Oral History Interview with William Hsiao

Conducted by Wayne Soon
Program in the History of Medicine, University of Minnesota
On August 20, 2025

William Hsiao is the K.T. Li Professor of Economics, Emeritus, in Department of Health Policy and Management and Department of Global Health and Population, at Harvard T.H. Chan School of Public Health. Dr. Hsiao is a leading global expert and consultant on health insurance policies and reforms. He was born in China, educated in the United States, and received his Ph.D. in Economics from Harvard University. He is also a fully qualified actuary with extensive experience in private and social insurance. Dr. Hsiao's health economic and policy research program spans across the world. He is a leading global expert in universal health insurance, which he has studied for more than forty years. He has been actively engaged in designing health system reforms and universal health insurance programs for many countries and regions, including Taiwan, China, and the United States. Dr. Hsiao was elected to be a member of the National Academy of Medicine, US National Academy of Science, and elected to be a Board member of the National Academy of Social Insurance and USA Society of Actuaries. He has published more than 180 papers and several books and served on several editorial boards of professional journals. He served as a policy advisor to three US presidents, the US Congress, the World Bank, the International Monetary Fund, World Health Organization, and International Labor Organization.

Wayne Soon: Hi, my name is Wayne Soon, Associate Professor in the Program of the History of Medicine at the University of Minnesota. I'm so pleased to have him with me, Dr. Bill Hsiao. Dr. William Hsiao is the K.T. Li Professor of Economics, Emeritus, in Department of Health Policy and Management and Department of Global Health and Population, at Harvard T.H. Chan School of Public Health. He received his Ph.D. in Economics from Harvard University.

We are conducting this oral history interview via Zoom on August 20th, 2025, at 10:49 a.m. Central time. Thank you, Dr. Hsiao, for agreeing to talk to me today. I really appreciate it. My first question for you is, what was it like growing up and receiving education in China and the United States?

William Hsiao: I came to the USA at age 12, only had one year of formal education in China, because that was during World War II. The schooling was interrupted by war. However, through tradition and practice, I would say Chinese culture influenced me.

Most of my education was received in the United States. I first became an actuary and worked for a private insurance company for nine years. The Chinese cultural values inspired me to work for the government.

I resigned from my job in an insurance company and joined the Social Security Administration of the United States. However, by chance, I was promoted to be the Deputy Chief Actuary to handle Medicare/Medicaid. These programs were just established in 1965, and I joined the government in 1968. In that job, I learned that actuarial science has limits. It uses statistical and mathematical methods to predict the financial risk of the future, but it doesn't understand what shapes the future.

In my role as Deputy Chief Actuary, I had to testify before the US Congress, and legislators would ask me, at a public hearing, if we changed the health insurance benefit such as including drugs, how much would it cost? Well, actuaries know how to predict that, but then the next question is, how would this affect the inflation rate of the United States? I thought to myself, how is that related? But I can logically understand that drug prices may increase because of increasing demand so that they may raise the inflation rate.

However, the next question by a legislator might be, how would that impact the employment rate in the United States? Next question, how would that affect the foreign exchange rate? I was so embarrassed because I did not know any answers. I can only say,

I'm sorry, Senator. I do not have the answer. I'll follow up with you next week and provide a written response. Meanwhile, I want to drill a hole in the floor and drop into that deep, dark hole. With these embarrassing experiences, I decided at age 36 to go back to graduate school to study economics.

When I finished, Harvard took pity on an old man and asked me, "Do you want to stay and teach?" I never thought I would be a teacher or a researcher. I was planning to return to the government. Instead, I stayed at Harvard to teach and do research on health financing and health system development. Eventually I was invited by nations to be involved with their health system reforms, particularly when they sought to establish national health insurance.

Wayne Soon: Thank you. That is a fascinating journey, and your discussion with the senator was a memorable time for you, obviously. I have a follow-up question. Is there a memorable thing growing up that you felt impacted your life later, whether it's your education, your parents, anything, your friends, something that when you were growing up that maybe helped influence your later choice of wanting to serve the people, serve the government, as you put in your own words?

William Hsiao: Well, my childhood in China influenced me, because it was World War II, and the Japanese were bombing the city I lived in. We moved to the countryside and rented a mud house from some poor farmers. My family was poor; my father was a professor paid with low salary. At that time, the Nationalist Government lacked the revenue, and they could not even pay the professors on time.

I observed the poor rural residents that included my own family, who lacked food and other essentials. I saw other children and my mother who became ill. For example, my mother had a hemorrhaging, and she passed out, but no one with any medical knowledge could help. They had to carry her on a piece of board for miles to the only few western doctors who practiced in the city, who stitched her up. That influenced my choice in pursuing knowledge and programs to help people, the vulnerable people.

As the desire to joining the government, that is rooted in Chinese tradition. You know Chinese history and tradition. A person's highest calling is to work for the government. You enter government service by passing imperial examinations. That moves you up in society socially, economically, and politically. When you pass the upper-level imperial examinations, you enter the

government, and get appointed to some government position with prestige, power, and good pay.

Wayne Soon: Thank you.

William Hsiao: I still believe in government service for the United States. It's a higher calling to work and improve the well-being of the people.

Wayne Soon: That's really important, especially given the times that we are in. That's a critical and astute comment. Another follow-up question, because I find this really interesting. Was your time at Harvard very enriching in terms of whether they provided resources to help you with all your work as a student or as a professor?

William Hsiao: Harvard is a university that boasts great diversity, and its environment challenges you to think critically. My thesis advisor, Marty Feldstein, knew I was pro-government. We had many informal chats. He would ask me why the private market is not better than the government in financing and organizing healthcare. The conversations he and I had remained with me. That's because he emphasized the efficiency of the market in producing and distributing healthcare. Meanwhile, my value system places a priority in making healthcare available to everyone on a fair and equity basis.

He and I debated; I did not convince him. He did not convince me. There are many other professors like Marty, who held different values and views. The Harvard environment really opens your thinking. Then I formed my own views. At that time, Uwe Reinhardt was at Harvard as a postdoc for a year. He and I became close friends, and we debated; he was more on my side because he was from Germany, and he also worked in Canada. Still, Uwe was more focused on the efficiency side, while I was looking at the equity and fairness side.

Wayne Soon: That's very interesting. On the issue of equity and efficiency, one of the things you are known for is your advice to different governments, including those of Taiwan and China, on their health insurance and healthcare systems. Could you discuss a little bit about your work with the Taiwanese government on health insurance reforms and healthcare issues?

William Hsiao: I went to Taiwan completely by accident. I had not lived in Taiwan nor received education there. I began to visit Taiwan in 1962 when I married my wife whose parents lived in Taiwan. They went to Taiwan in 1949 from the Chinese mainland.

I went to Taiwan in 1988 at the invitation of the Taiwanese government. It was contemplating establishing a National Health Insurance program because the opposition party made it a popular political issue. The President of Taiwan delegated this issue to the Economic Planning Commission (EPC) of Taiwan, which was the domestic policy council of the government, and it was an organization above the ministerial level. EPC had already established an academic planning group on national health insurance. EPC appointed four top Taiwanese professors to lead the Group with a research team of about 20 people. After a year's effort, this planning group could not produce much useful conclusion or recommendation.

The Taiwanese government asked why and sought a diagnosis as "Why the Group has not produced some useful output yet?
At that time, I was an associate professor at Harvard, and I had a graduate student from Taiwan. She recommended to EPC to invite me to assess why the Task Force was stuck. I accepted the invitation and went back to Taiwan for three days. During that stay, I interviewed the four leaders of the Task Force and some of its research staff and read their preliminary reports, then I reported my finding back to the Chairman EPC.

Essentially, I reported my finding as: you have four very good, capable, powerful horses, pulling a wagon, each one pulling in its own direction. They cancel each other out. You need a driver who can actually set the direction and harness the four powerful horses together and move toward the same goal.

Three days after I returned to the United States, I received a telephone call: could you come back as a driver? This is how I got involved. As for personal relations, I was not familiar with those four professors or their research team members. I did not know the top political leaders in Taiwan either.

That lack of prior personal relationships, I often found as an advantage in my international work. Often, the government wants someone completely from outside, without any political bias related to their own domestic politics, who can provide an objective analysis and credible evaluation, and then suggest the best policy options. They could lay out two or three different options. Then, let the political leaders make the choice. Then the decision makers know you are not influenced or driven by their domestic political interest groups.

Wayne Soon: Can you say a little bit more about your work in Taiwan that after you took over as the head of the commission, am I correct?

William Hsiao: It's the National Health Insurance (NHI) planning task force.

Wayne Soon: Planning task force. Do you remember the year that you were invited?

William Hsiao: That was 1988.

Wayne Soon: Very important year. What did you do in the planning task force? This is important to me.

William Hsiao: I started getting to know the task force leaders and the staff, but I was also honest enough to tell the chairman of EPC that: "I do not know what is a health system, what are the essence of a national health system for policy making?" I asked the Chairman of EPC: "Will you give me the money, let me invite the world's best academics to tell us what is a national health system, and what makes your system work well, and what makes your system work poorly? I was stimulated to make this request because in studying economics, the economic system is clearly defined. Then the planners know what to focus on to formulate economic policy.

EPC funded me for nine months. I invited and commissioned the top academic leaders from the United States, Germany, France, the United Kingdom, Japan, South Korea, and Canada to write papers, then we held a conference in Taiwan.

Let me give you the result. No expert could define what's a national Health System is. They could describe we have so many doctors per thousand people, and so many hospital beds. It's like in a physician's exam, the doctors say, this patient has two eyes, a nose, a mouth, and two ears, but would that explain why that patient has a fever, or have diarrhea, or sharp chest pain?

These world-renowned health experts can also describe their programs, such as the maternal-child health program or their insurance program. But they could not explain what makes their health system work so well, or why it fails. Consequently, I began to work with the world top academic leaders to answer the question: "What is a national health system?"

These experts included Uwe Reinhardt from USA, Al Maynard from the UK, Bob Evans from Canada, and Ikegami from Japan

We were trying to answer: “What are the main instruments that the government can turn to structure the health system so it could produce the health outcomes that country desires?” We call these control knobs. That's how we defined a national health system. It was a learning opportunity for me and for others who got involved.

Wayne Soon: Did you go back to Taiwan after that? Did they accept your recommendations?

William Hsiao: Our work received closed attention from the president of Taiwan, Lee Teng-hui, but at that time the real power was in the Nationalist Party’s Central committee. I got one member of that Committee interested; he was Li-Kwoh-ting. Li was a big name and a leader in Taiwan's economic development. He became interested, but he had concerns about a government-run national health insurance program.

Lee Teng-hui was president, but he did not have that much policymaking power at that time. But he got interested.

At that time, I had to teach at Harvard. So, my travel arrangement to Taiwan was one week each month, I would find someone to take over my teaching one week each month. I flew to Taiwan for one week and worked from early morning till midnight with the task force.

Lee Teng-hui asked the chairman of EPC to brief him periodically on the work progress of the NHI Planning Task Force. After a few months, President Lee told the Chairman: “When Professor Hsiao comes back, I want him to meet with me.” After I met him for the first time, he got very interested. He said, every time you come back, I want you to meet with me. I tried to use our meetings to educate him, get his guidance, and get his help to address political oppositions. He was the one who eventually decided that Taiwan was going to go ahead with NHI when he gained increasing political power and faced a new election. He pushed through the NHI legislation in 1994.

Wayne Soon: Your contribution is tremendous.

William Hsiao: No, no, you must educate the political leaders because advisors from outside don't have that power [to make changes on their own].

Wayne Soon: Was this trip to Taiwan for a week, and was it in 1988, or was it between 1988 and 1994? I'm getting a sense of your time and speaking to President Lee.

William Hsiao: It was only from 1988 to 1990. By then, the power elite of the government had changed with a new cabinet, but the president had not changed. The new cabinet appointed a new chairman of EPC, within a week after she took over, we met and she instructed me: I want you to bring this whole planning of NHI to a closure. I don't want to touch this topic. Just bring it to a close and don't embarrass EPC. I'm going to hand this task to whatever agency willing to take over. She handed over the Task Force to the *Weisheng Shu* 衛生署 (Bureau of Health), not even a ministerial rank agency. The Task Force just became a bureaucratic work group of the Bureau. I refused to continue my work with the Task Force.

That Work Group carried on from 1990 to early 1994. Let me make a comment: They did not do much new substantive work and move the planning NHI much beyond what we had done in the first two years. That left several major gaps in our earlier design that were unfinished. These gaps remained today. For concrete examples: one gap was how to integrate prevention, primary care, and specialty services together. Another was designing a long-term financing structure for NHI. This gap is the fundamental cause for the financial crisis that Taiwan's NHI had experienced every few years.

Wayne Soon: What was your initial recommendation that they avoid these recurring fiscal crises?

William Hsiao: We were using the fundamental technical principles to design NHI, a long-term social insurance program, but we had not finished it when the Task Force was transferred to the Bureau of Health. A social insurance program is unlike other government programs, where policy, commitment and funding are decided annually. You can easily make changes. Social insurance is a social compact between the people and the government. The social compact is: if you (i.e. the payers) pay a certain amount of tax or premium, I (i.e. the government's social health insurance program) promise you that I will provide you with a set of specified benefits in the future that could be decades later. That's a long-term compact. That means financially, you must estimate how much this promised benefit will cost over the next few decades.

For example, under the Medicare program in USA, the costs of its benefits are estimated for 25 years hence. That's why you don't see

Medicare facing a financial crisis every few years, because the premium rates are set far ahead. The costs of the USA Social Security pension plan are estimated for the next 75-years, and premium rates are set that long. Actuaries admit that we cannot predict health expenditures that far ahead, 75 years, due to technological advancements and disease changes, and so forth. The compromise was 25 years. When the NHI legislation was debated in 1994, I asked Taiwan's Executive Yuan 行政院 leader to establish the premium rates and premium bases for 25 years, but he refused because there was inadequate planning. Consequently, every few years, Taiwan's NHI runs out of money.

Wayne Soon: That's very interesting. I don't know if you know, but Dr. Hsiao, because I'm a historian, when I research the first mentions of national health insurance in the Taiwanese newspapers, you are the very first person that is cited in 1993, but I just want to let you know, it's incredible—the first expert. You are the first expert in the Taiwanese newspaper to talk about domestic newspapers. It shows your importance. I wanted to let you know as a trivia.

William Hsiao: I should clarify. After I left in 1990, I visited Taiwan two or three times each year because other ministries and President Lee Teng-hui invited me for consultation. For example, I recommended that they set up a parastatal (i.e., a quasi-independent government agency) to run the national health insurance program, not the government directly. That is because a long-term social insurance program needs to be insulated from politics. Lee Teng-hui entirely agrees with it. He said, "The annual expenditure under NHI is going to be a huge piece of delicious meat." Every interest group will want to take a piece of it.

What President Lee said implied that every major interest group would press the government to get a piece of this meat. He asked me to give a recommendation on how to insulate NHI from politics. I recommended creating a new parastatal agency to insulate NHI from politics as much as we can, although it is still a halfway measure. That's how Taiwan's National Health Insurance agency was initially got set up as a quasi-independent agency of the government. However, 20 years later, that was changed. NHI Administration was taken back to become a direct part of the government because the government wants to use it as political power to influence stakeholders, to give favors or punish interest groups.

This change partly explains why Taiwan's national health insurance face a financial crisis every few years.

In designing a sound NHI program, all these factors had to considered. I want to make clear that I am not that smart, or that our original task force teammates are that smart. We were learning from the worldwide practices and experiences, including South Korea, Japan, Germany, England's National Health Service, and Canada's National Health Insurance. We were trying to avoid their mistakes and emulate their good points.

Wayne Soon: Thank you. This is so important. I wanted to ask you; do you remember the name of the first chairman of the planning commission?

William Hsiao: Yes. That's Chien Foo 錢復. Chien was an expert in foreign relations at that time. He was a member of the younger generation who may become a candidate for Premier , but I should clarify for you, Chien Foo was so busy, he delegated the design of NHI job to his deputy, that deputy's name is Siew Wan-Chang 蕭萬長 (Vincent Siew).

Wayne Soon: Yeah, who became the premier.

William Hsiao: Premier and vice president. He was the one who interacted with me most closely and he's the one who understood the special nature of a long-term social insurance program. He's the one who reported to Lee Teng-hui the president. Lee Teng-hui asked to see him for periodical briefings.

Wayne Soon: Thank you. If you feel comfortable, do you mind sharing the one who took over EPC.

William Hsiao: I forgot her name. But now I remember. She is Shirley Kuo 郭婉容. She was a minister of finance, Taiwan before she led EPC.

Wayne Soon: Thank you. One last question, because you have reviewed so much, this is very important. After the National Health Insurance was set up, did the government invite you back? Whether it is a nationalist or the DPP government, did they ever invite you back or Academic Sinica, did they invite you back to talk about Taiwan's National Health Insurance?

William Hsiao: Well, first, during the legislative process. I was invited back to brief the Premier and Vice Premier during the legislative process. I want to tell you that a very wise Premier was Lien Chan 連戰. He did not get into the details. He heard the briefings and so forth.

Then he says, “I want to lay down a principle for you people, put in the design and in the legislation, he said, how much we spend for NHI, depends how much is our revenue for NHI（*yiruweichu* 已入為出）.” That was in the original legislation, but now they find a loophole around it. Now when they have a fiscal gap when expected NHI expenditure exceeds its revenues, the government appropriates money from the general budget to fill that gap. That's why it creates a financial crisis.

I want to mention the person who led the implementation of Taiwan’s NHI, Yeh Ching-Chuan 葉金川. He was an exceptionally capable civil servant who devoted his career to advance the health of the Taiwanese people.

He really deserved a tremendous amount of credit for the success of Taiwan's National Health Insurance. It's not just the ones who designed it. I already said the design left gaps and was incomplete. Yeh took the design principles and concrete specifications, then considered the reality on the ground at that time, and sees how he can follow the goals, principles and specifications laid out in NHI plan and make them work. He's a capable, honest, visionary leader. Taiwan was very lucky to have him and the group of people he recruited to lead the implementation.

Wayne Soon: Remember Yeh Ching-Chuan was also involved during the SARS crisis too. He entered the Taipei Hoping hospital.

William Hsiao: I see you know a great deal about these leaders.

Wayne Soon: Thank you. I learned so much. Maybe pivoting from Taiwan, maybe before that, so after 1995, did they invite you back? I really want to know that. Did they follow up? Was it mostly the implementation phase and then you were not as involved anymore?

William Hsiao: After the implementation of NHI in 1995, I did not follow the developments that closely. I also did not want to interfere with people who really must face reality in implementing the program. Taiwanese government invited me back, but I did not go back very often. I went back about once each year. Then the head of national health insurance administration and the premier may meet with me, but usually I didn’t try to interfere; I did not feel that I should, unless when I thought NHI was going the wrong overall direction. For example, if the system becomes inequitable or the quality really declines.

Taiwanese government, nevertheless, invited me every 10 years, on the 10th anniversary of NHI, to come back to reflect and evaluate the performance of NHI. Taiwan gave me the fund to invite a group of top international experts to evaluate Taiwan's national health insurance and recommend changes. We would hold a three-day international symposium and publish papers. I did that on the 10th anniversary and 20th anniversary. And this coming November, I'm going back for the 30th, but I'm not organizing the 30th. The Taiwan government, the DPP, is organizing this symposium.

Wayne Soon: Dr. Hsiao, thank you. Maybe pivoting away from Taiwan to mainland China or Hong Kong. I do not know a lot about your work there. Can you say a little bit about your work for China and Hong Kong especially, or for the health insurance programs?

William Hsiao: Started in 1984, I began to go back to China regularly, to train China's health economists and managers, because they were shifting healthcare from central planning to the market principle. Before, it was all run by the government through central planning. I began to work on China's health policy by accident, I got to know the Minister of Health, who was new in 1988.

Then I start getting into China's health policy, but that's a totally different thing. If you are interested, I can elaborate; otherwise, we can stop here. I am involved with China's health, economics, and health policy even today. I visited China last October.

Wayne Soon: Yeah. I would love to know more. Were your training health economists for China occurred at a particular university?

William Hsiao: Our training program in China involved seven major universities. They have departments in Marxian economics and management of centrally planned health organizations. That was very different from the Western theories, concepts, and practices. At that time, most economists in China didn't understand the market. Meanwhile, Western economics is all about the market-- individual consumer choice, how the price works, the production function, and so forth. It was hard to train the Chinese in western economics and management. However, by chance, again, totally by chance, a new Minister of Health, Chen Minzhang 陈敏章, was appointed in 1987 and one of his staff members must have told him that Professor Hsiao is here to give training to the faculty of the seven major universities. The staff asked the minister:

Do you want to meet him? The minister invited me for lunch, and we got along well. At the end, he said, “I have been a new minister for several months now, but I don't know what the process to formulate health policy. How do we establish health policies and set goals beyond the ideological principles already dictated by the communist party. He was a visionary leader.

He went on to say that I don't know how to translate policies into something tangible. Are you willing to teach us? That's when I got into teaching top government health officials in China. These executive training programs continue to this day. The influence we have in China is what we taught to the top leaders, including the director generals of bureaus and vice ministers of health.

Wayne Soon: In terms of building capacity, were you directly involved in the design of any health insurance programs in China?

William Hsiao: No, but what we were teaching them “what is a health system,” and we emphasized that you must decide how much equity you want to pursue. That's not the job of a foreigner or outsider. Usually, every country worries about efficiency because that determines the amount of expenditures. There's a tradeoff between equity and efficiency. The national leaders must decide that trade-off.

Again, it's not for the foreigners to decide. We developed cases for those executive training programs, forcing participants to review what they think is the tradeoff. Often in these training programs, they told me that I treat them like college students. I reply that I am trying to get you to think, this is your country and your social values that set goals for health, not my values. For the design of a health system, it is the ethical and moral values of your society that you must internally agree upon, or through the public debate, that sets the health goals and direction for your nation.

Then, once the role of the top leader in a large country like China had decided on the social values and establish these broad goals. They can turn to technocrats to design a system to achieve these goals. As top leaders, they cannot master all the details and design a sound system, they must rely on technocrats. For example: do I use general taxes, or do I charge premiums to finance NHI? How much tax do you tax tobacco or alcohol? How much do I allocate for outpatient services? How much do I allocate for inpatient services? How much money do we allocate for drugs? How much do I allocate for research in medical science and how much do I allocate for medical training?

In benefit package design, you have to allocate your financial resources for what types of services such as prevention, outpatient and inpatient, mental health, etc. How much do you pay for doctors' office visits, an appendectomy, or a CT scan? That payment system drives physicians' behavior. As top leaders, you cannot master all the different choices and their impacts, and your time and energy should focus on the broader top national issues. The top leaders need a team of technocrats who has the knowledge but dedicate to public service. Our training programs were aimed to train those technocrats. That's what I did for decades for China. These technocrats can in turn educate/persuade the top political leaders to consider relative priority in equity and efficiency and their trade-offs.

Wayne Soon: Thank you. Did you get a sense that they were, based on the principles you shared with them, also presented with case studies of healthcare and health insurance reforms in places like Taiwan, South Korea, and elsewhere? Would that include that?

William Hsiao: It did. We, in our training, did not do it just with Harvard faculty. I brought in experts from all the major countries. For a particular topic, I introduced experts from Taiwan when Taiwan did something very correctly. For example, South Korea, Japan, Germany, and the UK have allocated money to regions to create a more equitable system. International teaching is not just based on the United States or just East Asia. We taught them the best practices.

It took a few decades to educate the Chinese health leaders. The outcome we influenced was that China in 2009 established a universal health insurance for the whole China. Prior to that time, we did a lot of studies in China, funded and sponsored by the World Bank, showing how inefficient and inequitable Chinese healthcare was. We send these reports through channels trying to reach the highest level of Chinese decision makers. Make them aware you really have serious, serious waste.

For examples, under the Chinese health system, the doctors overprescribed drugs and over-hospitalize patients who can pay, but patients who cannot pay cannot even get access to basic healthcare. The difference between the western part of China and the eastern coast of China were so huge. We document through surveys, specifically a 130,000-household interview survey about the inequity and household financial bankruptcies due to health expenditures. I have been involved with China much longer than

with Taiwan and in much greater detail, The empirical evidence we presented helped to convince Chinese political leaders that they have serious health problems, and they made mistakes in your policy in causing these problems.

Finally, let me tell you, they could not get a consensus among government ministries because each one represented a powerful stakeholder group. For example, their pharmaceutical industry became most wealthy and powerful because pharmaceutical companies employ the offsprings of the most powerful political leaders from the local and national level. These offsprings became the spokesperson for the pharmaceutical industry because that's where the 60 percent of the Chinese health expenditures was spent for drugs. How do you break that political economic structure?

We persuaded the Chinese health leaders and some political leaders that you had the wrong health policy in constructing the health system on the market principle. The market has serious failures. At the end, China leaders still could not reach a consensus. Do you know what the Chinese government did?

They commissioned eight powerful organizations to give them a proposal to establish a sound health system. Each organization were given the money to design a new system for China. Four of these organizations were domestic. Three of them come from the top Chinese universities like Beijing Tsinghua, Fudan universities and the fourth was the policy research center of the state council. Four of the organizations were the World Bank, the World Health Organization, McKinsey Consulting Company, and I'm sorry I forgot the name of the fourth foreign organization.

Wayne Soon: When was this?

William Hsiao: These organizations were commissioned in 2007. And in 2008, the Chinese government held a three-day conference at *Diaoyutai* 釣魚台. That's the so-called the Diaoyutai Conference.

Your smile tells me that you know the significance of *Diaoyutai*. I'm not sure if you're familiar with the Chinese political governance structure. There were 14 ministries involved with healthcare policy. However, there are only four mostly involved and they were also the most powerful ones in health policy. They were the Planning commission, the Ministry of Finance, the Ministry of Health, and the Ministry of Labor and Social Protection.

However, at that conference, the premier required the number one leader in charge of the 14 ministries to be there in person attending that three-day conference. The eight outside organizations commissioned to develop the reform proposals made their presentation at the conference. Debates and discussions followed each presentation. On the last day of the conference, it was obvious there was no consensus on the question whether China should continue to rely on the market to build its health system or shift its reliance to the government? For example, should people rely on themselves to pay for their health either out-of-pocket or purchase of private insurance, or should Chinese government establish a universal health insurance system. That means consolidating that power into one agency and changing the payment system.

China often recites the slogans, prevention is first, but if you look at the resource allocation, prevention was the last. At the conference, neither the attending Chinese ministerial leaders nor the representatives of the eight commissioned organizations could agree on the any proposal. McKinsey was clear in presenting that the market advantages such as it gives people the most choices. People can decide what they're going to demand and spend on healthcare. The market competition would drive down the price, so on and so forth. The pro-government approach argued otherwise. Profit motives would not drive up the prices of some medical services and drug, the administrative costs under a government plan would be much smaller than a system based on private insurance. What should China do as a health policy, market driven or government driven? There was no consensus. Let me give you the conclusion of the conference.

With this deadlock in the first two days of the conference, the chairmen of the conference asked me before lunch on the third day: “You heard all the presentations, discussions, and debates. There's no consensus. Will you bring together those foreign experts who are here at the conference but were not involved in the eight commissioned organizations’ proposals. Over lunch your small group foreign experts discuss the policy direction for China. If your small group can reach a consensus, I will give you an hour after lunch to make a presentation and to discuss.” I found there were four foreign experts who fit this qualification. I brought them together and we discussed and debated over lunch time. We agreed on four basic principles and their applications. I won't bore you with the details.

We laid out four principles and implied policy actions. Again, we were not trying to impose any social values on China, but we knew

China had declared equity as a priority goal for a socialist and communist country. For example, our small group stated that if equity in healthcare is a priority, then China needs to have a unified, universal national health insurance system. You cannot rely on the market to finance healthcare. If you believe in efficiency, then you may rely more on private healthcare delivery organizations. However, if you make the tradeoff between equity and efficiency, the government must take over healthcare financing, but you can use some market competition in healthcare delivery.

We present the four principles conditioned on the social value that China would embrace. The co-chairman of the conference gave me more than an hour to present and encouraged a debate. At the end, they asked me to write a report in Chinese language about our conclusions. But my Chinese is not good. The conference organizer had to revise my Chinese writing and then send it to the Politburo. They laid down the principle of China's universal health insurance. Then the Politburo turned to the technocrat and directed them: “Okay, you go ahead and work out the details.”

In short, I can summarize that Harvard’s role was entirely educational, providing a set of concepts and a framework to think about complicated health issues. We also taught the trade-off in the policy choices a country makes.

When I compared my roles in Taiwan and China, they are different. In Taiwan, I was more directly involved in their policymaking. In China, we were more educational and influenced their long-term deliberation as how they think through their health policies.

Wayne Soon: Thank you. This is very, very insightful. To round off the interview, considering equity and efficiency, could you briefly reflect on your work in the US? Just briefly, in terms of thinking about these principles and any final thoughts on the motivation of your work in consulting for governments, scholars, and policy makers abroad, as well as in the United States?

William Hsiao: The United States does not have either an equitable or efficient health system. The United States only debated the fundamental principles of healthcare in early 1920s. I read the history written about USA’s health policy formulation. In the 1920s, the US citizens decided that for that time, let's rely on market competition. Then in 1964, because of the history taught us about the shortcoming of private health insurance, the poor people won't be

able to afford private insurance, and elderly people cannot buy health insurance because they are a high-risk group, and the insurance companies would not offer them the options to buy insurance. Then the United States decided to deal with the elderly and the poor through government financing. It established Medicare for the elderly, and the Medicaid program for the poor.

Later these policies expanded to cover children and disabled people and so forth. The USA still relies on the market to set prices of medical services and programs, including private insurance premiums. Consequently, we have one of the most expensive healthcare systems. America has a market base health system. It has major deficiencies, and the profit motive causes inefficiencies and poor quality of healthcare.

I can give you an example of how the USA experience can teach other countries. About twenty years ago, the Middle Eastern nations were persuaded to turn their health systems into market driven ones. These persuasions were done through our private companies' propaganda and persuasion of American diplomats.

However, at that time the World Bank tried to convince them otherwise. So, the World Bank asked these nations, "Let us invite some experts to come in to give you an analysis and worldwide experience. I was one of the people invited to give a one-day presentation. All the ministers of Finance and Health of Middle Eastern countries were represented. I argued that the market has serious failures in healthcare. The attendees were not persuaded by my presentation.

Many attendees argued with me and said: "You have your ideological leanings. I replied: "You don't have to take my presentation of concepts and empirical evidence. Why don't you make your own studies of the health system outcomes of USA. If you like them, go ahead and emulate the market driven health system such as USA. If you don't like the outcomes, then you know that you may have to follow a different policy. They did. None of them moved to the market driven health system.

This is what evidence can persuade, but not in America. Let me give my view about the United States. I recently served on the California Governor's Commission on reforming its health system. When the governor ran for election, he promised he was going to establish a single-payer system for California. After he was elected, he set up a commission. I was the only academic single payer expert appointed to serve onto the commission.

However, the Commission did not even get to the first base to move the current system to a single-payer one. The United States has created powerful, wealthy, well-organized stakeholder groups. They can block the United States from reforming its health system. The American public know well of our health problems and the poor health outcomes. We don't like them, and the huge amount each year we spend on healthcare. We know the reforms we need to make.

In research work and my published papers, I showed how we can save every American at least a thousand dollars a year by shifting to a single payer system. At the same time, we can improve people's access to healthcare and its quality, but there are no strong politically organized groups to support it.

Wayne Soon: Thank you. On that note do you have any final thoughts? Any final comments?

William Hsiao: My final comment is that every country must set its principles and goals according to its embraced social values for health. Then the country can establish policies to realize its goals. However, most countries nowadays are focusing on quick remedy for a specific health problem. I call that a band-aid solution. For example, you already know there's bleeding on your body, so you put a band-aid on it. but you don't know why it bleeds. You're not dealing with the causation of that problem.

Wayne Soon: Thank you. Thank you, Dr. Hsiao, I really appreciate talking to you today. I'm going to stop recording now.

[End of Interview]