
Interview with Joseph Califano

New York City on August 31, 1995

Interviewed by Edward Berkowitz

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

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

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

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

So that was hooked to Welfare really because that was the political way to get health care to old people. But when you looked at, "How do you run this damn thing?" If you want to run it efficiently, you put all the health together; you put all the cash payments together. That was the concept of moving the Welfare program into the Social Security Administration and moving Medicare and Medicaid together in the Health Care Financing Administration.

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

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

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

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

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

had them create a non-profit corporation so we could get started on the thing, gave the corporation the job, and then ultimately we worked through Civil Service and brought them into HEW.

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

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

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

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

CALIFANO: I said I wanted Medicare and Medicaid together. I gave them the big pieces like that, but I also followed this every inch of the way. I

didn't say, "Go and then come back to me in three weeks." I'm sure I met with them ten times, certainly with Hale and Tom Morris, as this was being put together.

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

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

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

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

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

Incredible. And that's when I fired Derzon and brought in Leonard Schaeffer. And Schaeffer was the right guy. I was lucky.

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

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

BERKOWITZ: Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BERKOWITZ: So it was more than turf?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

###