

PEOPLE  
IN ECONOMICS



**A**LICE RIVLIN has spent much of her 30 plus years in public service trying to keep budgets in check, including that of the U.S. government. When she joined the White House Office of Management and Budget (OMB) in 1994, she inherited a budget deficit of more than \$200 billion that required immediate attention. By 1998, only two years after Rivlin had left the OMB, huge budget deficits had been transformed into substantial surpluses. Rivlin attributes this achievement to the efforts of both U.S. political parties and to the extraordinary performance of the economy.

Earlier in her career, Rivlin served as Assistant Secretary for Planning and Evaluation at the U.S. Department of Health, Education, and Welfare. In that position, she gained experience in areas that are often targeted for cuts when budgets need to be balanced—health care, welfare, and Social Security. Rivlin's curriculum vitae thus makes her an ideal candidate to comment on the fiscal policy issues that so many industrial countries are grappling with today, including the United States and the members of the European Union.

Rivlin was at the Brookings Institution in 1971 when she wrote *Systematic Thinking for Social Action*, whose theme was using policy analysis to improve the effectiveness of social programs. Today she says of that book, "I thought it would have a very short shelf life because we would solve those problems and move on." But, she laughs, "some people still assign that book in their classes." Some of those problems were still on the table in 1992, when Rivlin wrote *Reviving the American Dream*. For example, the U.S. economy had been performing poorly for almost two decades, and Americans were worried about their economic future. Moreover, she wrote, "the political system appears unable to take decisive actions, such as eliminating the federal deficit and improving education, that would brighten prospects for the economy." But she did not consider the country's problems insurmountable. "We will find ways to solve them," she wrote.

### The more things change...

The problems the United States is confronting at the beginning of the 21st century are strikingly similar to those Rivlin described over a decade ago, and some may even be worse today: the budget deficit, income inequality, mounting medical costs, and inadequate education and training. She maintains that, "in a competitive global economy, these are just

things that have to be dealt with—they can't be solved, but they can be made better." Nor are they unique to the United States. In particular, "soaring medical costs are a problem in all developed countries, but we know how to handle medical problems now in a way we didn't used to." Rivlin insists that the richest country in the world can afford better medical care for everyone, as well as better training and schools.

The thesis behind Rivlin's recommendations for the 1990s was that it would be a good idea to sort out federalism "so

that people were clearer about which level of government did which job." In recent years, she says now, the federal government has given the states more say over what happens. But the division of labor in the United States today still doesn't appear to be optimal. Education, housing, neighborhood services, and crime are best handled at the state and local levels, Rivlin notes, while major transfers like Social Security and problems that spill across state borders, such as pollution, are best handled at the federal level. But that isn't happening, and Rivlin thinks it is because voters are more concerned about the things closest to them. As a result, presidential candidates often feel compelled to say that they can fix whatever is wrong, she says, even if the federal government is not well suited for the job. Otherwise, they would seem not to connect with voters' concerns.

At least one problem the country was grappling with in 1992—that of slowing productivity—no longer appears to be an issue. "In

the 1990s, when productivity growth suddenly accelerated, no one knew quite what to make of it," Rivlin says. People wondered if it was temporary, or if it had something to do with the growth of the economy—which was also taking off—or with some technology that was coming on line. With Brookings colleague Robert E. Litan, Rivlin wrote a book on the Internet's impact on productivity. "We know now that the productivity acceleration may not last forever, but it is significant and has continued through the recession and the doldrums that followed it," she says. She and Litan wrote that the revolution was just beginning and that the impact would be felt for a number of years. If they're right, the productivity acceleration shouldn't run out of steam any time soon.

### The taming of the budget

Of all the positions Rivlin has held, she is proudest of what she accomplished as the first director of the Congressional Budget Office. "It was, in a sense, an entrepreneurship," she

# Budget Guru Takes a Stand

A public policy servant underscores the importance of taming unbridled deficits

Elisa Diehl profiles  
Alice Rivlin

says of the office she headed from 1975 to 1983. “We had to start a new organization, and the expectations were unclear.” That was because the Congress was vague about exactly what it wanted the office to do other than supply it with numbers and analysis comparable to what the president received from the Office of Management and Budget. In fact, Rivlin explains, “the House and the Senate wanted different things.” The House envisioned more of a number-crunching operation, and the Senate envisioned more of an analytical operation. “I think we achieved both,” she says, “which wasn’t easy in an intensely political atmosphere.” The Congressional Budget Office has been directed by both Republicans and Democrats, and, according to Rivlin, it does good, serious, nonpartisan work and is widely respected.

Rivlin herself has been described in similar terms. Roger W. Ferguson, currently Vice Chair of the Federal Reserve Board, told *F&D* that, throughout her almost forty years at or near the pinnacle of economic-policy making in the United States, Rivlin “has maintained the trust and confidence of Democrats and Republicans, liberals and conservatives, everyone and everybody.” In addition to having people skills, he says, “she is driven by the outcome of solid analysis.”

When Rivlin became Vice Chair of the Fed in 1996, she went in with ideas for improving it. Asked if she had been able to achieve her objectives, Rivlin notes, “I was at the Fed for only three years, and it is an organization that changes slowly.” At the time, there was concern about whether the Fed was modernizing its payments system quickly enough. “The United States, as you know, uses a lot of paper [bank] checks, and the Fed processes those checks.” She laughs. “And the Europeans wonder why, in this modern age, people are sending payments on little pieces of paper that have to be transported by truck and airplane.” Although she does not take credit for the achievement, she says the volume of checks has since come down considerably.

According to Edward M. Gramlich, a current member of the Fed, Rivlin left large tracks at the Board. She played an instrumental role in the making of monetary policy and as chair of a committee to examine the Fed’s role in the retail payments system. “Alice thinks outside the box,” he told *F&D*. “She will join an organization and say ‘we ought to do things differently’ and institute a new process.” Ferguson agrees. The Fed’s role in the retail payments system was “one of the hot nonmonetary, noneconomic policy questions of her time here.” The committee ultimately decided that the Fed would remain in retail payments. Although the outcome was the most important thing, Ferguson says, “the process Alice used was also important.” It was transparent, open, and

consultative, giving it legitimacy. As a result, the outcome also had legitimacy.

### Those taxing problems

How does the balanced budget guru think the current fiscal difficulties in the United States should be addressed? And how would she respond to Fed Chairman Alan Greenspan’s suggestion for addressing the deficit by cutting Social Security benefits instead of raising taxes? When the tax cuts were planned, Rivlin says, considerable surpluses had been projected for the federal budget. But as a result of the 9/11 attacks, an economic recession, and the war in Iraq, she observes, the United States is “now looking at very large deficits over the next 10 years—

about 3½ percent of GDP. After that, it gets worse because of the retirement of the baby-boom generation.” And the looming retirement of the baby boomers, she points out, has been predicted for a long time and should not surprise anyone.

Rivlin agrees with Greenspan that large deficits need to be brought down. Although the U.S. economy is still growing strongly, “large sustained deficits are bad for growth: they raise interest rates, make the United States more dependent on the rest of the world, and shift the burden of government onto future generations.” It will also be important to get a handle on the deficits, so that U.S. and foreign investors will continue to see the

United States as a good place for their money.

As for what should be done, she believes it will take a combination of revenue increases and serious spending restraint, some of which can be in the entitlement programs. But she argues that the Social Security Trust Fund could be balanced without drastic cuts in benefits, for example, by indexing Social Security to a better measure of the cost of living—which is not a new idea, she adds—and raising the retirement age further. Medicare (the U.S. government health insurance program for people 65 and older) is a much more difficult problem, she maintains, because the costs are going to outrun revenues by large amounts. Rivlin does not consider it surprising that some increase in revenues is needed because revenues are down to less than 16 percent of GDP, below their historic level of about 18–19 percent of GDP.

Rivlin does not think that, in general, the United States spends too much in the public sector. On the contrary, she mentions two problems that require attention: modernizing infrastructure, which would contribute to productivity and future growth, and making work pay for low-wage workers. The latter problem, she explains, is that people with less than a college education or a good technical education are falling behind. In addition to more education and better training,

**“The Social Security Trust Fund could be balanced without drastic cuts in benefits, for example, by indexing Social Security to a better measure of the cost of living and raising the retirement age further.”**

she argues that it is important to ensure that those at the low end of the wage scale have better health care coverage and better access to good primary care clinics and alternatives to hospital emergency rooms in low-income areas.

But the United States is not the only industrial country with budget difficulties. The European Union is wrestling with its own demons (see the European articles in this issue). And Rivlin, as it happens, wrote her undergraduate honors thesis on European economic integration, when a single currency was a distant idea. Clearly, she says, it was a prescient topic choice in 1952. Rivlin views the European Union as an exciting experiment that will be interesting to watch, given that it is expanding rapidly, even though it is not fully accomplished even with the original members. Contemplating some of the European Union's current difficulties, she maintains that they are largely political. "From an American perspective, I think more flexible labor markets and consolidation of financial services across borders in Europe are likely to happen but will be slow."

As for the European Union's fiscal straits, Rivlin sees the Stability and Growth Pact as an attempt to solve the difficult problem of how to conduct a common monetary policy without a common fiscal policy. Although the pact imposes a modicum of discipline by limiting deficits to 3 percent of GDP, she says, holding the deficit under the limit isn't always good fiscal policy for a country in a recession. And, she adds, applying sanctions could be counterproductive. Still, she considers the Stability and Growth Pact a work in progress and a starting point for trying to coordinate fiscal policy in the euro area.

### Idealist turned public policy "phenom"

In 1958, when Rivlin earned her Ph.D. in economics from Radcliffe College, few women were choosing to enter this field. (For that matter, less than 35 percent of women over the age of 20 were working in 1958.) Rivlin started out as a history major but settled on economics as offering a more definite set of tools for making a difference. "I was a teenager during World War II," she explains, "and we were a very idealistic generation. We all thought we would save the world, and there would be no more wars." And, despite a succession of armed conflicts in the second half of the twentieth century, she remains an optimist.

And Rivlin *has* made a difference. She has been recognized for contributing to the development of sound public policy and for promoting equity for women, earning awards from the Council for Excellence in Government, the Women's Research and Education Institute, and the American Economics Association's Committee on the Status of Women in the Economics Profession, to name only a few. Although the economics profession attracts fewer women than men, Rivlin has done her bit for the cause.

At 73, she doesn't see herself retiring because she finds what she is doing very interesting. She returned to the

**"More flexible labor markets and consolidation of financial services across borders in Europe are likely to happen but will be slow."**

Brookings Institution as Senior Fellow in 1999 and also returned to the subject of budget deficits. In fact, she coedited *Restoring Fiscal Sanity: How to Balance the Budget*, published in early 2004 by Brookings, which describes three plans for closing the deficit over the next 10 years. One relies primarily on spending cuts, the second relies on tax increases, and the third combines the two, keeping government about the same size but reallocating spending. Written in plain English, it lays out clearly the painful and politically difficult policy choices facing the U.S. government.

But that's not all Rivlin is doing. For two years, until the commute became too tiring, she taught at the New School University of New York. Then she got an offer to teach economic policy at Georgetown University's Public Policy Institute (GPPI), where she is a visiting professor. "I love it," she says simply. And it's no wonder. According to Judy Feder, professor of public policy and dean of the GPPI, Rivlin is an extraordinary teacher. "Her students rave about the opportunity to be in the classroom with her, which makes the rest of us jealous," she told *F&D*.

Although Rivlin may sound like someone who is all work and no play, she is not. She's in a book club, she admits, "like everybody else." The group reads all kinds of fiction, including classics and more contemporary books. The one rule, which must appeal to Rivlin's sense of fiscal rectitude, is that the group doesn't read a book until it is out in paperback. She has also found time to enjoy hiking and other outdoor activities between balancing budgets and, with her economist husband Sidney Winter, rearing three children. But her outdoor career had a long hiatus when her children were young, and she was very much focused on them, she explains. She got back into outdoor activities once her children were old enough to enjoy them with her. "Going off into the high mountains was something that came a little later," she adds, alluding to adventure trips she has made over the years to Alaska, Colorado, Peru, and the Himalayas.

Sitting in her unadorned office at Brookings, Rivlin appears restless even as she graciously fields questions. She crosses and uncrosses her arms, fiddles with a rubber band, and leans forward and back in her chair. She has the air of someone with work to do who is anxious to return to it. ■

*Elisa Diehl is on the staff of Finance & Development.*

---

#### References:

Litan, Robert E., and Alice Rivlin, 2001, *Beyond the Dot.coms: The Economic Promise of the Internet* (Washington: Brookings Institution).

Rivlin, Alice M., 1971, *Systematic Thinking for Social Action* (Washington: Brookings Institution).

———, 1992, *Reviving the American Dream: The Economy, the States & the Federal Government* (Washington: Brookings Institution).

———, and Isabel Sawhill, eds., 2004, *Restoring Fiscal Sanity: How to Balance the Budget* (Washington: Brookings Institution).