UNCLASSIFIED
FROM BONN
FRAME ECONOMIC
TO FCO TELNO 06 SAVING OF 3 MAY 1989. Info. Brussels, Luxembourg, The Hague, Paris, Rome, UKRep Brussels, UKDEL OECD, UKMis Geneva, all Consulates-General in the Federal Republic and West Berlin, Washington, Tokyo, Vienna.

FRG ECONOMY: SPRING REPORT OF THE FIVE ECONOMIC INSTITUTES

SUMMARY

1. The Spring report of the five leading economic institutes was published on 24 April. It expresses concern about inflation in the major industrial economies, but it expects monetary and fiscal policies to achieve a "soft landing". It forecasts growth to slow next year.

2. Referring to the German economy, the report outlines recent developments along standard lines. It forecasts real GNP growth of 3% this year with investment and foreign demand remaining strong. Unemployment will remain around current levels. A summary of the report's main figures are given below.

Key Figures	Absolute				% change on previous year			
	1987	1988	1989*	1990*	1987	1988	1989*	1990*
GNP (DMbn)	1643.2	1699.8	1745	1785	1.8	3.4	3	2.5
Domestic demand	1594.2	1650.0	1695	1740	3.1	3.5	2.5	2.5
Total demand**	2144.4	2230.4	2310	2380	2.5	4.0	3.5	3
Unemployed (1000's)	2229	2242	2075	2100	.	.	.	.
Unemployment rate	8.9	8.9	8.2	8.2	.	.	.	.
Consumer prices	.	.	.	.	0.6	1.3	3	3
Current account (DMbn)	80.8	84.9	90	90	.	.	.	.

* = forecast ** = Domestic demand plus exports

3. Looking to next year, the report identifies inflation as the major threat and expresses concern that tight monetary policy may weaken growth. It calls for measures to encourage the growth of productive potential and it makes a ritual complaint about tax increase this year. The report also repeats the institutes' appeal for moderation of wage demands.

4. A report devoid of surprises which has received standard coverage by the media and little substantive reaction from the Government.

DETAIL

5. The Spring report on the FRG economy produced by the five leading economic institutes, was presented to the Government on 24 April, 1989. The five institutes consist of the RWI (Essen - whose turn it was to chair the group), the DIW (Berlin), the HWWA (Hamburg), the IfO (Munich), and the IfW (Kiel).

THE INTERNATIONAL CONTEXT

6. The report begins with an overview of international economic developments. Continued growth of demand and production in the major industrial countries has boosted world trade. But despite strong investment, output in many industrial countries has encountered capacity constraints. This, combined with rising raw material prices, has contributed to higher inflation. The report suggests, however, that monetary and fiscal policies in the main industrial countries have provided a framework by which to achieve a "soft landing" for the world economy. The report forecasts growth of 3% in western industrial countries this year, falling to 2.5% in 1990. The slowdown will be particularly hard in the US where growth of 2.75% this year will drop to 1.75% in 1990. In Japan, slower growth of domestic demand will contribute to GNP growth easing from 4.5% this year to 4% in 1990. Economic growth in western European countries will average 3% this year and 2.5% in 1990.

THE FRG ECONOMY

7. Turning to developments in the German economy, the report stresses the strong expansion of domestic demand and output which has led to capacity constraints in some sectors. Monetary policy has combined with a tighter fiscal policy to act as a brake on the economy. But higher interest rates have failed to control monetary growth completely and in February M3 expanded by 7% against a target of 5%. The cuts in income tax which came into force last year had put pressure on public spending which had resulted in a decrease in expenditure, particularly investment. But the economic boost provided by the cuts had been overtaken by the increases this year in consumption taxes. These increases had also contributed to a considerable worsening of inflation which was expected to reach 3% in April (comment: this was later confirmed by provisional figures issued on 27 April).

8. The German economy had benefitted from a surge in foreign demand, particularly in European countries. German exports, especially capital goods, had also been helped by the relative weakness of the D-Mark against the US dollar and EMS currencies. Exports to OPEC countries continued to be low, as were exports to developing countries. Imports into the FRG had also increased, particularly semi-finished products. Towards the end of last year, there was some evidence that imports of finished goods were also increasing as capacity constraints began to tell on domestic manufacturing. As a result, corporate investment, which was already growing strongly, accelerated markedly towards the end of the year. The report estimated that in real terms, investment in machinery and equipment rose by 8% in Q488 and Q189 and that construction investment grew by 6%. Residential construction alone rose between 4% and 5% and this was accompanied by some increase in house prices.

FEDERAL REPUBLIC OF GERMANY

Health care in Germany is insurance-based. At national level there are four Ministries with responsibilities for aspects of health care provision. There are equivalent ministries in the 11 Lander who are accountable for funding public hospitals, public health and health and safety at work. The key element in the administration of the health service is the statutory health insurance system comprising over 1200 sickness funds, covering about 90% of the population. In addition about 8% of the population have health cover outside the system, predominently under private insurance schemes. About 2% of the population has no cover and must rely on social aid. Other providers of health services include doctors and dentists in the private sector, local authority voluntary, church and independent welfare bodies. In brief, there is no National Health Service in Germany but, rather, a network of services which are geographically, functionally and financially decentralised.

The state insurance scheme requires contributions of 13% of wages and salaries, split equally between employees and employers.

With effect from the beginning of 1989, additional charges have been imposed eg on prescribed drugs and spa treatments, a drugs limited list has been instituted, doctors have been restricted to providing "the most economic prescription". Fixed charges have been introduced for spectacles. There has been a good deal of political controversy over these charges.

The health care system in Germany is widely acknowledged as providing a de luxe service but there is a heavy price for this, with about 9 % of GNP devoted to health (UK 6.2%). The key problem is to keep spending on th statutory sickness scheme from rising faster than the incomes of those insured (contributions have risen 3 times faster than income since 1960). There is evidence of over-provision of expensive equipment, doctors and other personnel. The amount of services provided is largely

determined by those who provide them. Since payments to doctors are per item of service there is an incentive to make diagnostic tests etc.

ITALY

A universal health care system was established in 1981. It is financed partly from central government and partly by contributions from employees and employers. The Ministry of Health has general supervisory powers. Funds are allocated annually by an interministerial committee to the 21 autonomous regions which are empowered to run health matters within general national guidelines. The Regions are subdivided into a total of 694 local health areas which provide primary health care and ancilliary services in their area.

The Italian health system is based on contributions by employees and employers. Employees pay 1.15% of earnings, employers 13-15% of payroll. In addition, with effect from 1 April last, charges were introduced for individual items - see Annexe for details. The imposition of these charges was deeply unpopular and caused a political uproar. Many Italians felt cheated at having to pay twice over for health care and many simply refused to pay the charges.

The health system in Italy is widely regarded as inefficient, overmanned and, sometimes, politically corrupt. Despite efforts to equalise provision, the South is still relatively underserved. Quality of service is variable.

Reference .....

HEALTH SERVICE CHARGES IN ITALY
FROM 1.4.1989

1. The charges, introduced on 1 April, are part of the government's more wide-ranging plans to reform the health service ~~(I will send you details of this proposed reform as soon as possible)~~. They have met with a great deal of opposition and are now once again under discussion by the government; the outcome of these discussions and any changes resulting from them should be announced any day now. For the time being, the charges are as follows:

a)	Laboratory tests	1,000 lire
b)	X-rays	10,000 "
c)	full dental X-rays	30,000 "
	ultrasound scan	20,000 "
d)	specialist examination	15,000 "
	nuclear medicine tests or radio-immunology tests	15,000 "
	cycle of ten physiotherpay sessions	15,000 "
e)	specialist examination with treatment	25,000 "
f)	stay in hospital (state-run)	10,000 per day
	stay in private clinic linked to state scheme	15,000 per day
g)	prescription charges	30% of cost of medicine

2. The following patients are exempted from these payments:

i) those below the poverty line
those earning pensions of up to 10 million lire p.a. (15 million if they have a dependent spouse, 1 million more for each dependent child)

ii) those earning only the minimum state pension
family members of categories i) and ii)

iii) pregnant women, invalids, blood donors, donors of organs.

3. There has been some confusion over the timing and practicalities of these payments, with different systems being applied from hospital to hospital. However, the Minister for Health has announced that hospitals cannot withhold urgent treatment if the patient is unable to pay, while for non-urgent treatment the patient must still apply to the Local Health Unit for authorisation. Italian citizens will not be refunded for medical expenses incurred under the new scheme. It seems, however, that they should be able to claim income tax relief in respect of such expenditure, although no official announcement has yet been made in this respect.

INFORMATION OBTAINED FROM BRITISH EMBASSY, ROME
19.4.1989

PROVISION AND FUNDING OF HEALTH CARE - FRANCE

Sources of Funding

1. The French health care system is financed through social insurance: employers and employees pay social security contributions for health care and sickness and invalidity benefits: the present rate for the principal fund (Caisse nationale d'Assurance Maladie des Travailleurs salariés - part of the «régime général») is 12.6% of gross pay for the employer; 5.9% for the employee. The «régime général» accounts for 76% of health care expenditure: there are separate schemes for agricultural workers and certain other groups of employees (eg miners, seamen, civil servants) and for the self-employed. Over 99% of the population are covered by the social insurance scheme, and there are arrangements for the poor to take personal insurance paid from local authority social assistance funds («aide sociale»).

2. There has been concern that the long-term unemployed and some others were falling through the safety net: new arrangements for income support, which will come into effect next year, will also extend health care insurance cover. There is cross-party political support for this.

3. Health care is not free at the point of access: individuals are expected to pay a «ticket modérateur» - a percentage contribution to the cost of consulting a doctor, and of minor hospital operations and tests; major surgery is free, but there is a daily «hôtel» charge (now 27 francs). There are also prescription charges, and charges for work by dentists and opticians. Many employers arrange top-up insurance through «mutuelles» (friendly societies) which pay out to reduce personal contributions to public health care (eg prescription charges) and to cover the difference between the actual costs of treatment in private hospitals and the agreed rates paid by public insurance. Over half the population are covered by these schemes.

4. For those who cannot pay, charges may be waived by arrangement with the local authority. The chart below shows the principal sources of funding and direction of expenditure in 1986.

5. OECD figures show that health care expenditure represented 9.1% of GDP in France in 1984, compared to 5.9% in the UK.

/Delivery

Delivery of the Service

6. The principle of liberty of access to the doctor of one's choice is considered fundamental in France. There is free access to general practitioners and specialist doctors, and patients are free to take second or further opinions if they are not satisfied with their doctor's advice.

7. General practitioners and specialists working outside the public hospital system are free to set up practice wherever they wish. With very few exceptions, they are «contracted» («conventionné») to the Social Security Fund. Most charge agreed rates for consultations and treatment, and patients who can show evidence of insurance cover (ie social security number) pay only the «ticket moderateur», but increasing numbers are opting for a «sector 2» contract - they are free to fix their own fees and the patient pays the difference between the agreed rate and the actual charge.

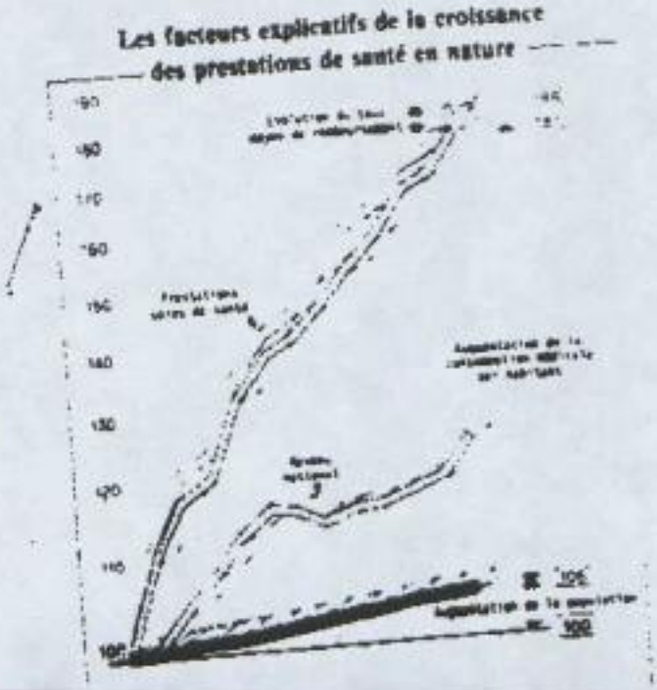
8. The private sector accounts for one-third of hospital beds in France: about half the private sector is non-profit making. Almost all private hospitals and clinics operate either as part of the public service, or under contract to provide services for agreed rates. Only 0.4% of beds are outside the system.

9. Public hospitals are required to operate within a global running costs budget, allocated by the Ministry. Private hospitals operate on a flat-rate price per day and per service basis agreed with the social insurance fund. Information is at present being collected to enable both public and private sector to move to a «DRG» system, adapted from the US model.

10. The number of hospital beds and the provision of capital equipment is regulated in both the public and private sector through the health zoning plan («carte sanitaire»).

Recent Developments

11. The escalating costs of health care have been a source of concern for successive governments



CERC

June 1987

12. The latest in a series of expenditure control plans, the «Plan Séguin», was announced in November 1986 and came into effect in 1987. The principal features of the plan were restriction of the groups entitled to prescription charges, increased charges for «comfort medicines» (ie medicines not required for the treatment of a serious illness), and an increase in the daily charge for hospitals.

13. Concern about the rise in health care spending and consequent forecast deficits in the public insurance funds was one of the pressures which led to the review of social security spending («Etats Généraux de la Sécurité Sociale») in 1987. (It was not the most important pressure: forecasts of rising deficits in pension funds were the principle cause of concern.)

14. The report of the Commission which undertook the review stressed the need for greater efficiency in the management of the health care system. Specific recommendations included:

- more efforts on prevention, including a ban on all advertising for alcohol and tobacco, and an intensified campaign against road accidents;
- simplification of arrangements for prescription charges and individual contribution to public hospital costs;
- improved information on costs and efficiency of treatment to be made available to health care professionals;
- reinforcement of the role of general practitioners;
- review of arrangements for payment of doctors for laboratory tests, and examinations (eg scans, electrocardiography). Present arrangements encourage excessive recourse to these tests;
- variable funding for consultations, as longer consultations often lead to lower prescription charges;
- reform of public funding for private hospitals - payment by day and by act is not appropriate for profit-making organisations;
- better co-ordination and improved use of computer systems;
- an end to price fixing for medicines, to encourage the development of research by the French pharmaceutical industry.

The report concludes by stressing the importance of the mixed economy in the health care system, and warning that failure to take measures to stem the rising expenditure will lead to a difficult choice between a more centralised, authoritarian system, and a more competitive one, with public insurance covering only serious illness.

/15. The

15. The government's response to the report, announced in December 1987, included the establishment of a prevention fund within the public insurance fund; a rise of 10% in tobacco prices from 1 April, a rise in the hospital day rate to 27 francs, creation of a task force of hospital management, and financial incentives for early retirement by doctors.

16. The impact of the «Plan Séguin» was initially greater than expected: it was originally expected to save 9 billion francs in a full year; preliminary estimates on 9 months operation in 1987 put the saving achieved at 11 billion francs. The 1987 health account, published at the end of March, showed that consumption rose by 4.7% in 1987; 2.7% at constant prices compared with 1986. The 1986 rise at constant prices was 6%. However, recent figures show expenditure beginning to rise more rapidly again. The present government has announced a modification to the «Plan Séguin» to allow the elderly and long-term sick to receive free medecines for all illnesses.

5 December 1988

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COMMENT

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KOHL'S GOVERNMENT STATEMENT OF 27 APRIL.

SUMMARY.
1. KOHL SPOKE FOR ONE AND A HALF HOURS. IN STRONG AND CONFIDENT VEIN. EMPHASIS ON CENTRAL SIGNIFICANCE OF NATO AND EC MEMBERSHIP. INSISTENCE THAT FRG IS A FULLY RELIABLE PARTNER. SHARP ATTACK ON EXTREME PARTIES TO THE LEFT AND RIGHT. LITTLE NEW IN POLICY TERMS. THREE MAIN CHALLENGES FOR THE NEXT DECADE DESCRIBED AS 1992, THE CREATION OF A WORLD ENVIRONMENT POLICY, AND THE NEED TO KEEP SOCIETY HEALTHY BY PRESERVING TRADITIONAL INSTITUTIONS ESPECIALLY THE FAMILY.

DETAIL.
2. ON SNF AND NATIONAL SERVICE SEE MY TELNO 456 (NOT TO ALL) [already seen]

ENVIRONMENT
3. THIS GOT TOP BILLING IN THE SPEECH. KOHL STRESSED THE NEED FOR GLOBAL SOLUTIONS TO ENVIRONMENTAL PROBLEMS. ON A NATIONAL LEVEL, ENVIRONMENTAL PROTECTION WILL BE WRITTEN INTO THE CONSTITUTION AND MORE USE MADE OF TAX INCENTIVES. PRIORITIES FOR THIS LEGISLATIVE PERIOD ARE:

- TO INCORPORATE THE POLLUTER PAYS PRINCIPLE IN LEGISLATION.

- TAX RELIEF FOR 3 WAY CATALYSERS IN SMALL CARS

- 3 WAY CATALYSERS FOR ALL NEW CARS IN THE EC, AND ALL CARS IN THE FRG BY OCTOBER 1991.

- LINKING DEBT RELIEF TO ENVIRONMENTAL PROTECTION. KOHL WILL PURSUE HIS TORONTO INITIATIVE AT THE PARIS ECONOMIC SUMMIT.

- ENVIRONMENTAL MEASURES TO BE A CONDITION OF INTERNATIONAL LOANS.

ENERGY.

(A) NUCLEAR.
4. KOHL REAFFIRMED THE GOVERNMENT'S COMMITMENT TO NUCLEAR ENERGY AND THE INTEGRATED NUCLEAR WAST MANAGEMENT CONCEPT BUT LEFT OPEN THE POSSIBILITY OF COOPERATION WITH THE FRENCH IN REPROCESSING.

(B) COAL.
5. THE GOVERNMENT WILL MAKE EARLY PROPOSALS FOR A SUCCESSOR REGIME TO THE EXISTING AGREEMENT UNDER WHICH ELECTRICITY PRODUCERS GUARANTEE TO USE A CERTAIN QUANTITY OF DOMESTIC COAL. THIS SHOULD NOT INVOLVE A LARGER QUANTITY AND SHOULD BE ON A SOUND FINANCIAL

FOOTING. BUT SHOULD SHOW SOLIDARITY WITH THE MINERS OF THE RHEIN, RUHR AND SAARLAND (ALL SPD LANDS. A HINT THAT KOHL IS NOT PLANNING MAJOR REDUCTIONS IN STATE SUBSIDIES).

EMPLOYMENT

6. MEASURES TO REDUCE LONGTERM UNEMPLOYMENT. AN ADDITINAL DM 1.5 BILLION IN JOB CREATION AND DM 250 MILLION FOR UNEMPLOYMENT BENEFIT. ATTEMPTS TO INCREASE OPPORTUNITIES FOR PART-TIME WORK.

TAXATION POLICY.

7. THE WITHHOLDING TAX ON INCOME FROM SAVINGS WILL BE ABOLISHED FROM 1 JULY. THE GERMANS WILL WORK IN THE EUROPEAN COMMUNITY FOR A TAX REGIME FOR INTEREST ON SAVINGS WHICH SUITS ALL PARTNERS AND CORRESPONDS TO THE AIM OF A SINGLE MARKET.

FOREIGNERS.

8. THE GOVERNMENT WILL PROPOSE A NEW LAW ON FOREIGNERS. MAIN POINTS WILL BE:

- BETTER STATUS FOR LONGTERM RESIDENTS:

- WIVES AND CHILDREN TO BE ALLOWED TO JOIN LONTERM RESIDENTS:

- EASIER RULES FOR ACHIEVING CITIZENSHIP BUT NO AUTOMATIC CITIZENSHIP OR VOTING RIGHTS:

- EASIER PROVISIONS FOR EXPELLING FOREIGN CRIMINALS.

ASYLUM.

9. POLITICAL ASYLUM GUARANTEED BY CONSTITUTION UNAFFECTED. NEW MEASURES TO DEAL WITH ECONOMIC ASYLUM SEEKERS. IN PARTICULAR FASTER DECISIONS TO EXPEL THOSE WITH NO CLAIM TO ASYLUM. HARMONISATION OF EUROPEAN ASYLUM LAW AND PRACTICE. TO BE DISCUSSED AT THE MADRID EUROPEAN COUNCIL.

AGRICULTURE.

10. FRG TO STAND BY THE COUNCIL DECISION OF FEBRUARY 1988 BUT TO OPPOSE FURTHER PRICE REDUCTIONS VIGORDUSLY.

ETHNIC GERMANS.

11. CENTRAL AND REGIONAL GOVERNMENT TO CONTINUE HELPING ETHNIC GERMANS TO BE ABSORBED INTO THE COMMUNITY QUICKLY. HOWEVER, CONDITIONS FOR THEM TO BE NO BETTER AND NO WORSE THAN FOR EXISTING RESIDENTS ESPECIALLY IN HOUSING. DRAFT LAW TO BE TABLED DEALING WITH ASSIMILATION, JOB CREATION AND COMPENSATION. PENSIONS TO BE DEALT WITH IN THE CONTEXT OF PENSIONS REFORM LAW.

EAST/WEST RELATIONS.

12. STRESS ON THE OPPORTUNITIES NOW OPENING UP FOR DIALOGUE AND COOPERATION WITH THE USSR AND THE COUNTRIES OF EASTERN EUROPE. THE NEED TO TAKE ADVANTAGE OF THEM, THE SIGNIFICANCE OF GORBACHEV'S FORTHCOMING VISIT TO THE FRG, THE EXEMPLARY QUALITY OF FRG/HUNGARY RELATIONS, AND THE HISTORICAL IMPORTANCE OF THE CURRENT TALKS