

# **In and Out at HEW: Doing Well by Doing Good Through Consulting**

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To the unknowing eye the gathering of 142 professionals strolling about the comfortable Orcas Island resort looked and acted much like any other business group out on an all-expense-paid weekend where work and pleasure are painlessly blended in just the right proportions. The spacious and well-appointed suites overlooking the breathtaking waters of Washington state's fabulously scenic San Juan Islands, the shrimp and prime rib dinners, the yacht trips around the islands — all reflected that special attention to details and lavish extras which IBM or General Motors might provide for their top brass on a similar "business" weekend in the grandeur of the northwest.

Surely no one would have guessed that this was a gathering of well-paid consultants and federal and state bureaucrats who had been summoned together to grapple with the problems of the poor — who seemed a million light years away from this pristine locale which had once been the magnificent estate of a wealthy shipping magnate. Nor would anyone have suspected that the entire weekend's tab was being picked up by the United States Department of Health, Education and Welfare, courtesy of the American taxpayer.

The occasion for the conference was to discuss the results of the government's experiments on the poor in Seattle and Denver where low-income families have been provided with a guaranteed minimum income for the past five years. The experiment, involving nearly 5,000 families, is in the words of one prominent consultant "the biggest social experiment in the history of the human race." And indeed it is. Conceivably the biggest welfare program in the history of the nation hangs in the balance, not to mention many millions of dollars in future revenue for the consulting firms that have been nurturing and feeding the guaranteed income concept for the past decade and more.

But, for the consultant companies that attended the Orcas Island conference last May on the Seattle and Denver Income Maintenance Experiments (SIME/DIME), along with the HEW and Labor Department representatives, more than just money was involved. For many of those who were there, SIME/DIME is more than just an experiment. It is a cause.

Most Americans have never heard of SIME/DIME and would be surprised to hear that the federal government was providing a basic guaranteed annual income to the poor. Wasn't this Richard Nixon's ill-fated Family Assistance Plan (FAP) which had died ignominiously in the Congress? Wasn't this, furthermore, the very proposal Gerald Ford had adamantly rejected in his campaign to retain the Presidency? And, finally, wasn't this the type of costly proposal which Jimmy Carter had told HEW Secretary Joseph Califano the nation could not afford?

And yet, here it was, being kept alive administration after administration, like some comatose patient who has been declared clinically dead, but whose life support functions are being artificially sustained by machine. A very different kind of machine is keeping this proposal alive, however, one that is peopled by a shadowy network of liberal planners, economists, sociologists, data analysts, and thinkers. Most of them at one time or another can be found working in the type of consulting firms represented at Orcas Island or somewhere within the federal bureaucracy. And most of them through the years have moved with ease through a "revolving door" system that takes them from consulting into government and back again.

But, to understand the enormous influence which major consulting firms have over government policy, it is absolutely necessary to understand how pervasive government's use of consulting has become.

### The Silent 'Industry'

Though not widely perceived beyond the banks of the Potomac, government consulting in Washington has multiplied into a \$2 billion-a-year growth industry in which major corporations like Rand, Brookings, SRI International (formerly Stanford Research Institute), Mathematica, Inc., and the Urban Institute, among others, have grown rich and powerful. And, by becoming increasingly dependent upon them, government has been able to get around maximum personnel ceilings simply by farming out more and more of its work, research, evaluation, and, in many cases, even program administration. For all its importance as an experimental project, SIME/DIME is being fully administered, not by HEW, but by SRI and Mathematica. The National Institutes of Health farms out much of its administrative work to consulting firms. So do many other agencies.

There are no accurate figures on the number of consulting firms doing business with the federal government. One partial survey found that 64 departments and agencies were paying consultants nearly \$2 billion a year under some 34,000 contracts. Last year, the government placed some 18,000 consultants on its payroll, but this represents only the tip of an unseen iceberg. It is estimated that if consulting firms and their employees were factored in, in addition to state and local employees whose salaries are paid by the national government, the federal government's true employee level would be approximately three to four million more than the nearly three million now officially given. Incredible as it may seem, the federal government has only the vaguest idea of how many workers in this country are paid by federal funds. According to Spencer Rich (writing in *The Washington Post*, July 18, 1978, p. A1), a good estimate would be that from three to four million persons are paid by the federal government through consulting contracts, research grants and payments made for the wages of state and local government employees. Secretary Joseph Califano of HEW recently testified to the Senate Appropriations Committee that his Department pays the salaries of 980,217 persons who work for private think tanks, universities and state and local governments. This is in addition to the 144,256 "regular" HEW employees. The Department of Defense estimates that it pays the salaries of an additional 2,050,000 people through consulting contracts and the like. This figure does not include 2,049,000 military personnel who are also federal employees.

Yet, the growth in government consulting remains in part a mystery because of the widespread unanimity both in and out of government that a great deal of their work is of negligible value. In its fiscal 1978 report on HEW's appropriations bill, the Senate Appropriations Committee confessed it was "unaware of any instance where a consultant's recommendation has produced a significant program improvement."

The Committee stated:

An analysis of the itemized contracts let during fiscal years 1976 and 1977 indicated that many of these contracts may have been inappropriate in the context of (a) agency missions and priorities; (b) previous contracts performed for the same purpose; and (c) duplicative contracts being let simultaneously within other parts of

the Department and Federal Government.

Nonetheless, HEW's consulting costs, like those of virtually every other federal agency, continue to climb. In fiscal 1977 HEW's consulting bill was at least \$94 million. By 1978 it had grown to \$194 million. (It was probably higher since much work that was in reality "consulting" was not listed as such.) At the end of 1978 Congress limited HEW to a tightened budget of no more than \$194 million for consulting services.

"They are like parasites who feed off the government," one committee investigator said. "They keep coming back year after year."

It is not surprising, therefore, that so many consultants have earned the notorious nickname "Beltway Bandits," a title which accurately characterizes both the annual haul of tax dollars that fill their corporate saddle bags as well as their office hideouts — the beltway encircling greater Washington from where many of them conduct their business.

"They have become," said one former HEW administrator, "like another branch of government, an unseen branch, advising bureaucrats, developing policies, propelling programs through the machinery of government. But what is most disturbing is the network they have formed among themselves, both inside as well as outside of government."

Another former HEW administrator, John Svahn, who headed the Social and Rehabilitation Service, found this network to be particularly pervasive within the field of social welfare policy. "You see the same individuals dealing with the same programs on literally a revolving door basis," he said. "And it's true that there has been a sort of interlocking directorate among them. The same people tend to stay within a penumbra of social policy, whether they are in government or the private sector — except the people who are awarding the contracts one day are picking them up the next."

## Two Prime Examples

Perhaps two of the most influential consulting firms in Washington in the field of social welfare are the Urban Institute and Mathematica, Inc.

Sparked by his then-special assistant, Joseph Califano, President Lyndon Johnson pushed for the creation of the Urban Institute over ten years ago, believing that the need

existed for a liberal think tank in Washington to research and analyze domestic programs and proposals. With the help of several million dollars in federal seed money, the Institute was founded and is today one of the major contractors with Departments such as Housing and Urban Development, HEW, and Labor. This year HEW has given the Institute nearly \$3 million in contracts.

With a payroll of almost \$7 million a year, the Institute provides work for 300 researchers, data analysts and others whose work brings in \$11 million annually in revenue. If the Institute is not exactly an extension of the federal bureaucracy, it might as well be considered so because more than 86 percent of its income comes from 22 federal departments and agencies. The balance is derived from state and local governments, foundations and private corporations.

Besides its prolific studies, the Institute is equally admired in Washington's upper circles for its elegant, catered dinners where government policymakers, administrators, members of Congress, academics and fellow consultants gather to hear speakers and exchange views on everything from housing allowance experiments to microanalytic simulation.

A guest of the Institute described one of its recent "welfare symposia" affairs this way: "Cocktails began at 6:30 p.m. There were bars everywhere. This was followed by a buffet served by tuxedoed waiters, most or all of them Spanish-speaking. The menu included boeuf bourguignon, watercress salad, eclairs. The silver was Reed and Barton."

Mathematica, Inc., was established in 1958 by a group of Princeton professors who occasionally did some data analysis for the government and found that consulting for the government was much more lucrative than teaching at Princeton. Last year the firm and its several subsidiaries in Washington and Princeton, New Jersey, earned \$23 million — 80 percent of it from the federal government.

Armed with a staff of 600 employees, Mathematica's annual report told shareholders that the firm has "opened new business potential in information processing for government agencies."

Both the Institute and Mathematica have played a significant though little-known role in the shaping of welfare policy and welfare reform proposals over the past decade. Their influence is derived in large measure from their development of a highly sophisticated data model used to project costs of everything

from food stamps to welfare reform to a guaranteed annual income.

Called the Transfer Income Model, or TRIM, the model was initially developed by a group of Urban Institute economists under a \$1 million government contract. Many of these key economists, including Jodie Allen who is now a special assistant for welfare reform to Labor Secretary Ray Marshall, were hired away from the Institute by Mathematica and took the TRIM model with them. With the support of additional government financing, primarily from HEW and the Office of Economic Opportunity, both firms improved the TRIM model (Mathematica renamed theirs MATH) and began selling its data to any federal agency needing reliable cost estimates on income transfer programs. Thus, TRIM and its successors have been used to estimate, and in many ways shape, virtually every major welfare proposal for the past ten years. HEW, Labor, the Internal Revenue Service, HUD, the Congressional Budget Office, and the Library of Congress' Congressional Research Service are just some of the agencies which have used its data.

"There was enormous power being wielded here by these two consulting firms," one congressional investigator said. "The decisions that Nixon made on FAP and Ford on his income supplement proposal, plus other actions by the Congress on food stamp reform and social welfare were by and large based on the figures derived from TRIM."

Said another congressional staffer who has followed the battle over welfare reform closely, "In every battle over a controversial proposal the side that usually wins is the side with the best information, the most convincing statistics. Right now consulting groups like the Urban Institute and Mathematica have control of the best data available."

Svahn agrees that those who control to a substantial degree the input of information control the decision-making process of government. "You can't argue with a computer," he says. "But the models are not totally objective because they are based on certain biased assumptions." These assumptions have been made by people in and out of government who are champions of the guaranteed annual income concept.

### Revolving Door Politics

Even the most cursory review of the last ten years of welfare reform proposals finds the same names cropping up again and

again, crisscrossing both government and consulting fields as if they were one and the same — frequently occupying key positions of authority and influence. Virtually all of them represent one common point of view — a club within a club.

- William Morrill, HEW's assistant secretary for Planning and Evaluation between 1973 and 1976, whose office contracted for much of the research that contributed to the development of FAP, is now a senior fellow at Mathematica.

- Michael Barth, HEW's deputy assistant secretary for Income Security Policy, was one of the chief architects of the guaranteed annual income proposal. He worked under Morrill as an economist in HEW during which time he wrote *Toward An Effective Income Support System* which resurrected the FAP proposal Nixon had originally turned down. Barth's book was published by the University of Wisconsin's Institute for Research on Poverty which has done considerable consulting work for the government.

- John Palmer, who supervised Barth in HEW's Office of Policy Evaluation and who with George C. Carcagno co-authored the book on FAP, is now at Brookings. Carcagno is a senior vice president with Mathematica.

- Henry Aaron held Morrill's old job as HEW's assistant secretary for Planning and Evaluation and has worked for several major consulting firms, including the Urban Institute, Brookings and Rand. He recently announced his decision to return to the Brookings Institution.

- Jodie T. Allen served as chief of research and policy coordination for the Family Assistance Plan in HEW from 1969 to 1970, later becoming senior vice president at Mathematica from 1974 to 1977. She is now Labor Secretary Ray Marshall's special assistant for welfare reform.

- Richard Nathan served as a deputy undersecretary for welfare reform under HEW Secretary Elliot Richardson and was a major force behind FAP. He has returned to Brookings.

- Susan Woolsey, Morrill's top assistant at HEW, is now associate director for Human resources at the Office of Management and Budget, a position Morrill once held.

Elsewhere, one finds numerous examples of revolving door practices through which consultants become government policymakers and vice versa.

- Raymond Struyk, for example, a former Urban Institute official, is now a deputy assistant secretary in HUD's Office

of Research and Demonstration which last year did \$3.1 million worth of business with his former organization.

- Carolyn Merck, a Food and Nutrition Service specialist in the Department of Agriculture who worked on food stamp reform using data provided under a \$660,709 contract to Mathematica, left her government post to take a job with Mathematica.

- Ernest Stromsdorfer, a former deputy assistant secretary of Labor who was in charge of "research and evaluation," is now with Apt Associates, a consulting firm in Cambridge, Massachusetts, which is a major government contractor.

All of this raises substantial questions about inherent conflicts as well as about the ability of top government officials to make fair and dispassionate decisions and judgments on tough and highly controversial issues. Much of the available evidence points too often to an almost incestuous relationship between two spheres of influence: government and consulting firms. How can we expect officials within the Departments of Labor and HEW to examine the results of major social experiments and deliver to us an unprejudiced evaluation based solely on the facts? On the contrary, it appears that in the long, painful struggle over welfare reform an overwhelmingly biased point of view has survived within the bureaucracy to keep the concept of a guaranteed annual income alive.

Moreover, how can we trust the conclusions of experiments like SIME/DIME when the consulting firms performing the work are peopled and run by individuals who once had a profound interest in their success as public servants? If social "experiments" administered by consultants under government contracts are worthy of their name, then they should be truly experiments and nothing more, for strict scientific procedure requires that the outcome of any social experiment must not be tinkered with or prejudiced in any way. Yet, there is reason to doubt that this is the case with the negative income tax entitlement project as well as with the manpower provisions of the program.

In an interview with Jodie Allen, during which she went to great lengths to demonstrate her total uninvolvedness with her former firm, she made a remark about her present task in the Department of Labor that I think revealed a great deal about the outcome of the jobs component of the welfare



reform program.

Ms. Allen said, "I want to make it work. I want to see it succeed." One cannot blame her for such enthusiasm, but neither can one help wondering how such an "experiment" can be truly impartial and unprejudiced with one of its chief administrators actively working in its behalf.

Four months after he took office, Jimmy Carter issued a memorandum to the heads of his executive departments and agencies saying, "There has been and continues to be evidence that some consulting services, including experts and advisors, are being used excessively, unnecessarily, and improperly."

Among many areas of abuse, Mr. Carter cited "Revolving door abuses whereby former government employees may be improperly favored for individual or contracted consulting arrangements."

Earlier this year a *Washington Post* investigation found that top officials of the Appalachian Regional Commission had received fat consulting contracts when they left the anti-poverty agency, considering them nothing more than a thinly disguised form of severance pay. Harry Teter Jr., who resigned in July of 1978 as executive director of the agency, was given \$35,000 for a six-month review of his years at the commission. Other top officials who resigned or retired received similar consulting contracts, in one case as high as \$75,000.

At the same time, an HEW investigation discovered that friends and relatives of officials at the National Institute on Drug Abuse had obtained millions of dollars in consulting contracts. HEW Inspector General Thomas D. Morris said there was "a substantial appearance of impropriety," and HEW Secretary Joseph Califano stated that he was "deeply disturbed with the loose management practices and evidences of cronyism" his investigators had uncovered.

All of this has reddened the faces and raised the eyebrows of several congressional committees that have quietly begun investigations into Washington's largely hidden world of consulting contractors. Shocked by the \$200 million HEW wanted to spend on consultants in fiscal 1979, the Senate Appropriations Committee's Labor-HEW subcommittee has begun probing the Department's consulting contract awards. Simultaneously, the Committee's special investigative unit has been conducting probes of its own. The still-secret investigation will culminate in Senate hearings early next year.

Yet despite this activity, little of substance has been done within the administration to end the apparent conflicts and revolving door abuses over which Mr. Carter has expressed clear and deep concern.

"It's a very cozy group over there," said one former HEW official of his old alma mater. "When you look at the assistant secretaries, the deputy assistant secretaries, the same crowd is still there, many of them since Johnson, doing the planning and policy analysis, pushing their causes in little increments. Most of them came out of the consulting industry in this town and know that they can return to it anytime they want. And they maintain their relationships with their former firms. It's a very cozy relationship."

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# **A Grand Strategy for the Western Alliance**

STRATEGY OF SURVIVAL. By *Brian Crozier*. (Arlington House, New Rochelle, N.Y., 1978.)

There has been no greater indictment of Western political strategic thought than the manifest inability of the U.S. and its allies to deal with the Soviet problem. In successive stages, most Western intellectuals and strategists have failed to understand the nature of Soviet thought, the methods of Soviet power, and the scope of Soviet intentions. Finally, as Foy Kohler has noted, when all is laid bare, the West's finest minds have failed to observe the obvious or, upon seeing it, have failed to believe it.

One of the more perceptive efforts to understand the Soviet Union was reflected in NSC-68, a 1950 report of the National Security Council which outlined some characteristics of the Soviet problem and the courses of action available to the U.S. Despite the fact that its recommendations were never implemented, it nevertheless stands as an attempt to describe the comprehensive scope of Soviet intentions and the broad nature of its threat to the Western world.

Also along the way, various scholarly works on the more specific aspects of Soviet foreign policy and ideology have captured in one or several instances some central features of Soviet thought: the interplay of ideology and geopolitics; the unity of Soviet foreign policy and international socialism; and the purpose of "co-existence" with the West.

Mr. Brian Crozier is the Director of the highly-regarded Institute for Conflict Studies based in London. His book stands between these approaches. His presentation is neither a piece of meticulous scholarship nor a concise description of foreign policy options. Yet, it was not his intention to write either one or the other. The book represents an effort in Grand Strategy and, at the very least, is evidence of a revival in the West of this complex and intriguing mode of thought.

One of the more interesting aspects of the book is its comprehensive nature. Grand Strategy is, if nothing else, an attempt to develop and implement a certain global perspective, an attempt to take the many facets of foreign policy