2.1 Major private hospital companies

The ongoing restructuring of the German hospital sector has led to the emergence of some major private hospital companies. Among them there is a group of four large corporations including Asklepios, Rhön-Klinikum, Fresenius and Sana Kliniken which together account for nearly one third of all private hospitals. Since all of these four companies are following a strategy of continuous expansion they are expected to acquire a much larger market share in future. Thereby, the restructuring of the hospital sector does not only include privatisations but also mergers and acquisitions among private hospital companies. The largest takeover of a private hospital so far took place in October 2005, when the medical care company Fresnius bought the private hospital chain Helios Kliniken.

The German hospital market is so far almost exclusively dominated by German companies. However, since privatisation and restructuring will continue this might also attract more foreign healthcare companies to the German market. A first major acquisition made by a foreign company took place in August 2006 when the Swedish healthcare company Capio announced the takeover of Deutsche Kliniken GmbH, which is one of Germany’s largest private hospital companies (cf. Capio 2006).

2.2 Drivers for privatisation

The reasons for the growing number of privatisations in the German hospital sector are manifold. On the one hand there are more general reasons such as changes in the overall political and economic framework conditions. On the other hand there are some more specific reasons which have to do with changes in the regulation of the German healthcare system and the system of hospital financing and their impact on the financial situation of public hospitals.

Among the more general reasons there is first of all the difficult financial situation of most public authorities in Germany, which often have to deal with large debts and high budget deficits. At the end of 2005, the total public debt of all German municipalities amounted to 83.8 billion euro while there was a public deficit of 2.3 billion euro. The financial situation of the German federal states was even worse with a total debt of 468.2 billion euro and an annual budget deficit of 24.1 billion euro.

There are many reasons for the ongoing crisis of public finances: it is partly caused by the consequences of German unification as well as by a relatively weak economic performance, persisting high unemployment and increasing social welfare payments during the 1990s. Moreover, it is also caused by a certain fiscal and tax policy in Germany which in recent times has favoured tax cuts – especially for companies and groups with higher incomes. This policy has further contributed to maintaining the weak economic performance of the German economy and has undermined the tax income of public authorities (cf. Truger 2004).

Although the crisis of public finances is rooted in political decisions, it is usually treated as a “constraint” for political action. Against that background the German federal states, which according to the German Hospital Financing Act have the main responsibility for hospital planning and the financing of hospital investments, have been less and less active in fulfilling
their tasks. For many years they have not provided sufficient financial resources for hospital investments (cf. Bruckenberger 2005). Various studies estimate that the current backlog of necessary investments in hospitals amounts to around 30 billion euro (cf. Augurzky et.al. 2004; Bruckenberger 2005; Hess 2005).

Moreover, since the German hospital financing system does no longer guarantee full cost compensation, many German hospitals have not been able to finance their operational business. According to figures provided by the German Hospital Federation (Deutsche Krankenhausgesellschaft, DKG) more than one third of German hospitals had a negative annual balance sheet in 2004 (cf. Deutsches Krankenhausinstitut 2005, 62). The municipal employers association (Vereinigung der kommunalen Arbeitgeberverbände, VKA) even claim that nearly 50% of all public hospitals were running deficits (cf. VKA 2006). The financial losses of the public hospitals have to be covered by their public owners, who are often themselves in serious financial difficulties.

Against that background the privatisation of hospitals might be attractive for public authorities for several reasons (cf. Brunckenberger 2005; Hess 2005): First, the sales revenues might help to reduce the public debt. Secondly, the public authorities are no longer responsible for balancing the financial deficits of the hospital. Moreover, they can shift at least part of the costs for necessary investments in the hospitals to private investors.

In comparison with public hospitals private hospital companies are claimed to have several competitive advantages (cf. Hess 2005). First, they have much easier access to private capital markets in order to organise the financial resources for necessary investments. Secondly, private hospital companies are often able to organise their operational business in more efficient ways. They can, for example, make better use of economies of scale and synergy effects through the close cooperation of different clinics within the private hospital chain.

Thirdly, private hospital companies claim that they have much lower labour costs because they are not covered by the relatively “expensive” collective agreements of the public sector but have either their own company agreements or are not covered by any collective agreement at all. In 2004 the average costs per employee in private hospitals were 47,400 euro per year in comparison to 51,400 euro in public hospitals. Since labour costs amount to nearly two thirds of the overall costs in German hospitals (cf. Statistisches Bundesamt 2006a), the differences in pay and other labour costs create a major competitive advantage for private hospital companies.

2.3 The European dimension

So far, the European Union has no explicit policy on hospital services. The organisation and provision of hospitals is the full responsibility of the EU member states. As pointed out in Art. 152 (6) EC (Treaty establishing the European Community) “community action in the field of public health shall fully respect the responsibilities of the Member States for the organisation and delivery of health services and medical care.” However, the currently dominating economic policy of the European Union implicitly exerts a more or less strong influence on the development of hospital services in Germany.