squelch creativity- precisely what Dick Darmon did to President Bush and Ike did for himself. Clinton, like Carter before him, made the opposite mistake: too much chaos, too little organization to back up the president. He needed an effective chief of staff and a domestic policy process. He had neither until months after he took office. A good organization could have made choices between competing health care camps-or alerted the president that he needed to intervene.

Raw partisan politics-more ferocious than anything in recent memory-gusted up with the brash new Republican leadership keen to end their party's long (thirty-eight years in the House) sojourn in the political wilderness. The presidency was also different, in part because of the increased authority of economic institutions. By the time Clinton took office, OMB was a force to be reckoned with. Equally important, the Congressional Budget Office had a stranglehold over forecasting the costs of proposed legislation.

In a simpler era, before these agencies existed, it was easier for presidents, such as Kennedy or Johnson, to manipulate, ignore, or overrule their economists. Clinton, too, ultimately had to override his economists' advice when he introduced health reform, but his decision came much later, after he felt their views were not serving his political needs. Even then, he felt compelled to propose a bill that was budget-neutral by some

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<sup>&</sup>lt;sup>77</sup> Theda Skocpol, *Boomerang: Clinton's Health Security Effort and the Turn against Government in U.S. Politics* (New York, Norton, 1997), *90*.

economic calculations. The new governmental machinery made it-and continues to make it-harder than ever to complete that crucial requirement for healthcare reform: hush the economists.

The use of the customer metaphor in the reinventing government perspective borrows heavily from utilitarian logic, the public choice model, and the modern application of market economics to government. In this model, the empowered customer makes individual (or family) choices in a competitive market, thus breaking the bureaucratic service monopoly. The values of individual satisfaction are judged to be more important than the values of achieving collective democratic consensus. The public official is to develop choices for empowered choice makers rather than build a community. Obviously, the reinvention perspective is compatible with both the American commitment to business values and the modern political interest in less government.

Frederickson (2012) also points out that "New public administration is more institutional, more inclined to service provision, and more managerial while reinventing government is more inclined to a de-institutionalized government that brokers competing service providers. Obviously the former requires a greater concern for hierarchy and management while the latter requires a greater concern for structuring incentives, conducting contract oversight, and practicing managerial innovation" (p. 267).

#### CHAPTER 12

#### SURPLUS TO DEBT AND HEALTHCARE POLICY IN THE BUDGET ERA

# 12.1 George W. Bush

Walking into office with the first balanced budget since 1969 and the first multiyear surplus since 1949, and for the first time in a half-century, the government had
money to spend on social programs. Possibly convinced that his father's decision to
reverse himself on taxes helped cost him reelection in 1992, George W. Bush made sure
to take the opposite approach- by passing the largest tax cut in American history.

Strengthened by the resurgent right in American politics that followed Clinton's term in
office, Republican aspirations to shake up Medicare were swelling. The party seeks to
once again increase the private sector's role in national healthcare policy and
management.

On August 29, 2000, Gore challenged Bush to "put up or shut up" on talk of Medicare drug coverage and launched a series of ads condemning the drug industry and its connection to Republican's and their reluctance to help the elderly with drug costs.<sup>78</sup> Gore's proposed healthcare policy would permit beneficiaries to purchase drug coverage from private health care plans but the government would subsidize premiums for those with lower incomes (up to 150 percent of poverty level). The cost was high-

<sup>&</sup>lt;sup>78</sup> Kevin Sack, "The 2000 Campaign: The Vice President; Gore, in Attack on Drug Industry, Focuses on 2 Medicines," *New York Times*, August 29, 2000, A19.

estimated to be \$650-700 billion over ten years. But, this was no hurdle too high-the federal budget surplus was projected to be \$4.4 trillion over that same period.<sup>79</sup>

In September 2000, Bush finally put up his plan. One can offer the suggestion that he was proposing the exact re-invention of government that Republican ideologues were seeking. It combined a conservative commitment to Medicare reform with just a dash of compassion. His plan would seek to transform Medicare into a program of competing private insurance plans (presumably) offering drug benefits to all enrollees. To hinge against resistance, he would also offer \$12 billion a year in matching grants to states in order to support state-run programs to subsidize drug expenses for low-income elderly Americans.

The simple framework, announced July 10, 2001, had two key tenets. First, all seniors should have the option of a subsidized prescription drug benefit as part of a modernized Medicare. Second, Medicare should provide better health insurance options, like those available to all Federal employees. The message was sent: the new administration would support Medicare as an entitlement, and drug coverage as a benefit. This message would allow the administration to reform (the administration always called it modernizing) the program along conservative principles.

The Republicans advertised the approach as taking the old, big, government entitlement and bringing it into the twenty-first century of market competition, beneficiary cost-consciousness, improved efficiency, and cost containment. Democrats saw the proposals as an assault on a cherished principle of another sort- the social

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<sup>&</sup>lt;sup>79</sup> Robert Pear, "Clinton's Plan to Have Medicare Cover Drugs Means a Big Debate Ahead in Congress," *New York Times,* January 24, 1999, A24.

insurance idea. An idea that viewed all beneficiaries as equal and that all beneficiaries went into the same national insurance pool. Democrats announced the plan as recklessness and an ideological obsession. In their view, markets were hell on social justice, they were engines of inequality, and they were making a mess of the American health care system. They would fight this brand of modernization tooth and nail. Ted Kennedy (D-MA) made it clear that at least in the Senate, Bush's modernization was a nonstarter. He told the New York Times: "It's going to become increasingly apparent through the summer that 'Medicare reform' is not going to take place. But there will be a real attempt to pass a good, effective prescription drug program."

Facing the 2002 midterms, GOP congressmen were anxious to show their continued concern for the elderly, and the Republican House moved aggressively on Medicare prescription drug coverage in the spring and summer. The Republicans tossed the Medicare modernization agenda overboard and fashioned a prescription drug entitlement that would be made available through competing private plans. House Democrats proposed their own initiative, which differed from the Republicans mostly in the generosity of the package: \$800 billion from the Democrats, compared with the GOP's \$310 billion.<sup>81</sup>

In the summer, the administration initiated a comprehensive review of the Medicare program under the guidance of Tom Scully, administrator of the Center for Medicare and Medicaid Services (which administers the program) and Mark McClellan,

<sup>&</sup>lt;sup>80</sup> Robert Pear, "Bush Drug Plan Calls for Using Discount Cards," New York Times, July 11, 2001, A1.

<sup>&</sup>lt;sup>81</sup> Robert Pear, "GOP Drug Plan for Elderly Nears Passage in House," *New York Times*, June 21, 2002, A1.

chief White House health policy advisor. Eventually, Douglas Badger, special assistant to the president, replaced McClellan who went off to run the Food and Drug Administration. The White House policy bureaucracy included an interesting twist: responsibility for Medicare was in the hands, not of the domestic policy council, but of the National Economic Council. This meant that whatever emerged would have the backing of the administration's economists. Instead of directly restructuring all Medicare around competing private plans, it took a less direct route and tried to get Medicare beneficiaries to choose private health plans by dangling the prescription drug benefit before them. Medicare would offer drug benefits only under private plans; beneficiaries would choose whether to stay in the traditional program or switch for the new benefit.

Pressing ahead, President Bush made two additional decisions. First, he introduced a framework for the prescription drug benefit, not a full bill. Secondly, the administration backed off its signature innovation: it would no longer insist that drug benefits be available only to enrollees in private plans. Participants in traditional Medicare would get some drug coverage, but drug benefits under private plans would be more generous.

Conservative Republicans opposed this enormous open-ended entitlement based on the ideological argument against big government programs. Historically the probusiness faction- Republicans were once again attracted to the idea of introducing private plans into Medicare to deliver and administer the drug benefit. The act of privatization was now viewed as an incentive to act, and Republicans pushed for the

first step- turning the program over to private insurance companies. This move tied the Democrats in knots. Although Democrats found the idea of private plans abhorrent, they had long sought to add a drug benefit to Medicare.

One of the issues that froze the policy was the last remnant of Bush's original vision- turning all of Medicare into a privately managed insurance program. The House had included a provision that would have allowed private plans in a number of metropolitan areas to submit bids for Medicare business. Private plans would compete with traditional Medicare in these areas; if the traditional program cost the feds more, the elderly would have to pay more to stay in it. For the conservative House Republicans, this was an essential provision that gave them something- a market challenge to the traditional big government program- in exchange for expanding the Medicare entitlement. For the Democrats, the Republican provision was an assault on essential principle.<sup>82</sup>

Although the conference report did not come close to the wholesale restructuring that Bush and his conservative allies had contemplated during the 2000 campaign, or even the vision of Part D that they first sent to the Hill, the bill injected a distinctly Republican set of innovations into the Medicare program. The conservative Bush administration won the largest expansion in Medicare history and the biggest new health care entitlement in almost four decades. In the process, the approach George W. Bush took in his health care policy endeavors confirms and elaborates many of the lessons about presidential leadership and the management of health policy: personal

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<sup>&</sup>lt;sup>82</sup> Robert Pear, "Tentative Medicare Pact Offers Drug Benefits to Elderly," *New York Times*, November 13, 2008, A28.

commitment, a variation on the rule of speed, flexibility (an extreme case), handling economists, the possibilities and limits of bipartisanship. For many that perceived him to be a hands-off president, George Bush was surprisingly involved in the Medicare Modernization Act.

The Bush years demonstrate, more than most, how every administration sits in a great political context. It is within this contextual environment that the very action of public administration occurs. George W. Bush came to office in what appeared to be a powerful conservative era. Democrats were retreating from decades old positions regarding the role of government. Conservatives arrived touting an armful of policy blueprints- and in health care that meant restoring private markets. President Eisenhower, an establishment Republican- had started the GOP down the path belief that private mechanisms could solve the public's health problems. But during Eisenhower's time, he was proposing markets in a socially Democratic era.

By the 1990's, the Sunbelt GOP could promote a more radical market philosophy that would uproot even Eisenhower's signal innovation (tax cuts for employer health insurance). A new generation of conservatives would try to get the big institutions-employers, government- out of the middle, put individuals in charge of healthcare insurance choices, and make everyone feel the cost consequences of their market decisions. The elderly should own their healthcare choices, just like every other member of the ownership society. And yet, for all that, not much of the new, market-based paradigm made it into the final bill. The Bush administration would not get to redesign Medicare to the political extremes it desired.

Frederickson (2012) reinforces this transition of public administration with his statement that at one time "adherents to the new public administration were thought to be radical. The irony is that the new public administration was probably less radical in its time than reinventing government is today. Because the downsizing features of reinventing government are so widely implemented, the risk is that a serious decline in public administrative effectiveness will result. In the long run, this may be a much greater risk to public administration effectiveness than the humanistic/social equity objectives of the new public administration" (p. 268).

He continues, "It could be argued that reinventing government has made reducing the career civil service even more politically acceptable. It would be unfortunate indeed if the primary long-term legacy of reinventing government were the diminished capacity of government to implement policy or the creation of so-called "hollow states" (Milward and Provan, 1993; Kettl, 1991)" (p. 268).

#### CHAPTER 13

## **HEALTHCARE AS A COMMODITY**

# 13.1 Economic Impact

Now that society has come to realize that much of the focus on access to proper healthcare hinges on the actual cost associated, the movement to confront the entire healthcare machine has begun. Despite huge expenditures, the quality of care in the U.S. is highly variable, but on average inferior to many advanced countries that spend much less. The best physicians and hospitals and the best care available in the US are among the finest to be found anywhere, but access to that care is grossly uneven. Many receive substandard care and far too many receive virtually no care except when illness is far advanced or there is an emergency. Although US healthcare is by far the most expensive in the world, it now leaves about 50 million of its citizens totally without coverage and fails to provide adequate protection for millions more. And, as our population ages rapidly in the coming years, it should be known that most people also have no support for the cost of long term or rehabilitative care.

The U.S., alone among all advanced Western countries, has allowed its healthcare system to become a market and its physicians to behave as if they were in business.<sup>84</sup> In the US medical care has become a huge, competitive industry with many private investors, but with relatively little government regulation. Involving more than

<sup>&</sup>lt;sup>83</sup> Sutherland, Fisher, and Skinner, "Getting Past Denial- The High Cost of Health Care in the United States," *New England Journal of Medicine*, September 9, 2009.

<sup>&</sup>lt;sup>84</sup> Dartmouth Atlas Project, "Supply-Sensitive Care," "An Agenda for Change: Improving Quality and Curbing Health Care Spending," both articles available online (in sidebar) at http://www.dartmouthatlas.org/keyissues/issue.aspx?con=2937;

\$2.7 trillion, the US healthcare industry now constitutes nearly 18% of our entire economy and it continues to grow. Its growth has slowed during the past two years, largely reflecting the effect of the recession in reducing employment based insurance and the ability of most people to afford care that is not mostly paid by insurance.

Expenditures will probably resume their rise when the economy improves and new federal commitments to pay for care are implemented in the years ahead. Oberlander (2007) suggests that the U.S. is a clear example of what happens when medical care becomes a commodity in trade rather than a social service. Because the market for medical care differs so much from other markets, classical market forces do not exert their usual control over buyers and sellers and hence do not regulate supply and demand.<sup>85</sup>

Another difference can be found within the regulation of the healthcare. There is little or zero government regulation to the volume of services and products in the US healthcare market, but there is also very little regulation of prices- far less than in most other advanced countries. Commercial competition encouraged by this lax regulation affects the behavior of all players in the market. No more than half of the US health economy involves investor owned organizations and institutions, but most of the others (so called not-for-profits) also see themselves as businesses competing for market share, so they act very much like their for-profit, investor owned competitors. Virtually all organizations and many physicians seek to maximize their income. The net result is the

<sup>&</sup>lt;sup>85</sup> Oberlander, "Through the Looking Glass: The Politics of the Medicare Prescription Drug, Improvement, and Modernization Act," *Journal of Health Politics, Policy, and Law*, vol. 32, no. 2, 2007, p. 187-219.

virtually unrestrained growth of health costs, driven not simply by medical need but by economic incentives.

Marcia Angell's much-discussed 2011 article documents this behavior through her research into manufacturers of psychoactive drugs. 86 She found that in order to increase their sales, manufacturers depend on direct marketing to patients, and give financial and other inducements to the physicians who prescribe them. While not unique to the US, these practices are more pervasive in the US than elsewhere. The conflicts of interest that stem from attempts by manufacturers to influence the behavior of physicians add to the unnecessary costs of the system.

Relman (2011) suggests that in addition to the cost of a medical care system driven by these economic incentives, there is also a huge cost exacted by the dependence of the US system on private for-profit insurance plans. Numbering in the hundreds, but increasingly being consolidated within a relatively few giant corporations, these private plans insure or provide billing and collecting services for more than half of the total population. The US government estimates private insurance plans added over \$150 billion to the cost of healthcare in 2011 (The overhead expenses of Medicare are less than 5% of total expenditures), private insurance plans comprise a huge and growing industry, with a gross income of more than \$800 billion. Their profits and business overheads vary considerably but average between 15% and 25% of their premiums.<sup>87</sup>

<sup>&</sup>lt;sup>86</sup> Angell, Marcia. "The Illusions Of Psychiatry", *The New York Review of Books*, 14 (2011).

<sup>&</sup>lt;sup>87</sup> Relman, "How Doctors Could Rescue Healthcare," New York Review of Books, October 27, 2011.

Despite their claims to the contrary, these plans add little or nothing to the value of the insurance they sell or service that is even close to their added cost. No other country is as dependent on relatively unregulated private for-profit insurance plans as is the US. Other advanced countries, such as France and Switzerland, include private insurance plans as a central part of their health system, but these plans are not-for-profit and are much more tightly regulated by government than in the U.S.

#### CHAPTER 14

#### OBAMACARE AND GOVERNANCE AS THE NEW PUBLIC MANAGEMENT

14.1 Public Administration and the Philosophy of Partnerships
Barack Obama's first days as President were challenging. He found himself
facing economic disaster and yet, he began a journey to finish a task so many prior
Democrats before him could not- reform healthcare. Democrats and Barack Obama
were ready this time. Learning lessons from past Presidential approaches, Democrats
and President Obama acted quickly on the healthcare front.

Without a doubt, the economic recession played a large role in bringing attention to several flaws within the U.S. healthcare system. Some of these flaws can be described as debilitating to individuals as well as to the national economy. For health insurance to be so heavily attached to place of employment at a time when mobility in the workforce is a necessity, we find a distinct disadvantage in the competitive marketplace. Now that our world is so globally integrated, an argument could be made that some of these drains on the U.S. economy had an impact on the world's economy. Over the prior decade (1998-2008), private insurance premiums had increased 7% annually, eating away at much of the economic gains made during the 1990's. 88 Employers who continued to offer healthcare insurance coverage over that period began to realize the true costs associated with providing this benefit. Global competition with countries that did not incur those costs hampered many U.S. companies. The view that

<sup>&</sup>lt;sup>88</sup> Dartmouth Atlas Project, "Supply-Sensitive Care," "An Agenda for Change: Improving Quality and Curbing Health Care Spending," both articles available online (in sidebar) at http://www.dartmouthatlas.org/keyissues/issue.aspx?con=2937;

healthcare should be considered primarily as a business and that it requires the intervention of private insurance plans, is so deeply embedded in U.S. culture and politics that any legislation changing it to a universal right supported by government may be a long time in coming- if it ever even comes. But, sooner or later (as Carter figured out) reality will prevail, because a health system largely shaped by free market forces and so heavily dependent on private insurance will never provide the whole US population with good medical care at an affordable cost.

Proponents of NPM could make their administrative argument persuasive for reformers in other countries by pointing to apparent successes in their own nation-states (Hood & Jackson, 1994). Given the critiques of traditional management systems, and moving from an administrative culture of compliance, error avoidance, and presumed inefficiency to a more efficient and effective public service requires multiple changes to existing formal systems. First of all, administrative goals should be specified through some sort of formal strategic planning. Short-term strategic goals are intended to be consistent with longer-term strategic plans for the organization. These short-term goals form the basis of a performance contract between elected officials and senior administrators. Goals are defined in measurable terms that compare performance to targets. Administrators face responsibility for achieving performance goals and should be rewarded accordingly.

Schick (1999) sketches the ideas common to the NPM. These ideas focus on performance, which is assumed to improve when the following occur: a) Managers have clear goals; b) flexibility in using resources; c) government decisions and controls focus

on outputs and outcomes rather than on inputs and procedures; d) managers are held accountable for the use of resources and the results produced; and e) as it pertains to the Intergovernmental/Federalist nature of the Patient Protection and Affordable Care Act (PPACA/"Obamacare") operational authority is devolved from central agencies and agency headquarters to operating levels and units.

The 2010 reform law was largely formed from the 2006 Massachusetts health reform, which expanded coverage by broadening eligibility for Medicaid, grouping the uninsured into a newly created purchasing pool, and providing them--according to their incomes--with subsidies to purchase insurance. Massachusetts's residents are also required to obtain health insurance or pay a fine. This is the point of strongest contentiousness with Obamacare for opponents to healthcare reform. The expansion of coverage and the requirement that individuals purchase insurance- alongside the rising premium costs have generated political controversy in Massachusetts, and the same was experienced nationally before, during and after the 2010 passage of Obamacare.

Anticipating the 2012 reelection campaign, Democrats made the political decision to frontload the law with some popular, low-cost programs and other policies that regulated health insurers. The administration quickly enacted a prescription drug rebate for Medicare beneficiaries; health insurance tax credits for small businesses; a prohibition on insurance companies denying coverage to children with preexisting conditions; and a requirement that insurers allow parents to keep children on their plans until age twenty-six. With these tangible changes to healthcare, Democrats believed they were likely to attract public support and continue to move forward with reforms.

Reaffirming an opposition to Obamacare has become a sport for many in the Republican party. Since passage three years ago, the Republican controlled house has voted to repeal, amend or defund Obamacare fortytwo times. Twenty six state Republican Governors and several Attorneys General have voiced opposition, including a lawsuit that led to a favorable Supreme Court ruling in the summer of 2012- just weeks shy of the 2012 Presidential election.

Now the law of the land, the PPACA healthcare reforms have begun to face a challenge in the form of implementation. As an assurance to states, the law allowed them the flexibility to set many of their own rules such as the ability to create health insurance exchanges to offer plans for citizens to choose. Many states, however, have refused to create their health insurance exchanges. This opposition was anticipated and the Obama administration notified states that if they did not create them, the federal government would. This highlights a profound irony in American federalism and public administration as it pertains to healthcare policy- the very mechanisms George Fredrickson points to in his assertion that PA is entering a new theoretical framework-one of governance.

As we progress through time and face new challenges in policy, breakthroughs in technology and personal or social recognition of ideological foundations, the act of public administration will evolve. Theories of public administration will also enevitably evolve in order to incorporarte these changes. Reflecting upon Presidential ideologies, approaches, organizational preferences and decision-making as it relates to national

U.S. healthcare policy, allows us as public administrators the ability to anticipate what components belong to this blossoming governance model.

## CHAPTER 15

#### CONCLUSION

Through this research into nine President's healthcare policy actions over the past 80 years, I find that I share Frederickson's concern for the developing challenge facing public administration- addressing "public management in the disarticulated state" (1999, 702). Frederickson's belief was that public administration was moving "toward theories of cooperation, networking, governance, and institution building and maintenance" in response to the "declining relationship between jurisdiction and public management". With the changes taking place nationally in the healthcare arena, we can identify with this challenge facing public administration. How does public administration address the fragmentation of healthcare as it relates to both institutions as well as jurisdictional borders?

Researching the healthcare policy approach these administrations took, combined with research into public administration theory, provides support for the belief that public administration has historically found itself faced with new burdens- as well as opportunities- in the act of transitioning from an existing system and into a new one. The quick-strike, inclusive- yet domineering, approach to healthcare reform Obama delivered was paired with policy components historically promoted by a Republican- cost controls, individual mandates and sharing responsibilities with the states by allowing them to manage their systems independently (as long as they adhered to general requirements).

With the help of the prior sections in this paper, we now know that the economic drain has been circling presidential administrations for decades. And each in their unique way kicked the proverbial can down the road. Ironically, as mentioned earlier, Jimmy Carter might have gotten the furthest in reforming healthcare based on cost concerns, but he got nowhere being honest. Oberlander and Marmor, (2010) believe that President Obama and pro-reformers took efforts to reassure the large number of insured Americans who say they are satisfied with their current coverage that they had nothing to fear from change.

Democrats also sought to work with rather than fight against the health care industry. They hoped to gain support from the insurance, hospital, and pharmaceutical industries, which stood to gain financially from expanded insurance coverage and had the financial resources and political influence to undercut reforms they opposed. As a consequence, the creation of a Canadian-style health program, in which the government provides universal insurance- Medicare for all, was never seriously considered. Such a reform would have caused, in the administration's view, too much disruption of prevailing arrangements and led to an inflammatory and unwinnable debate over 'socialized medicine'. <sup>89</sup>

Put Lyndon Johnson aside, and something quite astonishing emerges from the record. The Republicans have been far more successful at health reform than the Democrats. Nixon got national health insurance through the Ways and Means Committee. Reagan added catastrophic health insurance to Medicare (later repealed).

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<sup>&</sup>lt;sup>89</sup> Oberlander and Marmor, "The Health Bill Explained At Last", *New York Review of Books*, August 19, 2010.

And George W. Bush won a prescription drug benefit. Always, it's a variation on the same theme. Republicans get into it because of a president's personal desire, whether for systems reform (competition) or election-year insurance; Democrats go along for benefits they have invariably wanted for some time.

Further research should confront the idea of a governance theory in public administration. Using an approach that allows policy creators and public administrators to incorporate many of these relationships and networks that exist between various interests groups. In fact, Frederickson's suggestion for a theory of "administration conjunction" in order to help explain and understand the issues created by the rise of the "disarticulated state" is perfectly suited for further research, consideration, or application into the current and changing face of U.S. heathcare policy.

# APPENDIX A PRESIDENTIAL ADMINISTRATIONS, ACTIONS AND PUBLIC ADMINISTRATIONTHEORIES

Public Administration Theory	Major Healthcare Policy	Characterization/Description
Traditional (economics-based) Bureaucracy FDR, Truman	The Social Security Act 1935 [H. R. 7260] An act to provide for the general welfare by establishing a system of Federal old-age benefits, and by enabling the several States to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws; to establish a Social Security Board; to raise revenue; and for other purposes.	Max Weber's ideal bureaucracy is characterized by hierarchical organization, delineated lines of authority in a fixed area of activity, action taken on the basis of and recorded in written rules, bureaucratic officials need expert training, rules are implemented by neutral officials, and career advancement depends on technical qualifications judged by organization, not individuals.
Organizational Behavior	Revenue Act of 1954 (Sec. 106) excludes from taxation employers'	Simon's Administrative Behavior (1947), stressed the study of public administration through
Eisenhower	contributions to accident and health plans benefiting employees, and clarifies that such contributions had always been deductible as business expenses.	focusing on the decision-making within an organization. Institutional cultures develop boundaries restricting the range of solutions which are legitimate to examine (Simon 1947). Decision makers do not search all alternatives or optimize; Rather they satisfice, and select among choice restricted by organizational rules and customs
New Public Administration	THE WAY A THE WA	For dealth of 2000) ((Consequently and a second of the sec
JFK, LBJ	1965—Medicare and Medicaid Iggislation passed as Irtle XVIII and Irtle XX of the Social Security Act. This provides government-sponsored health coverage for seniors, the disabled and the poor.	Frederickson (2010), "Conventional and classic public administration seeks to answer either of these questions: (1) How can we offer more or better services with available resources (efficiency)? or (2) How can service levels be maintained while spending less money (economy)? A new public administration adds this question: Dose this service enhance social equity? To say that a service may be well managed and that a service may be efficient and economical still begs these questions: Well managed for whom? Efficient for whom? Economical for whom?" [E. 265].
Management and Rational Choice	Health Maintenance Organization (HMO) Act of 1973 establishes benefit,	Lynn (2001), describes "efficiency" as the ultimate value that permeates the New Public
Nixon, Carter, Reagan, GHWB		Management Theory more than it did the traditional public administration. Rational Choice Theory claims that government decisions can be understood by considering them as the outcome of a single actor trying to maximize its own interest (Frederickson, 2012).
Reinventing and Governance movements  Clinton, GWB, Obama	Balanced Budget Act of 1997 (BBA) provides several health benefits related provisions. Creates Medicare-Choice program. Establishes new guarantee opportunities for Medicare supplement policies in conjunction with the expansion of private plan options. Creates the Children's Health Insurance Program (CHIP), a new state children's health program, modifies Medicaid to increase state flexibility in administering the program, and provides \$24 billion in federal funds over five years to support the program. Patient Protection and Affordable Care Act of 2010	Frederickson (2010), "The fundamental difference between the two movements (New Public Administration and Relinventing Government) in both assumptions and philosophy regarding responsiveness has to do with the role of citizens versus customers" (p. 265). Frederick continues to highlight the differences in pronouncing rationality. "Finally, the reinventing government perspective avoids the policy-administration dichotomy issue and the rationality issue by using the word-concept" governmene." At the critical points at which questions of whether a policy ought properly to be the province of the executive or legislative branches of government, the word "governance" is used" (Frederickson, 1996). He continues further, "One line in Osborne and Gaebler's Reinventing Government has become famous for the moment: "This book is about governance, not politics" (p. 247). Any serious student of government or public administration would likely argue that it is difficult if not impossible to unbundle politics from governance. Indee Waldo (1948) would surely argue that governance is politics and that all theories or models of public administration are also theories of politics and power" (p. 267).

# BIOGRAPHICAL INFORMATION

I enjoy policy research and spending time with friends and family.