

## **Changing the Health Paradigm and Growing the German Economy**

*By Jeremy Rifkin*

What's killing the productivity and competitiveness of German labor? While some analysts continue to blame inflexible labor policies, educational deficits, and even risk averse management styles for the productivity malaise, a rather more troubling reality is beginning to surface. German workers suffer from a range of diseases, and their ill health is adversely affecting productivity and raising health care costs both for employers and employees. The result is a work force that's out of shape, suffering from a range of chronic and debilitating diseases, and under-performing, threatening the prospects of the German economy. Hard to believe? Here are the facts.

Like their American counterparts, German workers are getting fatter, exercising less, still smoking and drinking too much, and becoming more stressed, all of which makes them more prone to the so called "diseases of affluence"... these diseases include Type 2 Diabetes, cardiovascular disease, lung-related illnesses like asthma, cancer, strokes, depression, and attention deficit disorder.

How sick are German workers? To begin with, obesity is skyrocketing across Germany. While not quite as fat as American workers, of whom one third are now obese, Germany is catching up fast, with one out of five workers now woefully overweight. Germans are among the fattest people in Europe.<sup>1</sup> By contrast, the obesity rate in Japan and Korea is only 3.2%.<sup>2</sup> Many other Asian countries have similarly low rates of obesity. Obesity is now a major contributing factor to the onset of Type 2 Diabetes, and a primary contributor to an increase in heart attacks, cancer and strokes.<sup>3</sup> Amazingly, one third of

all the costs in the German health care system are now attributable to diseases correlated to poor nutrition.<sup>4</sup>

Smoking is also a factor in the poor health of German workers. Although smoking has decreased from 35% of the adult population in 1980 to 25% in 2003, the percentage of smokers is much higher than in the United States, where 17% of adults still smoke.<sup>5</sup>

Germans are also exercising less. High tech lifestyles, sedentary work environments, and more passive entertainments, are making German workers more vulnerable to chronic and life threatening diseases. Stress is also on the rise, as the demands of a 24/7, nanosecond culture, create time pressures on workers, with an enormous accompanying increase in attention deficit hyperactivity disorder and depression. Attention Deficit Hyperactivity Disorder (ADHD) is becoming a pandemic in Germany. Currently, one out of every twenty German children is afflicted with the disorder.<sup>6</sup> Depression is also a problem, accounting for 7% of premature retirements.<sup>7</sup> Mental health disorders result in more than 2.5 billion euros in lost productivity a year, due to absenteeism.<sup>8</sup> Even more frightening, by the year 2020, it is estimated that the economic costs in productivity losses resulting from an increase in mental ill health will be 4% of the German and European GDP.<sup>9</sup>

It's no wonder that healthcare expenditures in Germany are now over 11% of gross domestic product, the highest in the EU, and among the highest in the world.<sup>10</sup> In 2003, Germany spent a staggering 240 billion Euros on health services.<sup>11</sup>

The cost of providing healthcare is borne by workers and employers. Employees pay, on the average, 7.5% of their salaries for health insurance coverage, while employers

contribute 6.6%.<sup>12</sup> The steep costs make German companies and German labor less competitive in global markets. Reduced earnings also means less savings and less consumption for German workers. Increased health care costs for the employers reduces profit margins and limits new investment, all of which leads to a vicious downward spiral for the German economy. According to the Board of the German Chamber of Industry and Commerce (DIHK), “Increasing payroll taxes diminish the international capabilities of German companies and affect negatively employment and growth in Germany. The system of health insurance is increasingly becoming a disadvantage [for Germany] as a business location.”<sup>13</sup>

Of course, it should be mentioned that American companies and employees are facing a similar crisis. The cost of healthcare in the US is going up by 14% a year and currently totals a whopping \$1.7 trillion and accounts for 15.3% of GDP.<sup>14</sup>

Major American companies, like General Motors, are worried that the escalating cost of providing healthcare coverage could cripple or even bankrupt their operations in the next few years. GM now pays out \$1525 in health care expenditures per car produced—a sum that exceeds the cost of the steel in the car.<sup>15</sup> GM’s CEO Rick Wagoner recently quipped: “It’s strange. When I joined GM 28 years ago, I did it because I love cars and trucks. I had no idea I’d wind up working as a health care administrator.”<sup>16</sup>

A sicker workforce not only raises the cost of labor, but also lowers the productivity of the workforce. In the US, poor worker health accounts for \$260 billion in lost productivity per year—or 2.4% of GDP—because of increased absenteeism and what human resource professionals call “presenteeism”: that is, deteriorating performance

on the job in the form of less stamina, poor concentration, and an increase in errors and accidents.<sup>17</sup> Loss of productivity in Germany runs along similar lines. In 2003, German industry suffered productivity losses totaling 42.5 billion Euros, or 2% of GDP, as a result of absenteeism due to sickness.<sup>18</sup>

Is there an answer to the deteriorating health of German workers and the attendant increase in labor costs and lost productivity, which threatens to make German industry uncompetitive? Yes! And the solution is remarkably simple in concept, but would require a paradigm shift in the way Germany addresses the question of the health and well being of its citizenry.

Spates of studies over the past 30 years, have provided conclusive evidence that 60-70% of all major diseases are associated with modifiable environmental risks. Poor nutrition, obesity, lack of exercise, stress, smoking, and over-consumption of alcohol all contribute to ill health. Yet, like the United States and virtually all of the other OECD nations, only a tiny fraction of government funds are spent on prevention, including inoculations, annual diagnostic tests and appropriate medications. Even less is spent on health promotion— that is, facilitating positive changes in lifestyle, including exercise programs, dietary changes, stress reduction programs and the cessation of smoking. The US devotes less than 5% of the federal health care budget on conventional prevention practices, and less than 1% of each research dollar is spent on behavior-oriented health promotion.<sup>19</sup> Germany is less proactive. A study done by Booz Allen Hamilton on health care in Germany concluded with the terse observation that at present there is no “prevention culture” in Germany.<sup>20</sup>

A number of major global companies, worried over increasing health care costs and loss of productivity have teamed up with health professionals in a pioneering effort to shift the health paradigm from treating disease to promoting wellness, with incredible results. Why bother? Dow Chemical points out that of the \$635 million in annual health related costs for its 43,000 workers, more than half of the total is attributable to the indirect costs associated with employee presenteeism— subpar performance on the job because of ill health.<sup>21</sup>

Companies like Dow Chemical, Kimberly-Clark, Johnson & Johnson, Pitney-Bowes, Prudential Financial, Procter & Gamble, and Volvo/Mack Truck are experimenting with various prevention and health promotion programs and their experience is eye-opening.

To ameliorate the health and quality of life of their workers, companies are installing gym facilities on site or paying for off site health club memberships, providing only healthy meals in company cafeterias and free nutritional instruction for workers and their families, as well as offering stress management counseling and other health promotion services.

Why would companies spend additional funds on promoting wellness? Because the return on investment (ROI) is nothing short of remarkable. For every dollar invested in comprehensive prevention and health promotion programs, these companies are saving \$3-8 in the form of reduced health costs and gains in productivity from lower absenteeism and presenteeism.<sup>22</sup>

The health enhancement programs also have a multiplier effect. An increasing number of company programs are reaching out to the families of workers, engaging them

in the wellness process. Changing one's lifestyle doesn't stop at the factory gate or the office door. Healthy workers are more likely to encourage healthy lifestyles at home. Healthier diets, reduction of stress, and more frequent exercise become a family affair. When family members are drawn into the process, the health paradigm is fundamentally altered, with far reaching implications for the next generation. The key to the success of all of these programs is their voluntary nature and the incentives built-in to the process to motivate employees to become involved in changing lifestyle and becoming healthier.

Interestingly, the German Bundestag passed a bill in 2005 entitled "The German Preventive Health Care Act" which authorizes the expenditure of 250 million euros a year to promote prevention and wellness in Germany. The bill died in the Bundesrat. However, in the grand coalition agreement between the CDU and SPD, both parties agreed to work together to revise and rewrite the Act in early 2006 and set a goal of the end of the year to enact legislation.

What's been missing from the scheme is the appropriate incentives for both employers and employees to seriously take up health promotion and make it a central mission for the restoration of the German economy. You can't mandate wellness or naively believe that people will change their way of life if only they're provided with appropriate information. Employers and employees have to be willing, and even more important, motivated, to make personal health promotion a priority. With that in mind, any state-administered health promotion and enhancement program should be voluntary and non-discriminatory.

A bold national commitment to changing the health framework of Germany from treatment of disease to wellness should inspire a non-partisan effort on the part of the

Grand Coalition. The new approach to well-being emphasizes personal accountability for one's health and voluntary commitment. To succeed, however, it requires both individual commitment and a collective sense of solidarity for the health of the community. While an increase in productivity will help German companies and workers be more competitive in the global economy, the ultimate goal is to enhance the quality of life for the German people.

It should be made clear that a prevention and health promotion initiative is not to be regarded as a replacement for existing federal health care coverage, but, rather, a complement--a way of assisting workers to become healthier and lead more productive and happier lives. To the extent that German workers make the transition to wellness, the costs of health care will diminish.

How then to begin? First, government and industry, working together, should help identify best practices and set universal standards for prevention and health promotion. Second, tax credits and incentives should be put in place to encourage the development of the wellness sector in the health care field. What is required is well trained, qualified companies certified to provide a range of prevention and health promotion services and programs to German companies. The creation of a labor intensive wellness industry will create many new jobs and vocations across Germany—jobs that by their very nature are anchored within Germany. Third, for every dollar companies commit to creating an in-house wellness staff or for hiring an outside wellness firm, the government should provide a corresponding dollar of tax relief on corporate profits, up to an agreed upon cap. Fourth, a formula should be established by government, industry, and the trade unions, that would provide a reduction in the

employer and employee contribution to payroll taxes for health coverage, commensurate with the increase in wellness and the money the government saves in reduced medical cost for employees involved in the wellness program. Again, the emphasis should be voluntary commitment. Stringent safeguards should be put in place to prevent discrimination of any kind, toward employees who, for whatever reason, choose not to become involved in the health promotion program.

While a voluntary national health promotion and prevention program is not a magic bullet that will suddenly make German industry and workers more productive and competitive in a globalizing economy, it's probably at the top of the list of effective strategies for improving the prospects of the German economy in the coming decade.

Lest anyone doubt the close relationship that exists between wellness and economic growth, the many cross country studies conducted in recent years should put the skepticism to rest. In a comparative study of 100 nations between 1960 and 1990, it was found that a one year improvement in life expectancy (life expectancy is used as a proxy for health of the workforce), results in an increase of 4% in GDP.<sup>23</sup> Other studies have found that investing in the health of a population maybe at least as important, or even a more important contributor to economic growth than investing in education.<sup>24</sup>

The relationship between improvement of health and economic growth holds for rich as well as developing nations. In a study of 26 high-income countries, researchers found, for example, that cardiovascular disease—a primary cause of illness in the world's richest nations— correlates directly to economic growth. A mere 10% reduction in cardiovascular disease is associated with an increase in the growth rate of per capita GDP by one percentage point.<sup>25</sup>

What about the argument that if people live longer in advanced industrial nations where the birth rate is falling, the increasing number of older, retired citizens will put an additional burden on still active workers who will have to contribute more of their income, in the form of pension contributions, to support retirees. While that's possible, research points out that healthier retirees means less government expenditure for chronic long-term care.

Others suggest that the solution to an aging population is for the government to provide better maternity benefits to encourage young people to have more children. In Sweden for example, both parents are guaranteed a one year maternity leave with benefits of up to 80% percent of their salary.<sup>26</sup>

Germany and other countries should also consider preparing their working population for a two track career. The first in a market economy creating market capital, and the second career, after retirement, in the third sector—or civil society—in not-for-profit organizations, creating social capital. Seniors could be compensated for their contributions in the not-for-profit sector and asked to contribute part of their earnings, in the form of payroll taxes, to pay at least a portion of their health care coverage—thus reducing the burden on younger workers still employed in the market sector. Of course, many seniors will choose not to pursue a second career track in the not-for-profit sector, or they may simply choose to volunteer their time on a more limited basis. Their retirement benefits should be fully guaranteed.

As nearly half the revenue generated by the not-for-profit sector is fees for services, government could help stimulate the third sector with appropriate fiscal incentives in an effort to grow social capital and provide employment opportunity, just as

the government has traditionally used fiscal policies to stimulate the growth of market capital and employment in the commercial sector.

In the face of increasing global competition, Germany needs to find new strategies for increasing productivity and ensuring economic growth. A healthy work force that is physically and mentally fit is among the most important considerations in growing a sustainable economy. By leading a global effort to re-conceptualize health, from treating diseases to promoting wellness, Germany can make a powerful contribution, both at home, across the European Union, and around the world.

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