

Masters of Scale Episode Transcript – Barack Obama part 2

“President Barack Obama, part 2: How to adapt to changing rules”

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BARACK OBAMA: I said, the day the healthcare bill passed, "You guys have to make this website work. The only thing that matters right now is that this has to work."

REID HOFFMAN: That's the unmistakable voice of America's 44th president, Barack Obama. We're back with part two of our special two-part episode, and if you haven't listened to part one, go back and do that now!

We talked a bit in our last episode about President Obama's latest book, *A Promised Land*. It's full of insights into landmark events from his first term in office, like the 2008 financial crisis, passing the Affordable Care Act, and the raid on Osama bin Laden.

The president is working on Volume Two as we speak, which will cover his second term. But there's one second-term story that I couldn't help asking about anyway.

HOFFMAN: HealthCare.gov, which on the first pass, of course, was traditional government tech—

OBAMA: It was a disaster.

HOFFMAN: Disaster. Right?

HOFFMAN: President Obama said it first! So I don't feel too bad saying that the rollout of the healthcare exchange marketplace wasn't just bad ... It was shockingly bad. Obama was expected to be the tech president. His campaign wrote the playbook on leveraging social media to win grassroots donations. He was the first to appoint a Chief Technology Officer for the country. If any administration understood the importance of a functioning website, it was this one!

So, what happened?

OBAMA: It wasn't as if I wasn't aware of how important this was. I kept my eye on it, I reminded people of it, everybody knew I was focused on it. But sometimes just being focused is not enough.

A lot of people complain about the federal government relative to the private sector because I think they've had a frustrating experience at the DMV or the post office.

The truth is, certainly at the highest levels of the federal government, people are just as smart and work just as hard if not harder than anybody in the private sector. But where there is massive inefficiency is technology and IT procurement, it's just miserable.

HOFFMAN: Procurement. It's the long, often complicated process to deal with contractors and vendors any time the government needs to buy something. Because it pays for these things with taxpayers' money, there are a lot of rules about how it's spent.

OBAMA: Because of the procurement rules the way we bought software was this massive stack of specs and working with these huge contractors as opposed to an iterative process of buying software and problem solving and starting small and scaling up. Bottom line is the thing didn't work on the first day. And then it didn't work on the second day or the first seven days. And it was a political nightmare, probably the most frustrated self-inflicted wound of my presidency.

HOFFMAN: We'll come back to that nightmare – and how it was set right.

This story frames perfectly the challenges President Obama and his team faced once in office. He had swept in on a wave of grassroots organizing, coalition building, and a message of hope and change.

But the tools he would need for the next phase were entirely different. And once in a while, that meant discovering there was a tool he didn't have yet.

That's why I believe you need to keep your mission constant, but your tactics fluid, as you scale. Let first principles guide you, even as you adapt to new rules.

[THEME SONG]

HOFFMAN: I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe you need to keep your mission constant, but your tactics fluid, as you scale. Let first principles guide you, even as you adapt to new rules.

People who talk about entrepreneurship, including me, often speak in military metaphor. We make battle plans, marketing campaigns. The word "strategy" even comes from the Greek "strategos," meaning general.

There may be some mixed benefit to using military speak in the long run ... but it does happen to be the perfect shorthand for thinking in phases. As in one metaphor I've used with entrepreneurs for years:

"Marines take the beach, the Army takes the country, police govern the country."

Why think about scaling this way? Because different stages of growth demand different skills. The way you and your co-founder developed a prototype in your garage isn't the way you'll develop a marketing plan with a team of 50. And how you work with a team of 50 is different from how you'll manage a team of thousands. In each case, you keep the mission, but change the maneuvers.

This is exactly the situation Barack Obama and his staff found themselves in after winning the 2008 election. Even during the transition, it was clear some working methods were going to change.

OBAMA: When you move from the presidential campaign to the actual presidency, the analogy is not, you're a startup and then you become a big company. It's actually, you're a successful startup that then suddenly is taking over, y'know, General Motors.

HOFFMAN: This reverse merger President Obama describes is an image that has stuck with me. The Obama transition team had to fold into the executive branch of one of the most scaled organizations in the world.

OBAMA: For us, there was something of a culture clash between how we had run our campaign and the obligations, norms, culture of the largest organization on earth. So, suddenly you've got a \$2 trillion budget and 3 million employees, and you have to have structures that work for something of that scale.

HOFFMAN: The cognitive dissonance of making a scale jump is very real ... even if you're not going from one-term senator to Commander-in-Chief. Maybe you've just landed a huge new client, tripled up on hiring, or gone through an acquisition. You might find yourself working at a scale that doesn't feel easy or familiar. Who are all these unfamiliar faces? How can I run a business if I don't know my employees' names?

That's why it's critical to keep your mission in sight, even as you develop new strategies to manage your growth. When in doubt, keep your principles, even as you learn the new rules.

OBAMA: It took us a while to figure out that we should not be constrained by some of these legacy structures. But it's hard not to be, right?

And at a time when you have big crisis, there's a natural tendency to just say to yourself, "No matter what, let's avoid the worst case scenario, and let's avoid mistakes," which makes you probably a little more cautious than I would have been with respect to my campaign where we took a bunch of risks and operated without a net.

At the time, the financial crisis of 2008 was the biggest thing we'd seen since the Great Depression. In fact, the economy was contracting faster than it had after the Wall Street collapse in 1929. We were losing 800,000 jobs a month. We understood the severity of it. We had to act very rapidly.

HOFFMAN: As I think I remember reading in the book, you were getting a briefing, and Austan Goolsbee says something along the lines of, "Wow, that's probably the worst prep briefing since FDR in 1932. Let's go."

OBAMA: Yeah. Yeah. He was excited about it. As I describe it, it was like a little boy looking at a real gruesome wound on his friend's knee.

HOFFMAN: That vivid image aside, it's at least a good sign if your longtime economic advisor is excited about coming to work. But I also wanted to underline something President Obama just said about changing tactics.

OBAMA: At a time when you have a big crisis, there's a natural tendency to just say to yourself, "No matter what, let's avoid the worst case scenario, and let's avoid mistakes."

HOFFMAN: As President Obama just pointed out, avoiding mistakes at all costs was not how his team ran his campaign. They took bold risks, like putting all of their efforts into winning the Iowa caucus. They also took a series of stances that could have easily backfired ... like supporting TARP, the Troubled Asset Relief Program, that was signed into law by George W. Bush just before Obama was elected.

But once you're in office and responsible for over 300 million lives, your tolerance for risk naturally goes down. That might feel wrong, or anti-entrepreneurial. But that's actually the natural order of things for businesses too.

That's why we like to say that the time for hand-crafting is when you're small. That's the "Marines storm the beach" phase. You make bold choices and commit to them because if you don't succeed at the first phase, you don't get a chance at the next one. You have to put everything into getting onto the beach.

But when an organization scales, the more resistant to big swings and massive change it becomes. Because now there's ground you could lose. You still want to be open to experimentation, but not so much that it breaks what you've already built.

HOFFMAN: So you went from a startup to suddenly a reverse takeover of GM. And the very first thing is, "The whole system might break. Scramble!" And as you note, take more of a risk, like a downside management approach, because it's like, "Look, if the system breaks, we all suffer massively. So we really need to save the system."

OBAMA: What made it, I think, different than the current crisis that we've been going through with the pandemic was, it was a financial crisis that involved enormous amounts of leverage. You had a crisis of confidence and a full-blown panic in the financial markets. A tangle of global financial institutions. All of whom were hugely leveraged, companies were hugely leveraged, and consumers were all maxed out on debt. So unwinding all that in a way was a delicate operation.

HOFFMAN: It's not always remembered this way, but Obama's Administration did succeed in moving fast here. Just as we discussed in part one, you frequently find yourself in situations where you don't have control over the opportunity window. What you can control is how quickly you sprint to hit that window.

President Obama's book, *A Promised Land*, unpacks this sprint in detail. Even if you remember this period in history well, you'll want to check it out.

But it's hard to maintain speed as you phase-shift from growth to governance. Even if you're not trying to pull a global economy out of recession.

OBAMA: The decisions we made at the time did not solve some of the broader underlying trends that I had actually campaigned on, like income and wealth inequality. But it did avert a great depression and stabilized the situation that would allow for painfully slow, but steady growth that eventually created the longest sustained growth in the U.S. economy in history and the most consecutive months of job growth in U.S. history. But it was painful getting there.

HOFFMAN: Yup. Now that you've had eight years of presidency, is there anything you would've called your younger self and said, "Do this differently," in that very first emergency that you dropped in?

OBAMA: The big debate has been the size of the response. We wanted as big of a response as we could get. What people don't recall was that not only was the entire ethos of the Republican Party at that time to shrink government and to shrink government spending. That was probably the most important unifying principle for them.

But the Democratic Party at the time had looked at the Clinton presidency and the success of balanced budgets and so you had a lot of deficit hawks inside of the Democratic Party as well. That was true with the press, that was conventional wisdom. As a consequence, we could not get enough votes to do more in the initial Recovery Act, as we called it, than \$800 billion.

I think, subsequently, people have said you should have done twice as much. Well, yeah. We wanted to do twice as much. This is what the market could bear at the time.

HOFFMAN: The president and I talked more about this in our full length interview, which you can hear when you become a member of Masters of Scale. Go to mastersofscale.com/membership. It's one of my favorite conversations; you won't want to miss it.

As we were talking, what struck me most was not that the Obama Administration faced opposition. Opposition to big change is common, whether in politics or in running a business.

It was the sudden and steep increase in opposition that changed the conditions on the ground.

OBAMA: At the time, there was no precedent for the kind of obstruction that we had seen from the Republican party. There was no precedent for the use of the filibuster to literally block everything. And so, even if I had warned my earlier self, "You're not going to get any cooperation on anything. So you might as well start making the argument to blow through some of these Senate rules." I probably couldn't have persuaded a bunch of Democrats who'd been in the Senate for years to get rid of it.

HOFFMAN: Yeah, makes total sense.

HOFFMAN: We can never fully unpack why opposition to this president was so total, and so fierce. We can leave that to any number of other podcasts – including President Obama's show with Bruce Springsteen, "Renegades."

But there's a lesson every entrepreneur can take from meeting resistance you weren't expecting once you scale. You might find yourself facing a hostile board, trying to convince them that the company needs to do X in order to avoid disaster. And just like an opposition party, you can't just steamroll through them. You need to find a way to persuade them that your thinking is correct.

So how do you do that? One way is through the power of story. In part one, we talked about how effectively candidate Obama used story to win people over. But President Obama and his staff were focused on keeping their heads down and fixing the crisis. And something surprising happened: they lost control of the narrative.

OBAMA: I was very reticent about looking as if I was taking political advantage of the crisis.

On the other hand I think there was a "failure to communicate" – to quote a great movie, *Cool Hand Luke* – in describing all the good things that were being done. And we ended up losing, early on, the PR battle around what was essentially Keynesian spending in response to a major crisis.

HOFFMAN: The same team that was so strategic, and so nimble, about conveying policy through story, stumbled once they were in power. How could they get Americans to understand that Obama passed significant tax cuts? Or that TARP, the Troubled Asset Relief Program, was a success?

Whatever messaging they were putting out wasn't enough. And the PR battle turned into a political war.

OBAMA: Obstruction politics even in the face of crisis ended up preventing us from being able to get everything done that we needed to do to respond to that crisis effectively. It turned out to be a good political strategy for the Republicans because when things aren't going great, they take it out on the president's party, particularly in midterm elections.

HOFFMAN: Now, there's a distinction here between politics and pure entrepreneurship. When a president puts forward their agenda, the main opposition often isn't a competitor, or some rival nation. It's the very members of Congress needed to get that agenda passed. This would be like if the marketing department of Pepsi went to war with Accounts Receivable. Or if both departments stopped doing their jobs altogether, just to make sure the CEO gets fired. No matter which department wins, Pepsi loses.

If that were to happen at PepsiCo, there's a simple solution. Fire anyone who's not on board, and hire people who share your mission and culture. But the president can't just fire everyone in the government who opposes him. That's not how our system works ... nor should it!

OBAMA: The advantage of American democracy as it's structured is we are relatively stable compared to parliamentary systems. And there are a lot of checks and balances. And so it's a lot harder for us to go off the rails completely. The disadvantage is that the system is already built structurally to make moving the federal gears of government very slow. If you add on top of that increased political polarization, and on top of that, you have an extra constitutional supermajority requirement imposed by the filibuster, then you get gridlock and paralysis.

That's okay when everything's going really well, but it is crippling in the face of a major financial crisis, a pandemic, an existential threat of climate change.

HOFFMAN: Ultimately, the main threat to Obama's agenda wasn't Republicans, or deficit hawks, or centrists, or progressives. The true enemy was the drift into a mindset of politics over society.

And when I said this was a difference between politics and business, that isn't totally true. Entrepreneurs face mission drift all the time, and the bigger you get, the harder it is to prevent. Our imaginary civil war within PepsiCo may have sounded absurd, and yet internal fracturing and tribalism have been the Achilles Heel of many companies.

So how do you avoid that mission drift as you scale? By evolving your tactical playbook yet again.

[AD BREAK]

HOFFMAN: We're back with President Barack Obama. And we're talking about how to stay focused on your mission, while making sure your strategy evolves. As you approach scale, the

tactics that help you storm the beach aren't necessarily the ones that help you win the next battle, or win the war. But you should never forget why it is you're fighting.

Which leads us nicely into the next big fight President Obama took on.

HOFFMAN: This is actually a great transition to go to healthcare. Classically a third rail issue because it's kind of the last person who touches it, owns it. And to some degree what the American populace wants is free infinite healthcare and it's not available, it's just not economically available. And so the attempt to fix it means it's never perfect and there's always cases for disgruntlement. What was that decision? Despite the fact that everyone with a political self-preservation instinct would say, "Don't touch that rail"?

OBAMA: Look, in that first two years, I had as large of a democratic majority as Democrats could expect to have at any time. I felt obliged and I had made a commitment during the campaign that we would take this on. We also had a healthcare crisis that continued to be getting worse. Huge numbers of uninsured; people who had insurance, we're seeing more and more cost shifting onto them because employer-based healthcare was burdening businesses. And so as a way of shedding costs, they were jacking up premiums and copays, or just not insuring folks at all.

And so I had to say to my team, and I had to say to myself, "Well if not now, when?" And "If not us, who?"

HOFFMAN: The fight to pass the Affordable Care Act, also known as Obamacare, was a long, well-documented process that dominated American news for two years. As President Obama describes vividly in his book, it involved months of hearings, haggling, and courtships with reluctant Senators who dangled their support.

It also meant spending a ton of political capital. Obama writes about his chief of staff, Rahm Emanuel, begging him to pivot to something else. The opposition he'd gotten on the economy would pale in comparison to what he would face on the ACA.

But on this point, the Commander in Chief was firm.

OBAMA: I'm pretty good at asking myself, "All right, what's the point of this, right? Why am I doing this? What's important to me in this enterprise?" And I think you need to do that, whatever field you're in. Whether it's business, whether it's politics, whether it's in the nonprofit sector, every so often going back to first principles. "Why the hell did I do this? Did I run for president because I wanted my name up in lights? Is it because I really like ruffles and flourishes playing when I walk into the room? Or is it because I want to do something?"

And I think so many of us, we fail to check in on ourselves. We sometimes forget to ask ourselves, "All right, what's important again? Why am I doing this?" This is the reason

why I said, even in the moment, I felt more satisfaction the night the healthcare bill passed than I did the night I won the presidency. Because the point of me running was to get things like the healthcare bill passed. The presidency was simply the means, the gateway, through which to accomplish this. And there are obviously analogs in business where the immediate bottom line sometimes distracts from, "All right, what's the core mission and purpose of this company, and what are we trying to accomplish here?" And if you're not asking yourself that on a day-to-day basis, or at least a month-to-month basis, you will lose track. And you will get lost, and typically that's where both individuals and companies get in trouble.

HOFFMAN: Yep. I so, so much agree with you. And I know from our conversations, you'll agree with the addition that I'll make to your statement, which is, "Look, you can enjoy the ruffles." You can say, "Hey look, this feeds my ego some and still be totally mission-driven." Because it's like, "That's what I'm going to lay my body across the tracks for." And it isn't like, you have to be like somehow monastic or Mother Teresa and say, "Well, my ego can be relevant," but if your ego is invested in the mission and what you're accomplishing, that can be great.

OBAMA: Yeah. Well, this is what Dr. King called the "Drum Major Instinct." We all have it. We all want to lead the parade. The question is, the way he squares this circle is to describe it as, "Be first in service. Be first in love." And that is what allows you to take big risks, and it also is what would get you through the bumpy times. Because if the mission's worth anything, then they're going to be some bumpy times.

HOFFMAN: The turbulence around passing the Affordable Care Act has gotten a lot of airtime over the years.

What's less-often discussed is the strategic nature of its design. The ACA has been called many things. But rarely has it been judged for what it actually is: a minimum viable product.

OBAMA: We debated trying to shift to a single payer system, essentially Medicare for All. Because we do have a single payer system for old people called Medicare. And so a single payer system isn't that controversial, a lot of countries have it, it works probably more efficiently in a lot of ways. But this is a good example of where you got a bunch of legacy systems that you can't just get rid of, if it's one sixth of the economy.

Not only politically would it be impossible to start from scratch but economically be wildly disruptive. A lot of people work for insurance companies, a lot of people work for hospitals under current arrangements and doctors get paid in certain ways and so forth. So the end product that we got was not overly popular among the public in its first year or so, but that over time has proven to be exactly what I had promised, which is a starter home.

HOFFMAN: I don't think this gets enough attention. "Iterative" is not the first thing people think of when they think of the ACA. They imagine hundreds of pages, thousands of committee hours, and yes, a complicated website.

But the ACA was designed for the market that existed, not the one you might wish was there. And it was built to factor in things like, how do you create market incentives? And, how will this shift the viewpoint of the American public about who has the right to healthcare?

OBAMA: Most big social programs in America, like Social Security, Medicare and Medicaid, as is true in other countries, typically start off smaller than they probably should in terms of overall need. That's why I called it a starter house, and then you build from it. But you've established the principle that everybody should have coverage, and the notion was then we build on that. We improve it, we refine it, we add to it, we make it better. And that's where I think we are now.

HOFFMAN: That's right: I'm saying it here. President Obama and his team approached the Affordable Care Act like entrepreneurs.

Unfortunately, as we heard, that was pretty much the opposite approach taken to build the accompanying website, HealthCare.gov.

OBAMA: Most of my writing on HealthCare.gov will be in Volume Two, because it happened later on. When people asked me, "What was something I would want to do over?" HealthCare.gov shoots pretty close to the top of the list.

Fortunately, because we had some experience and carry-over from the campaign in terms of relationships with the tech community, we were able to bring in a SWAT team of people and some of the top engineers who came on for six months, eventually we would form what we called the U.S. Digital Services to apply their incredible expertise to a whole bunch of old, broken IT systems across the federal government and make it a lot more efficient.

HOFFMAN: We don't want to steal any thunder from President Obama's next book. So instead of grilling him any further on the U.S. Digital Service, we brought in some reinforcements.

JENNIFER PAHLKA: Part of the problem with HealthCare.gov is that it tried to do everything day one.

HOFFMAN: That's Jennifer Pahlka, founder of Code for America, and co-founder of the U.S. Digital Service under the Obama administration. As Deputy CTO of the United States from 2013 to 2014, Jen had a front-row seat to the doomed rollout of the ACA website.

PAHLKA: The short answer: it was that all the things went wrong. The more nuanced answer is that the way government does technology doesn't really have the practice that

you know of in Silicon Valley as product management. People are not making timely decisions to give direction to a tech team, and those decisions are not grounded in, “what will a user experience that will be a delight?” They simply take the law and translate it into a website. And that is going to end up with something incredibly complex, and very difficult to do. On top of that, a crazy architecture, 55 different contractors, a regulation that governed the website changing literally up until the day that the website was supposed to launch, and a lack of testing, it's not a recipe for success.

HOFFMAN: Jen wasn't actually in charge of building HealthCare.gov, nor was the CTO above her, Todd Park. That job fell to the Centers for Medicare and Medicaid Services, within the Department of Health and Human Services. Prior to launch, around \$500 million had been spent on various contractors, part of the procurement process President Obama mentioned at the top of the show.

Then, on the first day of launch, only six people were able to sign up for health insurance through the site. It was a case of trying to storm the beach using massive tanks that sink immediately into the sand.

But the chaotic rollout of HealthCare.gov also provided a window of opportunity ... to fast-track creation of the U.S. Digital Service.

PAHLKA: USDS would not have made it if it hadn't been able to take advantage of the moment of the failure of HealthCare.gov.

There is such a deep culture in government that policy people do policy, and they throw it over the wall to implementers, that there is a constant fight to get somebody with product, and technology, and service delivery expertise at the table, helping shape the project before it becomes a massive RFP for a product that really cannot be built.

So we can say, actually, please stop bringing us in when things have failed and start including us in the conversations about what you're trying to build in the first place, and how a website, or a policy, or a service center can actually do what you intend to have happen from the law.

HOFFMAN: In the short term, a digital SWAT team was assembled to perform the rescue of HealthCare.gov.

PAHLKA: Mikey Dickerson who famously came out from Silicon Valley. He's a site reliability engineer from Google. He became one of the de facto leaders of this team. He started running stand-ups and getting people to communicate and deconflict.

But it was stuff like, "Well, I filed a ticket to fix this problem." And the other contractor would be like, "I didn't get your ticket." And he'd be like, "You guys are working in two different ticketing systems."

The kind of technology expertise at the table that someone will listen to that says, "Guys, with half the functionality, we can serve 95% of users. Those other 5% of users can get handled through the call centers, which won't be needed for everyone else because the site will work for them." People have to hear that and listen to it.

HOFFMAN: Once the "storm the beach" phase of saving the ACA website was over, the U.S. Digital Service remained to carry out the long-term mission. Namely, making sure it never happens again.

PAHLKA: When USDS has been the most successful, it's because they got a toehold. I will be slightly on the verge of tears of happiness talking about Charles Worthington at the VA. I hired Charles in. He helped stand up USDS from OSTP.

COMPUTER VOICE: OSTP. Office of Science and Technology Policy.

PAHLKA: I said, "You're amazing. Come into the White House." And then at some point after I left, he got moved over to the team at the VA that was working with the USDS folks.

Flash forward, how many years is it now? He's still there. He's the CTO. He's a VA person now. People sent him texts like, "I'm a veteran, and I got a text message saying, 'Come in and get your vaccine.' I came in and got it." This is a completely different VA than I knew 10 years ago. The communication is effective. It's efficient. It's respectful. The work that the team has done is unbelievable.

There isn't really a USDS VA team anymore, exactly. There are just good VA people who know how to do digital because it "went native" there. Right? That's sustainability, and it's not perfect, but it will grow over time. And that's part of why when there was a change in administration, the work continued.

HOFFMAN: Ultimately, the long-term mission of any president worth electing is to strengthen the country and help its people, even after they're gone. That's the mission of a founder too. The goal is, build something that can outlast you. Which explains the last story I asked of President Obama.

OBAMA: Malia's favorite animal is the tiger. And some of this traces back to my sister buying Malia a stuffed tiger when they visited the Honolulu Zoo when she was three or four. And so, around this time, she's probably 11, we were at the dinner table, and she says, "What are you going to do about the tigers?" And I said, "Well, please say more." And she had done a school report, and their habitats were being destroyed. And she said, "Dad, you've got to do something." And Michelle turns to me and says, "Yeah, you are President." And Sasha chimes in, "Yeah, Daddy, you got to do something about the tigers."

HOFFMAN: In *A Promised Land*, President Obama uses this story to begin the chapter about climate policy. After all, what good is being president if you can't try and save the tigers?

But to me this story is a bit like going back to the handcrafting setup to scale. No matter where you are in your battle plan, you need a way to check in regularly with why you're in the fight ... and adjust your tactics accordingly.

OBAMA: It was a good reminder about first principles. The reason that the climate change issue was so important to me was because I want my daughters to have a planet that is at least as habitable as mine is. And that's where, being able to connect what you're doing on a day-to-day basis to the real, concrete love that you feel for your children.

And that's why I used to say, I was very strict about blocking out 6:30 for dinner with my family. And I'd just listen to my daughters, and answer their questions and then help them with their homework, or read to them, and then tuck them in. And then I'd go back to work. It made me a better president. Because each time I sat at that dinner table and I listened to them, I was reminded about what's important. I was reminded about why I was doing what I was doing. It renewed and refreshed that sense of mission and focus that kept me going.

HOFFMAN: I'm Reid Hoffman. Thanks for listening.