Henry J. Kaiser developed an extensive and complex industrial empire. During the construction of the Grand Coulee Dam in Washington, he began an association with Sidney Garfield, MD, that resulted in the prototype of the modern health maintenance organization. Kaiser Permanente, directed by Garfield, survived a confrontation with organized medicine in the postwar years and then expanded rapidly in the 1950s and 1960s. At the same time, an internal struggle for control and responsibility of Kaiser Permanente led to a successful reorganization of its health care system. Today, Kaiser Permanente is Henry Kaiser's most enduring legacy.

Ted O'Connell is the first president of the Pacific Coast Surgical Association (PCSA) to be affiliated with Kaiser Permanente. Although health maintenance organizations (HMOs) currently play a major role in American health care, many people are unaware of how these organizations began and Kaiser's role in this process. Thus, it is appropriate to look at the career of Henry Kaiser and the origins of HMOs. We may also wonder, who was Garfield, and where did the name Permanente come from?

Henry Kaiser had an amazing career and was a fascinating character. He was born in 1882 in upstate New York to parents who had immigrated from Germany. He became bored with school and dropped out at 13 years of age, never to return, and started working in a dry-goods store. When he was 19 years old, he went to Lake Placid, NY, and worked his way into a partnership in a photography shop. A few years later he met and fell in love with Bess Fosburgh, who was from a much higher socioeconomic background. Her father told Kaiser that before he could marry Bess, he must go west and establish himself with a house and a job. Kaiser sold his shop, got on the train without a plan, and ended up in Spokane, Wash, in 1906 at 24 years of age. Soon he was managing a hardware store and was able to buy a modest home, and thus was able to marry Bess. He then built a fine new home at a site now overlooking Sacred Heart Medical Center, where their first son, Edgar, was born in 1908.

After considering the popularity of automobiles and the awful state of the roads, Kaiser went into the road-paving business in Washington and British Columbia. By 1921 he was established in northern California, with headquarters in Oakland. By 1930, at 48 years of age, he was a millionaire and had completed jobs in several states and in Cuba. For Kaiser, the key to profit was speed, and speed came from using the newest technology. He was driven: a workaholic, always optimistic and enthusiastic, and with a remarkable vision of the future of industry.

During the Great Depression, the biggest industrial job on the horizon was the construction of the Hoover Dam in Nevada. This was too big a project for any single company, so Kaiser and Bechtel, an engineering firm based in San Francisco, Calif, put together a consortium called Six Companies to build the dam. Working conditions were bad and many men died, although in spite of the myth, none were buried in concrete. Although housing and a hospital were built in Boulder City, Nev, little attention was given to health care. The dam was finished in 1936. Kaiser then worked with various other companies, first to build the Bonneville Dam on the lower Columbia River, and then the Shasta Dam in California.
Columbia River in Oregon and then the Grand Coulee Dam on the upper Columbia. This is where the story of Kaiser and health care began.

In 1939 he went into the cement business, initially to supply cement for the construction of the Shasta Dam in California. He found an excellent source of limestone in the foothills of Santa Clara County, near present-day Cupertino. At this site was a stream called Ria Permanente, a name given by the Spaniards because it flowed year-round (hence the meaning: "everlasting" or "permanent"). Kaiser, and especially Bess, liked the connotation of endurance and reliability, so Permanente became their code word for excellence, and thus Permanente entered our vocabulary.

Kaiser knew nothing about ships or shipyards, but when Britain and the United States desperately needed cargo ships in the early 1940s, he jumped at the opportunity. At their peak, the Kaiser shipyards in Richmond, Calif, and Portland, Ore, had 200000 employees, and they built about a third of all the Liberty ships in the United States. Winston Churchill said that without the Liberty ships, the war would have been lost. Kaiser suddenly became a national hero.

He needed steel for his shipyards and, despite intense resistance from the United States Steel Corporation, succeeded in building an integrated steel mill in Fontana in southern California. Kaiser was thoughtful enough to name his first blast furnace “Bess Number 1” after his wife. He anticipated the great postwar demand for aluminum and acquired some of Alcoa’s smelters and rolling mills during World War II. Aluminum became Kaiser’s most profitable industry. Kaiser Aluminum still exists today, although it is now owned by Maxxam Inc and recently filed for bankruptcy.

The stylish Kaiser-Frazer automobiles and the first compact car (the “Henry J”) were brought out in the early 1950s, but the quality was mediocre, the dealership network was weak, and the enterprise became a financial disaster. Typically, Kaiser was enthusiastic at the start of a project and would then lose interest (even when successful) and move on to the next one. He resisted modern management techniques and depended on his vision and momentum. He was not a team player but an old-fashioned operator. Above all, he thought big. And he was big. Kaiser said, “I’ve always had stomach trouble—I can’t get enough in it.”2 His weight peaked at 300 lbs.

The final chapter of Kaiser’s life was in Hawaii, where he moved in 1954. Bess had died in 1951, and within weeks he had married Alyce (or “Ale”), a nurse half his age who had cared for Bess in their home. Kaiser (now older than 70 years) built his Hawaiian Village hotel in Waikiki, as well as the planned community of Hawaii Kai on Oahu. He had few close friends, hated to be alone, had huge phone bills, slept about 4 hours a night, and continued to hold tightly the reins of Kaiser Industries. He would not turn over control to Edgar, even though his son had held responsible positions in the company for 40 years. He had myocardial infarctions in 1956 and 1965 and finally died in Hawaii in 1967 at 85 years of age.

Kaiser did not become involved with health care until 1938, and it was initially just a sideline to his major construction projects. When the members of the Kaiser group arrived to build Grand Coulee Dam, they were required by law to provide industrial-injury care but had no way to do it. One Kaiser vice president named Alonzo Ordway had heard about an enterprising young surgeon who had provided industrial care in the California desert: this was Sidney Garfield, MD.

Garfield was from New Jersey, the son of Russian immigrants who had moved to southern California in 1923. Garfield went to the University of Southern California (USC), got his medical degree in Iowa, and then returned to Los Angeles (LA) County Hospital for his surgical residency, which he finished in 1933. This was not a great year to start a practice, but a friend told him that the contractors building the Los Angeles Aqueduct out in the desert needed a physician and a hospital. Garfield had few options, so he borrowed money and built the 12-bed Contractors General Hospital in Desert Center, 60 miles east of Indio. He started out by billing the Industrial Indemnity Exchange for industrial care on a fee-for-service basis and billing patients directly for nonindustrial care. However, in 7 months he was broke because of slow claims payment and no private payment. The contractors and insurers could not allow Garfield to fail; a Kaiser executive with an insurance background named Harold Hatch suggested that Industrial Indemnity would prepay 17.5% of the industrial-premium dollar directly to Garfield and would offer nonindustrial coverage to the workers through a voluntary payroll deduction for “a nickel a day.”3 With little to lose, Garfield had the courage to try this idea, and very quickly the system became profitable. Garfield found that he could devote time to safety issues and preventive care. This became his mantra: “To the private physician, the sick person is an asset. To us, the sick person is a liability. We’d go bankrupt if we didn’t keep most of our members well most of the time.”1 The aqueduct project was completed, Garfield had a nice profit, and he returned to LA County Hospital and accepted a teaching position in the surgery program (even though he never obtained board certification). Although there had been earlier prepaid insurance plans, often linked to lodges or railroads, most did not achieve long-term success. This prototype of the modern HMO that appeared in the California desert was not planned, but instead developed out of necessity.

Getting back to the Grand Coulee Dam, Alonzo Ordway contacted Garfield and induced him to come to Portland to meet the project boss, Edgar Kaiser. Young Kaiser took Garfield to the dam site, and the physician quickly saw many advantages that did not exist in the desert. Garfield rehabilitated a 35-bed hospital in the nearby company town and recruited 7 physicians to care for the 5000 workers, using the same prepayment formula and payroll deduction plan from his previous project. Within a year the unions were demanding coverage for dependents, and Garfield picked out of thin air the figures of $0.50 per week for a spouse and $0.25 per week for a child, which worked well. He also offered fee-for-service care to the public. This was a very satisfactory arrangement for everyone involved, and there was no resistance from the few private physicians in the area. When the dam was finished, the group dispersed and Garfield returned to LA County Hospital.

©2002 American Medical Association. All rights reserved.
In 1941, the Kaiser shipyards in Richmond were busy; the workers needed medical care, and once again Kaiser turned to Garfield. However, Garfield was already in uniform, set to go to India as part of the USC-LA County contingent. He offered to help get them started, and meanwhile Ordway went to Washington, DC, and got President Franklin D. Roosevelt to release Garfield from the military for the shipyard work. Although Garfield was uneasy about leaving his USC group, C. J. Berne, MD, past president of the PCSA and his commanding officer, reassured him and urged him to forget the service. Garfield was able to recruit physicians, but he needed a hospital. He found an unused 4-story hospital in Oakland at the corner of Broadway and MacArthur, which had been built in the 1920s as the obstetric wing of Fabiola Hospital. Garfield bought the building, which opened in August 1942 as the Permanente Foundation Hospital. This became the mother hospital of the Kaiser Health Plan; it had 54 beds and was painted pink, Kaiser’s favorite color. By the middle of World War II, the plan had 90 physicians caring for 90,000 workers. The payment system was similar to that at the Grand Coulee Dam: 17% of the industrial premium, and voluntary coverage for nonindustrial care and dependents. Although a similar plan was instituted at the Portland shipyards, the Portland physicians, led by PCSA member Tom Joyce, MD, forced Kaiser to build their 75-bed hospital across the river in Vancouver, Wash. Add to this a 60-bed hospital in Fontana, and by late 1944 the Kaiser plan was caring for 200,000 patients in 4 hospitals, with 790 beds. Garfield was in charge of it all—the hospitals, the plan, and the physicians.

With the end of the war, the number of Kaiser employees dropped rapidly to about 10% of the previous level, and most of the physicians left the plan. The remaining physicians tried to continue the medical plan by opening it to the public in October 1945. Unfortunately they had no capital, and because it was considered unethical to advertise, most people thought that the plan was still restricted to Kaiser employees. Furthermore, the local medical societies now attacked, labeling the Kaiser Health Plan as corporate medicine and accusing the physicians of unethical behavior. Garfield’s medical license was briefly suspended. Other Kaiser physicians were denied membership in the medical societies, and as a result they could not take board examinations or get privileges at other hospitals. Kaiser defended the plan against the accusation that it was socialized medicine; he believed that it was actually the private-sector alternative to government-run medicine. The Kaiser plan persisted; after reaching out to city and county employees and then unions, by 1948 it was back up to its wartime peak membership level. The Longshoremen’s Union and Retail Clerks’ Union insisted on coverage up and down the West Coast. By the early 1950s, Kaiser had new, large hospitals in Los Angeles and San Francisco.

The next crisis was the struggle for control and responsibility of the Kaiser medical system, and this led to its reorganization. Henry Kaiser felt that he should be able to run the medical plan like any of his other industries because he carried all of the debt. The physicians felt that the plan’s expansion was coming out of their wallets and that the patients belonged to them, not to the plan. Kaiser’s staff felt that Garfield had to be replaced by a real business executive. Garfield had been running the whole system himself with the bookkeeping mostly in his head, and it had simply become too big a system for one man to operate. Although the physicians were loyal to Garfield, they also recognized his close, father-son relationship with Henry Kaiser and saw this as a conflict of interest. Kaiser challenged the physicians to buy him out if they could, which of course they could not.

Things finally came to a head in 1955 when everyone involved met at Kaiser’s Lake Tahoe retreat and worked out a new plan. Garfield was eased out of his position and given a planning job, but he remained on the board. During the next several years, the system evolved: the physicians formed the Permanente Medical Group; the Kaiser Foundation owned and ran the hospitals and the health plan, with shared responsibility in each geographic area; and the parties were governed by medical service agreements, which were mutually exclusive contracts. Garfield died in 1984, by which time Kaiser Permanente was the most successful HMO in the United States.

Kaiser Permanente proved to be Henry Kaiser’s most enduring legacy; every other Kaiser industry has disappeared or been sold. One wonders how such a huge and successful business empire could have failed. Perhaps the answer lies with Kaiser himself: his reluctance to accept modern management methods and his refusal to surrender control or arrange a succession plan. It seems likely that Kaiser Permanente survived and prospered because it solved its control and responsibility issues in the 1950s and 1960s.

This is a brief account of how two markedly different sons of immigrant parents developed Kaiser Permanente—not by planning but through happenstance and evolution—and adopted the name of a little stream in the foothills of the California coast range.

Presented at the 73rd Annual Meeting of the Pacific Coast Surgical Association, Las Vegas, Nev, February 16, 2002.

Corresponding author: Geoffrey C. Nunes, MD, 6308 S Helena St, Spokane, WA 99223 (e-mail: geosuzmun@aol.com).

REFERENCES