

MACARTHUR

A newsletter from The John D. and Catherine T. MacArthur Foundation



Strengthening Policy
through Research

'09. I

SUMMER 2009
VOLUME I

- 2
President's Message
- 3
Addressing the nation's
fiscal crisis
- 6
Examining the
implications of an
aging society
- 9
Measuring social
benefits
- 15
Director's Message

Strengthening policy

Long before the current recession, rising deficits, an aging population, spiraling healthcare and entitlement costs, stagnant economic growth, and other issues were threatening America's long-term fiscal health. The deficit-financed stimulus measures signed into law in early 2009 to help revive the economy will only deepen the long-range problem and, in the absence of corrective measures, soon limit the nation's spending choices.

The MacArthur Foundation's policy research work aims to present a comprehensive view of the nation's fiscal future and sensible options to help guide the difficult decisions to be made. Our work focuses primarily on three related projects: the fiscal future of the United States, the aging of America, and how they intersect to create a demand for more effective and accountable government. These efforts developed independently but have converged into a coherent set of activities that have the potential to help us understand and respond to the country's critical policy challenges.

With support from the Foundation, the Committee on the Fiscal Future of the United States is projecting the nation's fiscal future over 75 years, with intermediate assessments along the way. The bipartisan panel of experts, co-convened by the National Academy of Sciences and the National Academy of Public Administration, will articulate a series of broad policy scenarios for addressing the fiscal situation, including proposals to enhance government revenue, reform entitlement programs, cut spending, and stabilize the overall size of government as a share of the economy. Though different from one another, the scenarios will share the same goal: putting the country on a glide path to long-term fiscal health and strong economic growth. The Committee is expected to release its report in early 2010. MacArthur will support follow-up activities to help the public better understand how this issue and alternative solutions affect them and future generations, and to encourage policymakers to consider the panel's findings.

The fiscal challenges are partly due to the nation's changing demographic profile as Americans live longer and more vital lives. Based on the Foundation's historic

interest in research relating to lifespan and a concern for the changing contours of America's social, economic, and political life, in December 2007, MacArthur awarded a grant to Columbia University to launch the MacArthur Research Network on an Aging Society.¹ The Network has first focused on generating alternative life expectancy forecasts for both 2030 and 2050, which account for the possible impact of biomedical and technological advances on life expectancy and the quality of life for older Americans. If official government projections of life expectancy are significantly underestimated, it could add trillions of dollars (in present value) to the cost of entitlement programs such as Social Security and Medicare between now and 2050.

A central theme of MacArthur's domestic policy work is that there is a coincidence of interest between individuals in need or at risk and the greater society. In 2006, the Foundation launched a special policy project, *The Power of Measuring Social Benefits*, to test the mutual benefits hypothesis and to expand the use of cost-benefit analysis of social programs as a policymaking tool.

The project acknowledges that, even when the interests of vulnerable individuals and society at large are complementary, there is little empirical evidence that reveals which policies and programs work best to achieve these mutual net benefits and yield the greatest return on public investment. We have invested in more than 20 cost-benefit studies, several of which are highlighted in this newsletter. For example, we are supporting research on the costs and benefits to individuals and society of expanding health insurance coverage to low-income people. A Medicaid experiment in Oregon will determine how health insurance affects the use of healthcare and health outcomes. The research will also examine the social benefits of health insurance such as reduced spread of disease, lower public costs of disability insurance, and savings in future health entitlement costs that would benefit all Americans.

MacArthur's interests in strengthening the links between evidence and policy are consistent not only with Congress's growing demand for proof of what works, but also with the commitment of a new

president to increase the role of scientific inquiry in all facets of policymaking. President Obama has been clear on the importance of using government dollars wisely. He said, in reference to his ambitious plans to stimulate the economy, "The question we ask today is not whether our government is too big or too small, but whether it works.... Where the answer is yes, we intend to move forward. Where the answer is no, programs will end." We hope that sentiment translates into a willingness to take a longer range and more complex look at government programs.

There are moments in our history when a combination of factors — depression, war, social events, generational changes, talented leadership — have led to a significant change in course for our country. These moments are often accompanied by, or stimulated by, new social theory. The Progressive period in the early 1900s is a good example.

The 2008 election will be seen as an inflection point in our history — a moment in time when a comfortable majority of our people expressed a yearning for change. The demographics are inescapable, the long-term fiscal challenge daunting. Wise choices must be made. A new generation, fueled by America's resilient optimism, wants its chance to realize the nation's promise of a fair and just society with opportunity for all.

I believe our trio of policy initiatives will contribute to the recognition of the challenges ahead and the illumination of the pathways forward. Our work will not provide easy answers, but it may help frame, and perhaps change, the conversation about policy options in a useful way.

Jonathan F. Fanton
President

¹ The Network is chaired by Dr. John Rowe, a professor at Columbia University Mailman School of Public Health and former CEO of Aetna. He was chair of the groundbreaking Research Network on Successful Aging, which helped transform America's concept of aging from a period of decline to a more positive view.

Addressing the nation's fiscal crisis



Above: If Congress and the president do not address current budget policies, experts say the public debt will reach about 60 percent of the gross domestic product by 2010.

Cover: Experience Corps, based in Baltimore, Md., recruits seniors as mentors in urban public schools, taking advantage of their life experience.

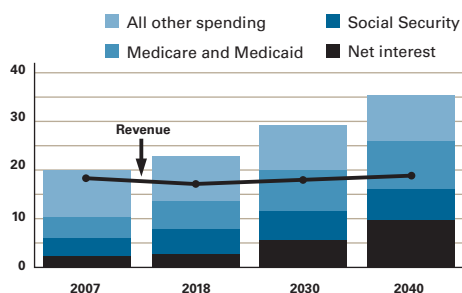
Front and back cover image: Copyright Civic Ventures

The massive government economic stimulus package approved in February 2009 added to the mountain of debt that threatens America's future. Aimed at relieving the financial crisis and recession, the plan more than tripled the deficit from what it was just two years earlier. But the aging of the baby boomers, increasing entitlement costs, and an arcane federal budget process were already jeopardizing the nation's fiscal well-being. Increased life expectancy will result in a growing number of retirees relative to the number of workers to support them. And the costs of entitlement programs such as Social Security, Medicare, and Medicaid will consume a larger share of the federal budget.

Yet the American public scarcely understands the tax and spending measures in the federal budget at a time when the deficit is expected to exceed \$1 trillion annually for at least the next several years.

(continued on next page)

Long-term Fiscal Projections for Government Spending Percent of GDP



Source: GAO's January 2008 analysis

(Notes: Discretionary spending grows with GDP after 2008. The alternative minimum tax exemption amount is retained at the 2007 level through 2018 and expiring tax provisions are extended. After 2018, revenue as a share of GDP is brought to its historical level of 18.3 percent plus expected revenues from deferred taxes [i.e., taxes on withdrawals from retirement accounts]. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.)

And if current budget policies are continued, experts say the accumulated public debt will reach about 60 percent of the gross domestic product by 2010, compared to about 40 percent in 2008. Failure to address the underlying causes of the structural deficit will reduce long-term economic growth and policy choices.

Former U.S. comptroller general David Walker has warned, "We face large and growing structural deficits largely due to known demographic trends and rising healthcare costs. GAO [U.S. Government Accountability Office] simulations show that balancing the budget in 2040 could require actions as large as cutting total federal spending by 60 percent or raising federal taxes to two times today's level."

In response to this daunting forecast, the MacArthur Foundation is supporting an expert, nonpartisan, independent committee organized by the National Academy

of Sciences and the National Academy of Public Administration to develop evidence-based and alternative policy scenarios to ensure a sound fiscal future. The 23-member Committee on the Fiscal Future of the United States held its first meeting in July 2008 and expects to release a report and recommendations in early 2010. The Committee will not recommend a particular set of policies, but provide policymakers with several approaches for getting the country back on a sustainable fiscal trajectory.

"It is hard to think of a more important problem facing the nation," said Dr. Rudolph Penner, co-chair of the panel and former director of the Congressional Budget Office. However, he added that the federal debt has not received much public attention.

"We hope we can find simple ways of discussing the issue that would resonate

The Committee on the Fiscal Future of the United States

The Committee on the Fiscal Future of the United States is co-chaired by Drs. Rudolph Penner and John Palmer, both of whom have extensive experience in the federal government. Penner, senior fellow at the Urban Institute, is the former director of the Congressional Budget Office. Palmer, dean emeritus of the Maxwell School of Syracuse University, is a former public trustee for the Medicare and Social Security programs.

Additional members of the Committee:

Dr. Joseph Antos

Wilson H. Taylor Scholar in Health Care and Retirement Policy, American Enterprise Institute for Public Policy Research

Kenneth S. Apfel

Professor of the Practice, University of Maryland School of Public Policy

Dr. Richard C. Atkinson

President Emeritus, University of California System

Dr. Alan J. Auerbach

Robert D. Burch Professor of Economics and Law, University of California, Berkeley

Dr. Rebecca M. Blank*

Robert V. Kerr Senior Fellow, Brookings Institution

Dr. Andrea L. Campbell

Hayes Career Development Associate Professor of Political Science, Massachusetts Institute of Technology

Chris Edwards

Director, Tax Policy Studies, Cato Institute

Dr. Dana P. Goldman

Director, RAND Center on Health Economics and Director, RAND Roybal Center for Health Policy Simulation

Dr. Ellen Hughes-Cromwick

Director and Chief Economist, Ford Motor Company

Dr. Joseph J. Minarik

Senior Vice President and Director of Research, Committee for Economic Development

Dr. Olivia S. Mitchell

International Foundation of Employee Benefit Plans Professor, Professor of Insurance and Risk Management, and Executive Director, Pension Research Council, Wharton School, University of Pennsylvania

Sean C. O'Keefe*

Vice President, Washington Operations, GE Aviation, a General Electric Company

Dr. June E. O'Neill

Wollman Distinguished Professor of Economics and Director, Center For the Study of Business And Government, School of Public Affairs, Baruch College, CUNY

Dr. Gilbert S. Omenn

Professor of Internal Medicine, Human Genetics, and Public Health, University of Michigan

Dr. Paul L. Posner

Director, Public Administration Program, George Mason University

Dr. Robert D. Reischauer

President, Urban Institute

Dr. Margaret C. Simms

Senior Fellow and Director, Low-Income Working Families Project, Urban Institute

Dr. William F. Spriggs*

Professor and Chair, Department of Economics, Howard University

Thomas C. Sutton

Retired Chairman and CEO, Pacific Life Insurance Company

Dr. Susan Tanaka

Director of Citizen Education and Engagement, Peter G. Peterson Foundation

Ruth A. Wooden

President, Public Agenda

*Drs. Blank and Spriggs resigned from the Committee to serve in the Obama Administration as Under Secretary for Economic Affairs, Department of Commerce, and Assistant Secretary for Policy, Department of Labor, respectively. O'Keefe replaced Robert Hale, former Executive Director of the American Society of Military Comptrollers, who resigned to serve as Under Secretary of Defense (Comptroller) at the Department of Defense.

with the public and media,” said Penner, a senior fellow at the Urban Institute.

The distinguished panel is a representative group of practitioners and researchers from various disciplines, including history, sociology, and economics. At the core of the Committee’s work is the interplay among the three key factors driving the deficit:

- A long-term decline in fertility coupled with an increasing life expectancy;
- Rapidly rising entitlement costs for Social Security, and especially Medicare and Medicaid; and
- Lack of transparency and rules in federal budget processes.

The Committee will produce several sets of baseline projections of the federal deficit and debt and realistic policy

options for addressing them in light of the values, preferences, and expectations of the American people. The scenarios would take into account different views about the roles and responsibilities of individuals, employers, and federal, state, and local government.

“The recommendations will prove very useful for people to better understand the nature and issues of the challenges,” said Dr. John Palmer, co-chair of the panel. Palmer, a professor at Syracuse University in New York, is a former public trustee for the Medicare and Social Security programs and has written and consulted extensively on a wide range of economic, budgetary, and social policy issues.

Lawmakers have long been aware of the nation’s escalating deficit and debt, but there has been little political will to tackle these issues. While in office, former President Clinton urged Congress to act to balance the federal budget by 2013. Early in 2009, President Obama convened

a meeting of experts to discuss how to reduce the federal deficit, which he said he wants to slash by half by 2012. However, the economic stimulus package added to the debt. So cutting the deficit by 50 percent by the end of the President’s first term would do little to address the structural deficit. Though it occurred after the project’s start, the challenges caused by this unanticipated emergency spending will be accounted for in the expert panel’s fiscal analyses and long-term projections.

There are different ways to approach fiscal challenges “that experts won’t agree on,” Palmer said, emphasizing that the Committee’s goal is to provide various paths to fiscal sustainability.

Penner said the options people prefer will largely depend on their perspective. But he said, “There is only one way reform can come about, and that is on a bipartisan basis.” ■

Q&A with the co-chairs of the Committee on the Fiscal Future of the United States

The co-chairs of the Committee on the Fiscal Future of the United States, Drs. Rudolph Penner and John Palmer, responded jointly to the following questions from Michael Stegman, MacArthur’s director of policy and housing.

MS: What is the Committee’s goal in producing a report on the fiscal future of the United States? How does this project differ from other efforts to call attention to the long-term fiscal challenge, such as those sponsored by the Committee for a Responsible Federal Budget, the Peter G. Peterson Foundation, or others?

RP & JP: Our report will describe the problem and look at various ways to address it. Uniquely, this report is aimed at showing various sets of policies that could put the budget on a sustainable path.

MS: How does this differ from what Congress and its Congressional Budget Office or the administration and its Office of Management and Budget should be doing? In other words, why do we need an expert committee?

RP & JP: The Committee of the two Academies has pulled together experts with a variety of perspectives and policy positions who come from different disciplines and backgrounds.

Even though it won’t recommend a particular solution, if the Committee finds a consensus on the nature of the problem and on standards for assessing budget proposals, its report could give leaders and the public confidence that there is a realistic course of action on which many can agree.

MS: Apart from budget or fiscal policy, will the Committee address other issues important to meeting the long-term fiscal challenge — for example, problems with the budget process itself or with the larger political process?

RP & JP: Yes. In analyzing the problem, we need to consider its deeper sources. These may shape the way elected officials and other leaders and institutions have approached the federal budget and policymaking in general, making solutions more difficult to arrive at or sustain.




Drs. Rudolph Penner and John Palmer are co-chairs of the Committee on the Fiscal Future of the United States.

Part of the charge from MacArthur to our committee is to identify options for budget process reform that may help discipline the congressional fiscal decision-making process.

MS: How, if at all, are the country’s present financial and economic problems affecting the Committee’s work?
(continued on back page)

For more information

The Fiscal Future Project
www8.nationalacademies.org/cp/projectview.aspx?key=48941



The Research Network on an Aging Society examines the implications of Americans living longer, more vital lives, including exploring more meaningful roles for seniors to play in society.

Examining the implications of an aging society

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In 2050, the United States may have as many people over the age of 85 as the current populations of New York, Los Angeles, and Chicago combined, and as many centenarians as the current population of Washington, D.C. In the past century, U.S. life expectancy at birth has climbed from 47 to 77 years. And after age 65, it has continued to rise for most Americans as seniors experience healthier and more vital lives.

The sheer scale of this demographic trend means that aging is no longer a matter of how individuals adapt to the aging process, but how society adapts to the irreversible changes under way. Recognizing that current policies and institutions are not designed to address the challenges and opportunities of this future America, in December 2007 the MacArthur Foundation dedicated \$4 million over three years to create a Research Network on an Aging Society to explore issues that arise from these changing demographics. The Network is chaired by Dr. John Rowe, professor at the Columbia University Mailman School of Public Health and former CEO

of Aetna. More than 20 years ago, Dr. Rowe led the groundbreaking MacArthur Research Network on Successful Aging, which helped change America's concept of aging from a period of inevitable decline to a more nuanced and positive view of life beyond 60.

Dr. Rowe's work with the new 12-member Research Network on an Aging Society will focus on exploring meaningful roles for older Americans to play in society, the impact of diversity and inequality on the overall health of an aging population, and how the growth in the number of seniors affects other generations.

"The number and proportion of [people who are aging successfully] is increasing dramatically in our society as a result of the aging of the baby boomers and advances in disability-free life expectancy," said Dr. Rowe. He added that the challenge is "to find ways to facilitate the successful aging of our population and take advantage of the productivity and wisdom inherent in the older generation."

The Network's members represent various disciplines, including gerontology,

Members of the Research Network on an Aging Society

The MacArthur Research Network on an Aging Society is chaired by Dr. John Rowe, former CEO of Aetna and a professor at the Columbia University Mailman School of Public Health. Previously Dr. Rowe led the groundbreaking MacArthur Research Network on Successful Aging, which helped change America's concept of aging from a period of inevitable decline to a more nuanced and positive view of life beyond 60.

Additional members of the Network:

Dr. Lisa Berkman
Director, Center for Population and Development Studies, Harvard University

Dr. Robert Binstock
Professor of Aging, Health, and Society, Case Western Reserve University

Dr. Axel Börsch-Supan
Director, Mannheim Research Institute for the Economics of Aging, University of Mannheim, Germany

Dr. John T. Cacioppo
Tiffany & Margaret Blake Distinguished Service Professor and Director, Center for Cognitive and Social Neuroscience, University of Chicago

Dr. Laura L. Carstensen
Professor of Psychology and Director, Stanford Center on Longevity, Stanford University

Dr. Linda P. Fried
Dean and DeLamar Professor of Public Health, Mailman School of Public Health, Columbia University

Dr. Dana P. Goldman
Director, Health Economics, Finance, and Organization, RAND

Dr. James S. Jackson
Daniel Katz Distinguished University Professor of Psychology, Professor of Health Behavior and Health Education, School of Public Health, and Director of the Institute for Social Research, University of Michigan

Dr. Martin Kohli
Professor of Sociology, European University Institute, Florence, Italy

Dr. S. Jay Olshansky
Professor, School of Public Health, University of Illinois at Chicago

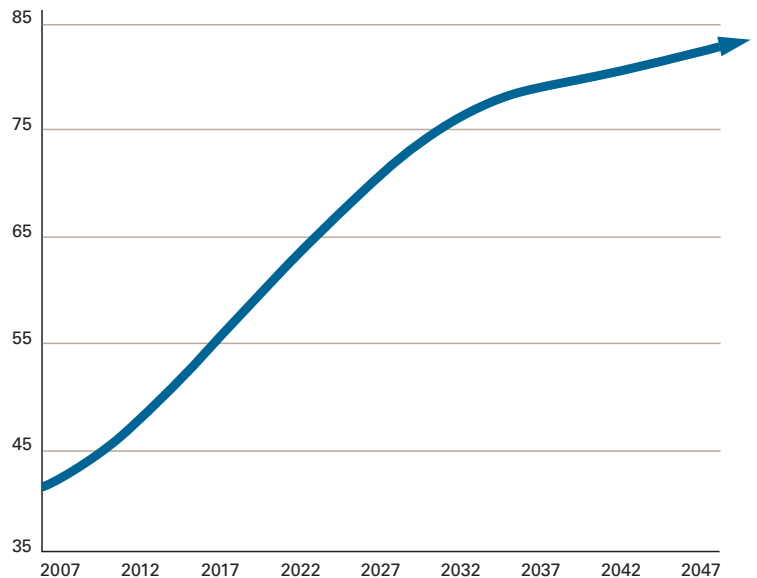
John Rother
Executive Vice President for Policy and Strategy, AARP

psychology and health behavior, macroeconomics and public policy, social epidemiology, cognitive neuroscience, and demography, and it includes experts in aging policy from the United States and Europe.

Research will focus on the societal implications of Americans living longer and with fewer disabilities. In 2008, the Social Security Administration trustees forecast that life expectancy will rise from current levels of 75.4 for males and 79.9 for females to 80 and 83.4 years, respectively, by 2050. The Network has generated supplemental forecasts for 2030 and 2050 that include the impact of socioeconomic factors such as educational attainment on life expectancy. In addition, the forecasts take into account the potential effect of scientific advancements on the aging process.

The forecasts will take into account the possible impact of biomedical and technological advances on life expectancy and the quality of life of older Americans as a result, for example, of the treatment of age-related disorders, especially

Baby Boom Generation Creates Generational Tidal Wave
Number of retirees, in millions



Source: 2007 Social Security Trustees Report

Alzheimer's disease. They will also consider the impact of greater obesity, diabetes, or an influenza pandemic on the functional status of seniors. Forecasts are also needed to clarify the impact of various socioeconomic factors such as education, race, and ethnicity on life expectancy and disability-free living. This work is being led by Network members Drs. S. Jay Olshansky and Dana Goldman. (See sidebar for Network members.)

The group will pursue several questions:

- How can a large elderly population that is living longer maintain its productivity and contribute to its own and society's well-being?
- How will this population change the U.S. economy, culture, and politics?

- How can reform of civic institutions and public policies related to immigration, workforce development, and healthcare, for example, positively affect the future?
- How will the widening gap between the haves and have-nots affect the aging process?
- How will a racially and ethnically more diverse young population interact with an older, largely white population?

The Network will also explore whether society needs to reconsider age-related goals and expectations. If people live 85 years or longer, does it make sense to put so much pressure on people in their 20s and early 30s to complete their education, form a family, and start a career? A new view of age-related goals and activities may be more sensible.

About a quarter of MacArthur's U.S. work is in research, often through interdisciplinary research networks where scholars and practitioners tackle complex questions. Many of the questions have related to the characteristics, opportunities, and challenges of the various stages in the life course. For instance, the Research Network on Early Experience and Brain Development looked at the relationship between exceptionally stressful experiences early in life, brain development and long-term consequences for learning, behavior, and physical and mental health. Networks have also examined the family, schools, and other social and civic organizations that support transitions through life's stages.

Under Dr. Rowe's leadership, the Research Network on Successful Aging was one of the most influential networks. The Network's ten years of research showed that the influence of genetics shrinks proportionately as people age, while lifestyle and attitude are increasingly important to mental and physical health.

The Research Network on an Aging Society builds on those findings and considers the policy implications of people living longer, more active lives. While the Network's research will focus on the challenges of an aging population, Dr. Rowe emphasized the importance of examining the impact of this demographic shift on all generations.

"We hope to inform public policy through a series of analyses and proposals that look at society through this broadened lens and avoid the traditional approach of pitting one generation against another," he said. "We seek win-win scenarios that can benefit all of society." ■

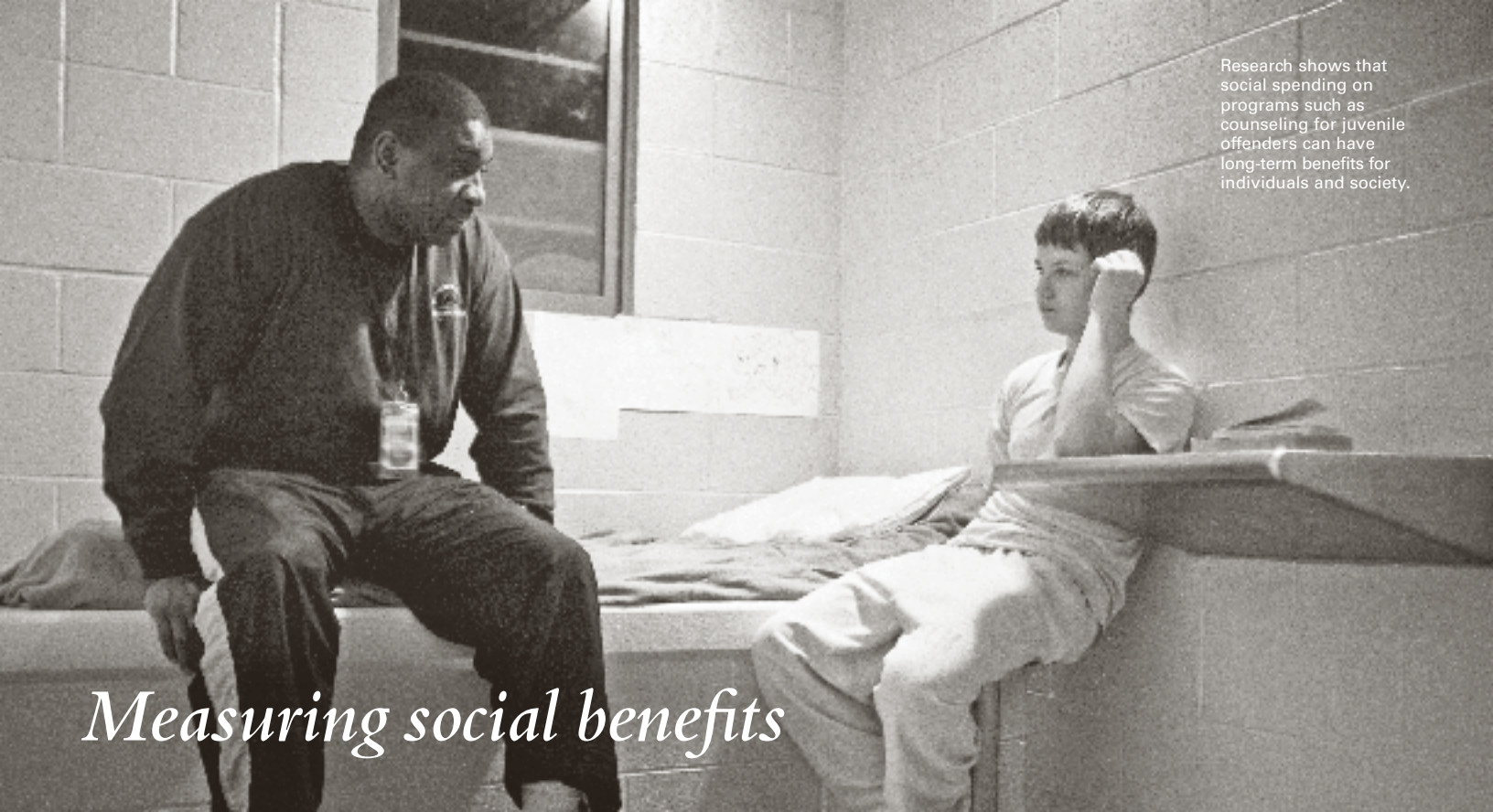
For more information

The MacArthur Foundation Research Network on an Aging Society
www.aging societynetwork.org

Left: The retirement of the baby boom generation, among other factors, is changing the demographics of American society from a younger to an older nation.



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Research shows that social spending on programs such as counseling for juvenile offenders can have long-term benefits for individuals and society.

Measuring social benefits

As the United States faces mounting fiscal challenges, the benefits of social programs such as those that treat depression, counsel juvenile offenders, or provide early childhood education are increasingly under scrutiny. And at a time when the federal deficit is expected to exceed \$1 trillion a year over the next several years, the interests of the more vulnerable members of society are often pitted against the larger society.

In this environment, it is easy for public opinion to dismiss social spending as wasteful and ineffective. However, there is increasing evidence that spending on programs for people in need or at risk can yield long-term returns for individuals, society, and the economy. The Power of Measuring Social Benefits, MacArthur's \$35-million policy research initiative, attempts to test the proposition that effective social spending generates benefits to recipients and the larger society. The initiative is part of a larger effort to help place the nation on a sound fiscal footing by using evidence-based research and cost-benefit analysis to strengthen social policymaking.

The precedent for this initiative is the 1962 Perry Preschool Project, the first study to quantify the costs and lifelong benefits of early education — and the basis for the successful Head

Start program. Researchers followed young children through adulthood, demonstrating that a carefully designed preschool experience increased the potential for high school graduation and stable employment and income. They also found that a successful preschool experience boosted the amount of federal taxes paid by adults. In addition, the Perry Project saved the government money over time because participants were less involved in the criminal justice and welfare systems than children who did not have the preschool experience. The economic return on preschool was about \$16 per \$1 invested; 25 percent of total benefits were to the participant and 75 percent to society.

“The financial and human gains from worthwhile social programs can be quite considerable,” said Dr. Richard Zerbe, director of the Benefit-Cost Analysis Center at the University of Washington’s Evans School of Public Affairs, a MacArthur grantee. “To be able to increase support to the worthwhile programs and to decrease support for those that do not work cannot only result in considerable social savings but can improve human life significantly. Benefit-cost analysis can help us do this.”

With MacArthur support, in June 2008 the Center hosted a national conference that explored how to develop strategies for making cost-benefit analysis

more practical, consistent, and easy to implement within the social policy fields. In addition, the Center helped found the Society for Benefit-Cost Analysis, an international association of scholars and others dedicated to advancing this rigorous approach to social policy. MacArthur is developing work to:

- Support social cost-benefit analyses in several policy areas;
- Improve methods and standards for the conduct of such studies; and
- Increase demand for social cost-benefit analyses by policymakers as a guide to decision making.

MacArthur grantees Dr. David L. Weimer and Dr. Aidan R. Vining have edited *Investing in the Disadvantaged: Assessing the Benefits and Costs of Social Policies*, the first book to apply cost-benefit analysis to social policy. In the book, experts examine ten of the most important policy domains: early childhood development, elementary and secondary schools, healthcare for the disadvantaged, mental illness, substance abuse and addiction, juvenile crime, prisoner re-entry programs, housing assistance, work-incentive programs for the unemployed and employers, and welfare-to-work interventions. Weimer, of the University of



Left: A new MacArthur-funded study is examining the impact of expanding health insurance to 10,000 uninsured people in Oregon.

Wisconsin–Madison, and Vining, of Simon Fraser University in British Columbia, assess the programs and offer an agenda for widespread implementation of cost-benefit analysis.

The Foundation is working with grantees across the country that are using evidence-based research to measure the effectiveness of diverse social programs. (See related stories.)

“This is critically important research because we now have the tools to assess the cost benefit the way we never did before. It is important for all of our people to understand that helping some of our most vulnerable citizens reaps benefits for all of our citizens, and the MacArthur Foundation is at the forefront of this work,” said Joseph A. Califano Jr., founder and chair of the National Center on Addiction and Substance Abuse (CASA) at Columbia University.

Founded in 1992 by Califano, former secretary of the Department of Health, Education, and Welfare, the organization has used cost-benefit analyses to prove the benefits of social spending to address substance abuse. MacArthur supports the organization’s current research on drug-dependent women on welfare. In a randomized clinical trial in New Jersey, CASA found intensive case management more than doubled the rate of retention in treatment programs for the women and was more effective in fostering drug abstinence than screening and referring them to services. With a grant from the Foundation, the organization is comparing the effectiveness of case management against other intervention models.

In Oregon, a project by the Office for Oregon Health Policy and Research could inform the national discussion about

expanding health coverage. Though the issue has broad public support and has emerged as a policy priority for President Obama, little comprehensive research has been conducted on the costs and benefits of expanding health insurance. The last randomized clinical study was conducted more than 30 years ago by the RAND Health Insurance Experiment. Randomized studies are considered the gold standard in medicine, but are rare in the social sciences.

Since the RAND study, there has been a need for new research on the impact of expanding health insurance. MacArthur is supporting a study of a policy initiative by the State of Oregon to expand health coverage to 10,000 uninsured residents. The research will provide a cost-benefit analysis

of the impact of health insurance on participants, who were selected through a statewide lottery. Their access and use of health insurance will be compared to people who applied for the lottery but were not chosen to receive health coverage.

“The Oregon project capitalizes on the unique opportunity provided by random assignment of public health insurance access to some low-income adults but not others. This provides an exceptional opportunity to evaluate the consequences of having public health insurance in a way that is not confounded by other factors like income or employment,” said Dr. Amy Finkelstein of the Massachusetts Institute of Technology, a principal investigator for the project.

Finkelstein said the results of the study will provide information on both the direct and social benefits as well as the costs of expanding health insurance coverage. It will also investigate the impact of healthcare access on participants, how often they receive healthcare, and the quality of care. In addition, the project will allow researchers to look specifically at the effect of healthcare coverage on low-income people, the “population that any incremental health insurance reform [on a national level] will be likely to focus on,” she said. ■

What is cost-benefit analysis?

Cost-benefit analysis* provides a framework for a comprehensive assessment of the social benefits and costs from investments of resources by governments, philanthropies, or other members of society. Applying cost-benefit analysis requires predicting the effects of these investments and their monetary worth in present-value dollars.

Socially desirable policies, such as providing counseling for juveniles or early childhood education, often require government expenditures. Sometimes, however, especially if all relevant public expenditures are considered, these policies may also reduce total government expenditures. For instance, a school district may have to increase spending to establish an after-school program. The district is likely to weigh this expenditure against the perceived benefit it will have

on the educational mission of the school system. If the program also reduces delinquency and adult crime in the long term (when students have left school), then it may produce savings for the criminal justice and social welfare systems. A comprehensive analysis that identifies net savings in terms of all government expenditures could pave the way for the city, county, or state governments to share costs for the after-school program with the school district.

* Adapted from *Investing in the Disadvantaged: Assessing the Benefits and Costs of Social Policies*, David L. Weimer and Aidan R. Vining, Editors, Georgetown University Press, Washington, D.C., 2009. Supported by the John D. and Catherine T. MacArthur Foundation.

Office for Oregon Health Policy and Research

The Office for Oregon Health Policy and Research is using cost-benefit analysis to examine the impact of health insurance on low-income people in the state. The project capitalizes on a statewide policy experiment to identify the causal effect of expanding public health insurance to 10,000 adults who were selected by lottery.

The Office for Oregon Health Policy and Research will receive \$1 million over three years from the MacArthur Foundation to support this initiative. The project will compare healthcare results and characteristics for those who received insurance through the statewide lottery and those who applied but were not selected. Nearly 100,000 people participated in the lottery.

Despite popular support for expanding health insurance — and President Obama's call for healthcare reform — little is known about the consequences of expanding coverage.

The Oregon project allows researchers an opportunity to evaluate the effects of having public health insurance and compare the cost of expanding health insurance to different populations — for example, chronically ill and healthy people. The project will also identify potential social benefits of health insurance.

The research team will survey participants on health-care use, out-of-pocket health expenditures, and related activities. The survey data will be supplemented by records of hospital visits by the approximately 100,000 people who registered for the lottery.

For more information

Oregon Health Policy and Research
www.oregon.gov/OHPPR

The National Center on Addiction and Substance Abuse

The National Center on Addiction and Substance Abuse (CASA) at Columbia University is using cost-benefit analysis to determine how best to help drug-dependent women on welfare. A leading national source of interdisciplinary data on addiction's economic and social costs, CASA will build on its work over the past decade with the New Jersey Department of Human Services. In a randomized clinical trial in the state, the organization found that providing help with medical, child care, and other issues more than doubled the rate of retention for women participants in retention programs and was more effective in encouraging abstinence than screening and referral services.

MacArthur has awarded CASA \$500,000 over three years to take the program to scale and test it against other intervention models with less client interaction. The result could determine which model is most cost-

effective in making it easier for the women to find jobs and improve their lives. Women substance abusers on welfare have more psychological and family problems and greater difficulty finding and keeping jobs than their drug-free counterparts. Under intensive case management, they receive services including help with medical or mental health issues, child care, and housing. Their progress in drug treatment and job training is monitored longer and more intensely than it would be if they were referred to outside counselors and services.

Using data from New Jersey state agencies, researchers will compare differences in costs among three intervention models for women substance abusers.

For more information

The National Center on Addiction and Substance Abuse
www.casacolumbia.org

Safer Return

Safer Return, a \$6.5 million demonstration project aimed at reducing recidivism rates, is using cost-benefit analysis to determine the impact of comprehensive investment in helping returning prisoners in Illinois reintegrate into society. Two-thirds of former prisoners in the state are convicted of another crime within three years of their release from prison.

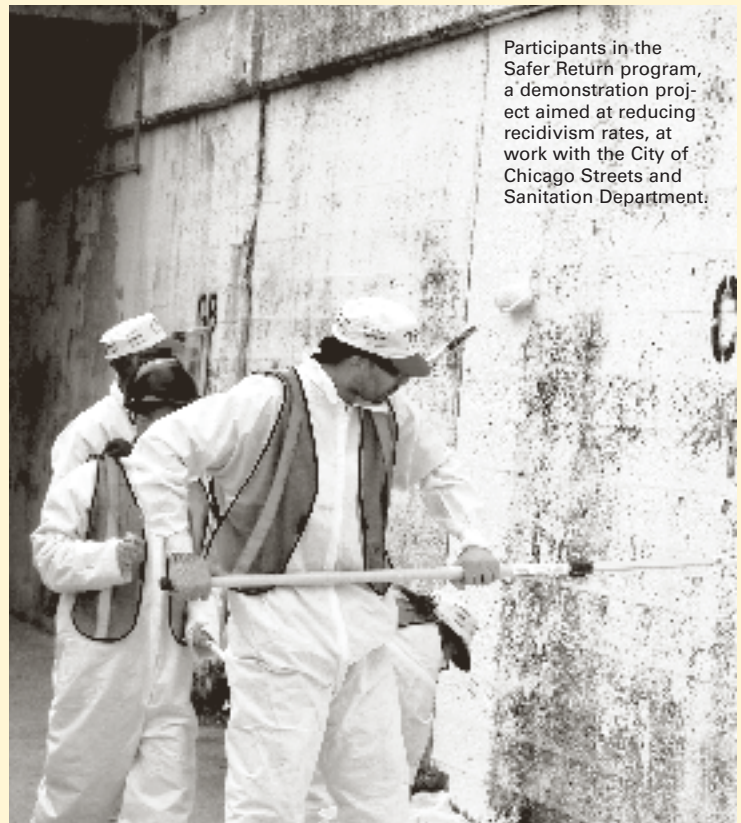
The Urban Institute and The Safer Foundation are leading the project in Chicago's East Garfield Park neighborhood, home to one of the highest concentrations of former prisoners in Illinois. Safer Return offers the prisoners community-based services such as mentoring, healthcare, treatment for drug and alcohol dependency, transitional housing, as well as job preparedness, placement, and transitional employment. Family members and clergy are

encouraged to become part of the prisoners' support network.

The Urban Institute will use \$1.5 million of the grant to evaluate the program and make suggestions for improvement. In addition, the organization will determine the costs and benefits of Safer Return. For example, the Institute would track the number of former prisoners who participate in entitlement programs or find steady employment. Researchers would also attempt to determine if the program is saving money for the criminal justice system through, for instance, reducing crime rates and the number of repeat offenders.

For more information

Safer Foundation
www.saferfoundation.org



Participants in the Safer Return program, a demonstration project aimed at reducing recidivism rates, at work with the City of Chicago Streets and Sanitation Department.

The Benefit-Cost Analysis Center

Since it was founded in 2007, the Benefit-Cost Analysis Center at the University of Washington's Evans School of Public Affairs has helped invigorate cost-benefit analysis through promoting greater collaboration among scholars and encouraging the application of the methodology to social policy issues.

MacArthur has awarded the Center \$600,000 over four years to continue its efforts to sharpen the field's analytic tools and expand the application of research to pressing social issues such as welfare, homelessness, and early-childhood care. With support from the Foundation, the Center will serve as a clearinghouse for best-practices literature in social policymaking, encourage evidence-based practices,

as well as raise public confidence in government.

The Center has helped establish an international Society for Benefit-Cost Analysis, which held an inaugural conference in June 2008 in Washington, D.C. Under the theme "Advancing Social Policymaking Through Benefit-Cost Analysis: Challenges and Opportunities," the conference was an opportunity for the Foundation's grantees in the field to discuss their work with scholars and policymakers.

While supporting all of the Center's programmatic activities, MacArthur resources will specifically focus on creating a web-based clearinghouse to share cost-benefit studies and help match practitioners and academics that could benefit from co-writing essays for peer review journals.



For more information

Benefit-Cost Analysis Center
evans.washington.edu/research/centers/benefit-cost-analysis

Studies are examining the long-term benefits of investing in programs such as early childhood education and after-school care.

MacArthur
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 Strengthening
 Policy

The Coalition for Evidence-Based Policy

The Coalition for Evidence-Based Policy is working with the Office of Management and Budget (OMB) to help further the adoption of evidence-based social policies throughout the federal government. The Coalition is helping OMB identify social programs such as early childhood education, whose effectiveness is supported by well-designed, randomized clinical trials.

MacArthur has given \$750,000 to the Coalition to advance its work to share research on social programs that work. This includes the results of the efforts by Foundation grantees involved with cost-benefit work under MacArthur's The Power of Measuring Social Benefits initiative.

The Coalition has worked with top federal and state policymakers to promote important evidence-based reforms — including key

reforms in OMB's process for assessing the performance of federal programs government-wide and similar reforms at the Departments of Education and Justice. As a result of these efforts, OMB, on its website, encourages the use of clinical trials in evaluating federal programs. And the Coalition was instrumental in helping the Department of Education obtain federal funding for a new statewide data systems program to facilitate rigorous research in K-12 education on student achievement.

A bedrock belief of the Coalition is that social policies should be developed and assessed much as medical science weighs potential breakthroughs: through rigorous, scientifically derived data. And the randomized clinical trial should be considered the gold standard of evidence-based social analysis, just as it is in medicine.



For more information

Coalition for Evidence-Based Policy
evidencebasedprograms.org

Cost-benefit analysis is increasingly being applied to social programs, from job training to education initiatives.

Institutional Support

In addition to special policy projects, two other elements of the Foundation's domestic policy work include Institutional Support and Building Resilient Regions.

Recognizing the need for strong, credible, sustainable policy organizations, the Foundation is helping build such institutions by providing multiyear commitments of general operating support to a select group of organizations. These policy institutions conduct research, assess data and research findings, and produce independent analyses designed for use by diverse parties, including public officials, corporations, nonprofit entities, the media, and the general public. These institutions also have proven abilities to translate research outcomes, disseminate findings, and communicate with policy leaders.

The aggregate body of work by grantees in MacArthur's Institutional Support portfolio cuts across multiple issue areas and provides a broad policy context for the Foundation's domestic grantmaking. For example, the Center on Budget and Policy Priorities works on budget policy and public programs that affect low- and moderate-income individuals and families. The Brookings Institution Metropolitan Policy Program focuses on redefining the challenges facing metropolitan America and promoting innovative solutions to help communities grow in more inclusive, competitive, and sustainable ways. And the Urban-Brookings Tax

Policy Center provides accessible analyses of current and emerging tax policy issues and their impact on the economy. Grantees also address issues related to race, ethnicity, gender, age, and youth.

The portfolio currently consists of eight national organizations that work on high-priority, cutting-edge issues that are relevant to the entire domestic program and two Illinois-based policy organizations that are focusing on issues that are critical to a comprehensive community development initiative in 16 Chicago neighborhoods.

Building Resilient Regions

Metropolitan areas face challenges that defy geographic limits and cut across governmental jurisdictions. Increasingly, challenges such as managing economic development, environmental quality, traffic congestion, affordable housing, and workforce quality require a regional approach. To help address these issues at a time when the U.S. economy is at its weakest point in more than 30 years and the political environment is open to new solutions, the Foundation is supporting two interrelated initiatives — the Network on Building Resilient Regions and the Brookings Institution's Metropolitan Policy Program.

The Network on Building Resilient Regions, based at the University of California, Berkeley, is an interdisciplinary network focused on

expanding knowledge about how regions shape responses to major national economic and demographic challenges. Its research program highlights two themes: resilience, or the capacity of regions to address challenges and generate long-term success; and governance strategies and their contribution to resilience.

The Brookings Institution's Metropolitan Policy Program develops policy strategies that address the interconnected issues faced by local, regional, and state leaders. To complement the work of the Network, the Metropolitan Policy Program will help translate the research and enhance the likelihood that metropolitan regions benefit from the economic recovery and other federal investment strategies by the new administration and Congress.

For more information

The Network on Building Resilient Regions
<http://brr.berkeley.edu>

Metropolitan Policy Program
www.brookings.edu/metro.aspx

Metropolitan areas such as Chicago are central to regional economies.

U.S. Fiscal Future

NATIONAL ACADEMY OF SCIENCES (*Washington, D.C.*)

\$1,850,000 to establish and jointly staff an expert committee on the fiscal future and American society (over two years). (2008)
www.nationalacademies.org

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION (*Washington, D.C.*)

\$700,000 to establish and jointly staff an expert committee on the fiscal future and American society (over two years). (2008)
www.napawash.org

Implications of an Aging Society

COLUMBIA UNIVERSITY MAILMAN SCHOOL OF PUBLIC HEALTH (*New York, N.Y.*)

\$3,900,000 in support of the Research Network on an Aging Society (over three years). (2008)
www.mailman.hs.columbia.edu

The Power of Measuring Social Benefits

Support Complex Social Cost-Benefit Analyses in Multiple Policy Domains

BROOKINGS INSTITUTION ECONOMIC STUDIES PROGRAM (*Washington, D.C.*)

\$750,000 in support of the Policy Evaluation Project, including cost-benefit studies of at least four social experiments (over three years). (2006)
www.brookings.edu/economics.aspx

CHAPIN HALL CENTER FOR CHILDREN AT THE UNIVERSITY OF CHICAGO (*Chicago, Ill.*)

\$185,000 in support of a cost-benefit analysis of extending state care of foster children into early adulthood (over 18 months). (2007)
www.chapinhall.org

COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES (*Washington, D.C.*)

\$625,000 in support of a six-city cost-benefit study of the economic impacts of mixed-income communities on surrounding neighborhoods and local public finances. (2007)
www.clpha.org

JOHNS HOPKINS UNIVERSITY (*Baltimore, Md.*)

\$750,000 in support of a cost-benefit analysis of Experience Corps (over three years). (2007)
www.jhu.edu

MDRC (*New York, N.Y.*)

\$900,000 in support of a cost-benefit analysis of the Foundations of Learning Project: Behavioral Adjustment as a Pathway to School Readiness (over three years). (2007)
www.mdrc.org

COLUMBIA UNIVERSITY CENTER ON ADDICTION AND SUBSTANCE ABUSE (*New York, N.Y.*)

\$500,000 to conduct a cost-benefit analysis of a case management model for the treatment of drug dependency (over three years). (2008)
www.casacolumbia.org

NORTHWESTERN UNIVERSITY INSTITUTE FOR POLICY RESEARCH (*Evanston, Ill.*)

\$1,800,000 in support of the final evaluation of the Moving to Opportunity for Fair Housing program, including a cost-benefit analysis (over five years). (2007)
www.northwestern.edu/ipr

OFFICE OF OREGON HEALTH POLICY AND RESEARCH (*Salem, Ore.*)

\$1,000,000 in support of a cost-benefit analysis of the impact of health insurance on low-income people in Oregon (over three years). (2009)
www.oregon.gov/ohppr

UNIVERSITY OF NORTH CAROLINA CHAPEL HILL, SCHOOL OF SOCIAL WORK (*Chapel Hill, N.C.*)

\$1,150,000 in support of an assessment of the long-term impact of participation in and a cost-benefit analysis of an individual development account program (over three years). (2007)
www.ssw.unc.edu

UNIVERSITY OF WISCONSIN-MADISON, INSTITUTE FOR RESEARCH ON POVERTY (*Madison, Wisc.*)

\$405,000 in support of a cost-benefit analysis of Section 8 housing voucher holders in Wisconsin (over 30 months). (2006)
www.irp.wisc.edu

WILDER FOUNDATION (*St. Paul, Minn.*)

\$300,000 in support of a cost-benefit analysis of supportive housing in Minnesota (over three years). (2008)
www.wilder.org

Improve Methods and Standards

NATIONAL ACADEMY OF SCIENCES (*Washington, D.C.*)

\$380,000 to support a workshop on the implications of cost-benefit methodology for the evaluation and design of early-childhood interventions (over 15 months). (2008)
www.nationalacademies.org

RAND CORPORATION (*Santa Monica, Calif.*)

\$1,000,000 to conduct research to expand shadow prices to include more outcomes affected by social programs (over three years). (2009)
www.rand.org

UNIVERSITY OF WASHINGTON, EVANS SCHOOL OF PUBLIC AFFAIRS (*Seattle, Wash.*)

\$200,000 to help establish a virtual Center for Benefit-Cost Analysis (over two years). (2007)
\$285,000 to develop and promote standards and principles for cost-benefit analysis of social programs (over 18 months). (2008)
www.evans.washington.edu

Increase Demand for Social Cost-Benefit Analysis by Policymakers

COALITION FOR EVIDENCE-BASED POLICY (*Washington, D.C.*)

\$750,000 to help accelerate the rate at which evidence-based social policies are adopted throughout the federal government (over three years). (2008)

\$420,000 in support of a mid-term assessment of The Power of Measuring Social Benefits initiative and an advisory committee to develop strategies for strengthening evidence-based policymaking (over three years). (2009)
www.evidencebasedprograms.org

RESEARCH TRIANGLE INSTITUTE (*Chicago, Ill.*)

\$200,000 to pilot a stated preference survey of the value to the American public of reducing childhood poverty. (2008)
www.rti.org

UNIVERSITY OF PENNSYLVANIA (*Philadelphia, Pa.*)

\$30,000 to support a plan to develop integrated administrative data systems to improve social programs and policies. (2008)
www.upenn.edu

Literature Reviews and Syntheses of Existing Studies

HARVARD MEDICAL SCHOOL, DEPARTMENT OF HEALTH CARE POLICY (*Cambridge, Mass.*)

\$230,000 in support of research on the economic and social costs and benefits of mental health treatment and policy (over two years). (2007)
www.hcp.med.harvard.edu

MDRC (*New York, N.Y.*)

\$125,000 in support of meta-analysis of the returns on public investment for welfare-to-work programs. (2007)
www.mdrc.org

Promoting social policies that work

The motivating hypothesis of the \$35-million Power of Measuring Social Benefits initiative is deceptively simple: effective social and economic policies that invest in individuals in need or at-risk improve their life chances and, in many instances, benefit the larger society and economy in the long run. But putting this hypothesis to a rigorous test is a complex undertaking.

This is because cost-benefit studies must be built upon rigorous program evaluations, and long-term evaluations of the effectiveness of major social interventions are not as common as they should be, while the translation of program effects into monetized benefits is rarer still. Other challenges involve how short-term impacts translate into long-term benefits, how impacts persist over time, how they change as programs evolve, and how such impacts in some areas (education) predict long-term outcomes in other key domains (earnings, crime, and health).

Complex cost-benefit studies also require converting short- and long-term outcomes affected by social programs into dollar values that can then be compared with program costs. And while these "shadow prices" are critical elements of the cost-benefit approach, many important benefits that flow from well-designed social programs are rarely if ever captured in dollar terms. According to one Foundation-funded study, lack of valid shadow price measures, or the inconsistent use of such measures across cost-benefit analyses, constrains the set of social programs for which cost-benefit studies are conducted and limits the comparability and policy utility of cost-benefit analyses that are prepared.¹ This is why we are supporting studies to develop reliable estimates of shadow prices

for an array of social benefits for which there are no market values, exploring the use of such methods as contingent valuation to estimate outcomes, and funding work aimed at strengthening principles and standards for the conduct and use of social cost-benefit analyses.

Though initiated long before the 2008 elections, this type of work is resonating with the new administration. At his confirmation hearing, Shaun Donovan, secretary of the U.S. Department of Housing and Urban Development, pledged "to make HUD a model of evidence-driven government [by setting goals] and metrics for each of our priorities, so that we can clearly and openly show what we have done well and where we can do better."² Two of the initiative's cost-benefit studies of housing vouchers have potentially significant implications for national policy and should interest the new HUD leadership. The first focuses on the labor market effects that housing vouchers have in Wisconsin, where long-term benefits are being measured in terms of changes in employment and earnings of voucher recipients, as well as the use of federal and state income transfers. Researchers are using longitudinal administrative data for individuals in the program to track and monetize the use of services over time and capture the long-term benefits of rental housing assistance. The second study is a more complex and ambitious random-assignment experiment that is designed to measure the costs and benefits of using housing vouchers to help poor families move from public housing projects to low-poverty neighborhoods.

Still other grants are designed to support executive branch agencies in their efforts to bring more research-proven practices to their programs and policy

development. In this constrained fiscal future, with the burdens of hard economic times borne disproportionately by the most vulnerable populations, evidence of effectiveness and mutual benefits become even more critical policy imperatives.

Michael A. Stegman
Director, Policy and Housing

¹ Lynn A. Karoly, "Valuing Benefits in Benefit-Cost Studies of Social Programs." RAND, 2008.

² Statement by Shaun Donovan, nominee for secretary of the U.S. Department of Housing and Urban Development, Tuesday, January 13, 2009, p. 4.

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About the Foundation

The John D. and Catherine T. MacArthur Foundation supports creative people and effective institutions committed to building a more just, verdant, and peaceful world. In addition to selecting the MacArthur Fellows, the Foundation

works to defend human rights, advance global conservation and security, make cities better places, and understand how technology is affecting children and society.

For more information about the Foundation or its policy research grantmaking, visit www.macfound.org.

RP & JP: Most obviously, the present difficulties have added to the mountain of federal debt and thereby increased the portion of the budget that must be devoted to servicing that debt in the years ahead.

The short-run crisis will significantly increase the ratio of debt to GDP, and this may reduce the willingness of foreign investors to lend to the United States in the long run. This, in turn, increases the urgency of addressing the long-run fiscal problem.

Less obviously, perhaps, commitments that have been made to help solve the short-term problem — such as company bailouts and forbearance for those who default on mortgages — may have set precedents or provided incentives that will expand the government's future obligations in ways that could complicate the problem to some degree. This remains to be fully assessed.

MS: What's the time horizon for the Committee's work, and why was it chosen?

RP & JP: When the report is released less than a year from now, it may be at a time when leaders are better able to focus on the longer term. If so, it will be in good time to inform choices about how to put the budget on a sustainable path for the future.

MS: In the best of all worlds, how would you like to see the Committee's report and recommendations used?

RP & JP: I am sure MacArthur would like to see this work used to help leaders and citizens understand the nature of the long-term fiscal challenge, and, therefore, be able to better deal with it in ways that

protect their own interests while advancing the public interest.

Perhaps the Fiscal Future study may help people of differing views find a way toward agreement on the way forward. Some difficult choices lie ahead. People will always disagree about the size of government and what government should do, and addressing the long-term fiscal challenge will tend to sharpen those disagreements. While the study will not recommend a particular set of policies, it will show, first, that the problem cannot be ignored and, second, that there are alternative ways to put the budget on a sustainable path. This may contribute to a more rational debate and a better outcome. ■



'09.I Strengthening Policy through Research

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