

# National Health Expenditures: Object of Expenditures and Source of Funds, 1962

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FOR A NUMBER OF YEARS the Division of Research and Statistics has published two annual series of estimates relating to expenditures for health purposes. The first considers total public and private health expenditures as part of the national expenditures for social welfare and has appeared in recent years in the November issue of the *BULLETIN*.<sup>1</sup> The second series shows private consumer expenditures and data relating to voluntary health insurance and has been appearing in the December issue.<sup>2</sup> The basic classification of expenditures in the social welfare series is that of statutory programs, and the data are presented on a fiscal-year basis. The data on private consumer expenditures for medical care are shown by object of expenditure (that is, by type of health service or supply) and are on a calendar-year basis.

The present article combines elements of both series and presents data on total national health expenditures, public and private, giving an overall picture of expenditures during the calendar year 1962, by type of service and sources of funds. For this purpose, expenditures under public programs and from private philanthropic sources have been allocated by object of expenditure. The methodology and the sources of the data are set forth at the end of the article. In general, the estimates have the same degree of reliability as the separate estimates on public and private expenditures previously published.

In 1962, it is estimated, the Nation as a whole spent \$31.7 billion for health care and related purposes (table 1) or \$170 per person. Of these expenditures, \$30.4 billion—almost 96 percent—

was for health services, supplies, and research, and the balance was for construction of hospital and related facilities and medical research facilities.

Expenditures for health purposes, as here defined, include amounts spent for all personal health services and supplies, public health activities, medical research, and construction. Expenditures for the training of physicians, dentists, and other health personnel (that is, the costs of maintaining medical and dental schools, etc.) are considered educational expenditures and are excluded. (The training of interns, residents, and nurses is so tightly tied in, however, with the provision of hospital care that expenditures for hospital care inescapably include some of the costs of training these professional personnel.)

All expenditures of public health departments are deemed to be for health purposes; expenditures by other government departments for such programs as air-pollution and water-pollution control and sewage treatment are excluded. Included are expenditures for research made by agencies whose sole mission is the advancement of human health through research, as well as those made by other agencies (for example, the Department of Defense and the Department of Agriculture) for research directly related to human health.

Expenditures for medical and health-related research training activities, such as those of the National Institutes of Health, are excluded since they are considered to be educational activities. Amounts spent for the construction of hospitals, nursing homes, and related facilities are included, but expenditures for the construction of private office buildings designed to provide office space for private practitioners are omitted.

## SOURCE OF FUNDS EXPENDED

Three-fourths of all expenditures, or \$23.8 billion, were made by private persons or agencies, and the balance—almost \$8.0 billion—by govern-

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<sup>1</sup> For the most recent article in the series see Ida C. Merriam, "Social Welfare Expenditures, 1962-63," *Social Security Bulletin*, November 1963.

<sup>2</sup> For the most recent of this series of estimates, see Louis S. Reed and Dorothy P. Rice, "Private Consumer Expenditures for Medical Care and Voluntary Health Insurance, 1948-62," *Social Security Bulletin*, December 1963.

ment or under government programs. Most private expenditures, of course, are made by private consumers or by health insurance carriers on their behalf. In 1962 they amounted to \$21.9 billion, as reported in the BULLETIN for December 1963.<sup>3</sup>

Private philanthropy accounted for \$1.1 billion, or 3.6 percent of the total expenditures. Under this heading are grouped contributions and gifts to hospitals for current operations, income from hospital endowments, and payments by united funds, community chests, etc., to hospitals and physicians for care of indigent and medically indigent patients. It also includes expenditures of voluntary health agencies (for example, the American Cancer Society, the National Foundation, and the National Tuberculosis Association) and contributions by individuals or corporations for hospital construction.

Other private expenditures, amounting to \$0.7 billion or 2.2 percent of the total, are of two kinds. The first group, totaling \$0.3 billion in 1962, consists of the expenditures of industry for maintenance of implant health services. (Employers make sizable payments for health insurance for employees and their dependents—about \$3.2 billion in 1961; such payments are here considered, however, as a form of compensation to

employees and not an expenditure by industry for health care.) The other group, which amounted to \$0.4 billion in 1962, consists of expenditures made from capital funds. It includes expenditures for expansion or renovation of plant made by hospitals out of accumulated funds, funds borrowed by hospitals to pay for new construction, or funds advanced by owners-to-be of hospitals or nursing homes for construction of these facilities.

Of the almost \$8.0 billion expended by government, \$3.9 billion came from the Federal Government and \$4.0 billion from State and local governments. This distribution was made on the basis of the ultimate source of funds; it shows as Federal expenditures those made by State and local governments from Federal grant-in-aid funds. In terms of the government unit making the outlay in the first instance, however, \$3.2 billion was expended by the Federal Government and \$4.8 billion by State and local governments (table 2).

The total government expenditures shown in table 1 are identical with the figures obtained by averaging the data for the fiscal years 1961-62 and 1962-63 in the most recent BULLETIN article on social welfare expenditures.<sup>4</sup> The figures dis-

<sup>3</sup> Louis S. Reed and Dorothy P. Rice, *ibid.*

<sup>4</sup> See Ida C. Merriam, *op. cit.*

TABLE 1.—National health expenditures by object of expenditure and source of funds, 1962

[In millions]

Object of expenditure	Total	Source of funds						
		Private				Public		
		Total	Consumers	Philanthropy	Other	Total	Federal	State and local
Total.....	\$31,745	\$23,795	\$21,945	\$1,140	\$710	\$7,950	\$3,919	\$4,031
Health services, supplies, and research.....	30,368	23,025	21,945	790	290	7,343	3,613	3,730
Hospital care.....	10,526	6,358	6,098	260		4,168	1,690	2,478
Federal facilities.....	1,458	30	30			1,428	1,411	17
Non-Federal facilities.....	9,068	6,328	6,068	260		2,740	279	2,461
Physicians' services.....	6,279	5,835	5,835	12		444	102	342
Dentists' services.....	2,227	2,202	2,202			25	13	12
Other professional services.....	959	933	887	46		26	12	14
Drugs and drug sundries.....	4,270	4,157	4,157			113	53	60
Eyeglasses and appliances.....	1,393	1,372	1,372			21	13	8
Nursing-home care.....	639	360	346	14		299	142	157
Net cost of insurance.....	1,060	1,060	1,060					
Government public health activities.....	642					642	161	481
Medical activities in Federal units other than hospitals.....	553					553	553	
Private voluntary health agencies.....	341	341		341				
School health services.....	137					137		137
Industrial implant health services.....	290	290			290			
Medical research.....	1,032	117		117		915	874	41
Medical-facilities construction.....	1,377	770		350	420	607	306	301
Publicly owned facilities.....	502					502	206	296
Privately owned facilities.....	875	770		350	420	105	100	5
Percentage distribution of total by source of funds.....	100.0	75.0	69.1	3.6	2.2	25.0	12.3	12.7

TABLE 2.—Government health expenditures, by object of expenditure and unit making outlay, 1962

(In millions)

Object of expenditure	Unit of government making outlay		
	Total	Federal	State and local
Total.....	\$7,950	\$3,172	\$4,778
Health services, supplies, and research.....	7,343	3,053	4,290
Hospital care.....	4,168	1,486	2,682
Federal facilities.....	1,428	1,428	—
Non-Federal facilities.....	2,740	58	2,682
Physicians' services.....	444	42	402
Dentists' services.....	25	1	24
Other professional services.....	26	—	26
Drugs and drug sundries.....	113	10	103
Eyeglasses and appliances.....	21	5	16
Nursing-home care.....	299	—	299
Government public health activities.....	642	82	560
Medical activities in Federal units other than hospitals.....	553	553	—
School health agencies.....	137	—	137
Medical research.....	915	874	41
Medical-facilities construction.....	607	119	488
Publicly owned facilities.....	502	119	383
Privately owned facilities.....	105	—	105

tributed here by type of service or object of expenditure are essentially the data on public expenditures for various government health programs carried in that article.

Government expenditures, as shown here, include all expenditures under workmen's compensation programs for the medical care of injured workers. These expenditures are made under programs established by law and are therefore classified in the public sector.<sup>5</sup> Public expenditures do not include government contributions for the purchase of health insurance for their employees; government agencies are here playing the role of employers, and such contributions are classified, along with the similar contributions of private employers, as consumer expenditures.

#### TYPE OF SERVICE OR PURPOSE OF EXPENDITURES

The largest single item of expenditure in 1962 was that for hospital care—about \$10.5 billion. Almost \$9.1 billion of this amount was for care

<sup>5</sup> It is estimated that in 1962 approximately \$485 million was spent for the medical care of injured workers under workmen's compensation programs—\$9 million by the Federal Government for Federal workers injured in the course of their employment; approximately \$105 million by exclusive or competitive State workmen's compensation funds, and the remainder by private carriers or self-insured employers under State programs.

in non-Federal facilities and \$1.5 billion for care in Federal facilities. Consumers made 58 percent of all expenditures for hospital care, either directly or through health insurance plans, government made 40 percent, and philanthropic agencies or sources, 2 percent. Insurance benefits covered about 72 percent of consumer payments and thus represented a little more than 40 percent of total expenditures for hospital care.

Hospital care in Federal facilities is, of course, financed almost exclusively by the Federal Government. Such care is provided primarily in hospitals maintained by the Armed Forces, the Veterans Administration, and the Public Health Service. (Small payments must be made by dependents for each day of care in the military hospitals, but in the aggregate they are of little importance.)

For hospital care in non-Federal facilities, about 67 percent of the expenditures are made by consumers, either directly or through insurance, 3 percent by philanthropy, and 30 percent by government. The greater part of the 30 percent, whether considered in terms of the government unit originally making the outlay or the ultimate source of funds, is expended by State and local governments.

The source of funds varies sharply for the three main types of hospitals—general, psychiatric, and tuberculosis. For care in general hospitals, 67 percent of the expenditures were made by consumers, 30 percent by government, and 3 percent by philanthropy (chart 1). For expenditures for care in psychiatric and tuberculosis hospitals, by contrast, 84 percent and 74 percent, respectively, came from government sources. The major part of expenditures for these two types of hospitals are those made by State and local governments in maintaining public mental and tuberculosis hospitals; most of the rest are those of the Veterans Administration (table 3).

Of the amount spent by government for general hospital care (\$2.6 billion in 1962), part represents the expenditures of the Federal, State, and local governments in maintaining public general hospitals and in making maintenance grants to nonprofit hospitals, and part represents "vendor" payments made to hospitals at these levels of government by certain agencies for care of patients or under various health or medical care programs. Such payments are made by the

Defense Department for the care of dependents of military personnel; by the Veterans Administration for the care of veterans in facilities not operated by the Administration; by the Public Health Service for the care of Indians in non-Federal facilities; by the agencies administering the Federal-State programs of public assistance, services for crippled children, maternal and child health services, and vocational rehabilitation; and through the agencies administering workmen's compensation programs (table 4).

The second largest single item of expense for health care is that for the services of physicians (including osteopathic physicians) in private practice. Expenditures for these services amounted to \$6.3 billion in 1962. Of this amount, \$5.8 billion represented fees paid by patients or by insurance plans on their behalf; about a third came from insurance. Most of the rest, \$0.4 billion, came from government in the form of fees paid to physicians by welfare agencies for care of public assistance recipients, payment for care of injured workers under workmen's compensation laws, and payments under the other government programs, mentioned above, that pay for the services of private physicians (table 4). Small

amounts (\$12 million) came from philanthropic sources (payments by united funds, community chests, etc., to physicians for the care of indigent patients).

Physicians provide a considerable volume of services free of charge, or for which no charge is collected, to indigent or medically indigent patients; the total has been estimated to run to hundreds of millions of dollars. Although this free or charity service may be considered as being in the nature of a philanthropic contribution by physicians, only cash outlays are considered here. In addition, since provision of this free care is part of the rationale used by physicians for basing charges to other patients on ability to pay, it may reasonably be assumed that such philanthropic contributions made by physicians are in general canceled by income received from paying patients.

Expenditures for the services of dentists in private practice amounted to \$2.2 billion, practically all of it from private consumers but small amounts from government—mainly for care of public assistance recipients. Expenditures for the services of other practitioners—podiatrists, registered and practical nurses in private duty, visiting nurses on the staff of private visiting nurse associations, physical therapists and clinical psychologists in private practice, and chiropractors, naturopaths, and Christian Science practitioners—amounted to \$1.0 billion, almost all of it from consumers.

Total expenditures for drugs and drug sundries amounted to \$4.3 billion.<sup>6</sup> The entire amount came from consumer payments except for the relatively small expenditures of welfare agencies for drugs for public assistance recipients and expenditures for drugs under workmen's compensation. The same pattern holds for the \$1.4 billion spent for eyeglasses (including services of optometrists) and for hearing aids and other appliances.

Expenditures for nursing-home care amounted to \$659 million. Fifty-three percent was spent by consumers, 45 percent by public agencies, and 2 percent by philanthropic sources. Less than 3 percent of consumer expenditures for the services of practitioners other than physicians and for

TABLE 3.—Expenditures for hospital care, by type of hospital and source of funds, <sup>1</sup> 1962

Source of funds	[In millions]			
	All hospitals	Type of hospital		
		General	Tuberculosis	Psychiatric
Total.....	\$10,526.0	\$8,629.9	\$202.0	\$1,694.1
Consumers.....	6,098.4	5,781.9	52.5	264.0
Government.....	4,167.6	2,588.0	149.5	1,430.1
Federal.....	1,689.4	1,358.6	23.9	306.9
State and local.....	2,478.2	1,229.4	125.6	1,123.2
Philanthropy.....	260.0	260.0		
	Federal hospitals			
Total.....	1,457.9	1,110.3	23.9	323.7
Consumers.....	30.0	30.0		
Government.....	1,427.9	1,080.3	23.9	323.7
Federal.....	1,410.5	1,079.7	23.9	306.9
State and local.....	17.4	.6		16.8
Philanthropy.....				
	Non-Federal hospitals			
Total.....	9,068.1	7,519.6	178.1	1,370.4
Consumers.....	6,068.4	5,751.9	52.5	264.0
Government.....	2,739.7	1,507.7	125.6	1,106.4
Federal.....	278.9	278.9		
State and local.....	2,460.8	1,228.8	125.6	1,106.4
Philanthropy.....	260.0	260.0		

<sup>1</sup> Excludes expenditures for research in hospitals from Federal funds.

<sup>6</sup> Excludes drugs and drug sundries used in hospitals, the cost of which is part of hospital care costs.

drugs, appliances, and nursing-home care were met by insurance payments.<sup>7</sup>

Expenditures for the service of health insurance amounted to \$1.1 billion—all by consumers. This amount represents the difference between the total premiums paid for health insurance and the total expenditures made by all health insurance organizations in providing benefits. To put it another way, this is the amount retained by health insurance organizations for acquisition and administrative expenses (including premium taxes), additions to reserves, and profits. It is the net cost to consumers of having health insurance.

Federal, State, and local governments spent \$642 million in 1962 for public health activities (other than hospital care, research, or construction of medical facilities). All but 13 percent of this amount was paid by State and local governments, but some of their expenditures were made possible by Federal grants. In terms of the ulti-

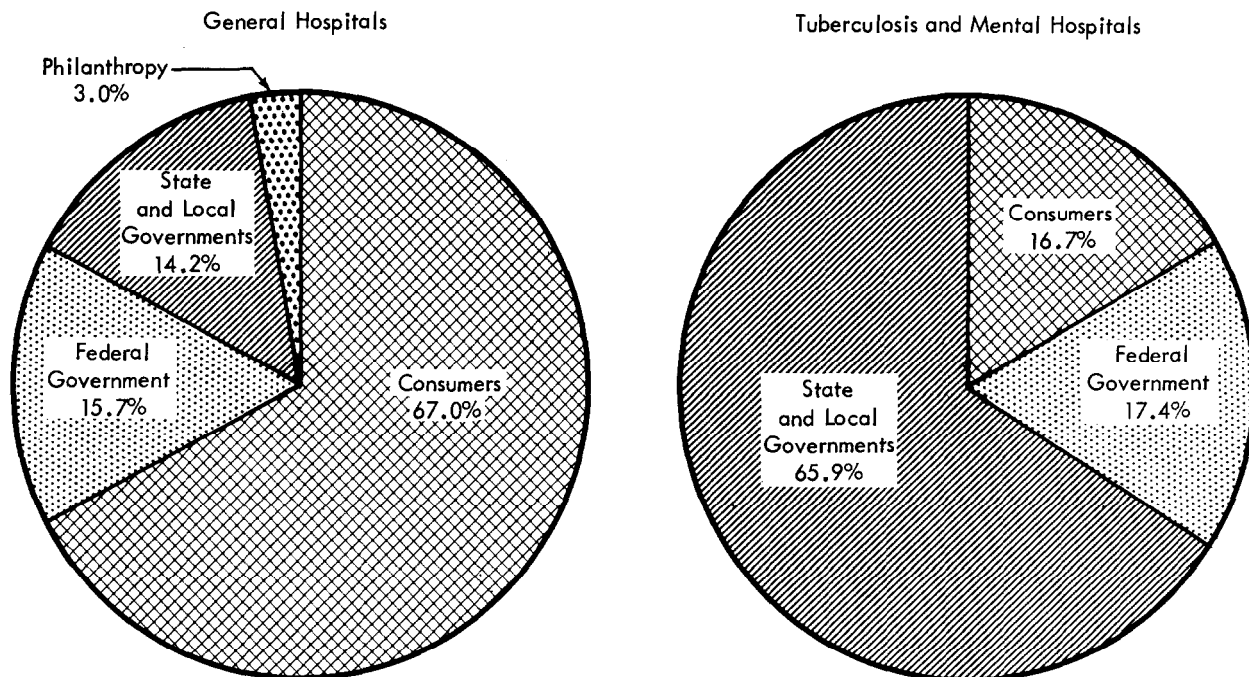
mate source of the funds, about 75 percent came from State and local governments and about 25 percent from the Federal Government.

Expenditures by private voluntary health agencies (mainly organizations such as the American Cancer Society, the National Foundation, and national, State, and local tuberculosis associations) for services and educational activities (but excluding medical research) amounted to \$341 million, all of it made possible by philanthropic contributions. Government expenditures for school health services amounted to \$137 million. The \$290 million expended for industrial implant health services came entirely from industry. Industry here includes units of government, which as employers maintain implant health services for their employees.

The Federal Government in 1962 spent \$553 million for medical care activities in Federal units and facilities other than hospitals. This total includes the cost of maintaining military medical units that are not hospitals—for example, dispensaries to serve field stations or troop units and medical units on naval vessels. It also includes the cost of maintaining the outpatient facilities of the Veterans Administration that are not part of hospitals and nonhospital health centers serving Indians. In addition, this item in-

<sup>7</sup> Louis S. Reed and Dorothy P. Rice, *op. cit.* Estimates of the extent to which expenditures for particular types of medical care are covered by insurance have become increasingly difficult to make with the growth of major-medical-expense insurance. The distribution of benefits under such policies depends on the assumptions made concerning the types of expense met by deductible amounts and by coinsurance.

CHART 1.—Hospital care expenditures, by source of funds, 1962



cludes the administrative expenses of the Veterans Administration medical program and the medical activities of the Department of Defense.

Expenditures for medical research in 1962 amounted to \$1.0 billion, \$915 million made by public agencies (largely the Federal Government) and \$117 million from philanthropic sources (mainly the large health foundations and associations). Expenditures by the pharmaceutical, medical supply, and medical electronic industries for medical research are excluded since they represent a business expense and enter into the cost of the products. They are therefore reflected in other expenditures for health and medical services, and their inclusion here as a health expenditure would mean that they would be counted twice.<sup>8</sup>

Expenditures for construction of hospitals (including related facilities such as nurses' homes

<sup>8</sup> Estimates by the National Institutes of Health indicate that a total of approximately \$368 million was spent for medical research in 1962 by the pharmaceutical, medical supply, and medical electronic industries.

and nursing homes) and of medical research facilities amounted to \$1.4 billion. Of this amount, \$502 million—all of it from tax funds—was for construction of publicly owned facilities. About \$875 million was for construction of nonprofit and proprietary facilities: \$105 million from tax funds (virtually all in the form of public grants for construction under the Hill-Burton program), \$350 million from philanthropic sources—that is, donations of individuals and organizations (including industry) for hospital construction—and \$420 million from “other” private sources.

One part of the “other” private sources consists of funds accumulated by hospitals from a surplus of income over expenditures in past years and used by them in the current year for constructing a new building or adding to one already built. Another part represents funds borrowed by hospitals to defray the cost of construction projects. A smaller part represents funds advanced by, or borrowed by, owners-to-be of proprietary hospitals or nursing homes for construction of such facilities. In the long run, all

TABLE 4.—Government payments for health services under specified government programs, by source of funds, 1962

[In millions]

Program	Total	Hospital care	Physicians' services	Dentists' services	Other professional services	Drugs	Eyeglasses and appliances	Nursing homes	Public health services
Total government payments									
Total	\$1,735.9	\$698.1	\$444.4	\$24.6	\$26.2	\$113.2	\$21.1	\$282.3	\$126.0
Temporary disability insurance <sup>1</sup>	23.2	23.2							
Indian health	10.2	6.8	2.2	.4		.3	.3		.2
Maternal and child health <sup>2</sup>	179.3	32.3	7.5	3.7	4.7	1.6	3.7		125.8
Medical vocational rehabilitation	24.0	5.6	12.6				4.3	1.5	
Military dependents' medical care	72.2	43.3	28.9						
Public assistance vendor medical payments	910.5	407.7	90.9	19.5	21.5	81.7	8.4	280.8	
Workmen's compensation medical benefits	485.0	171.5	294.0			19.5			
Veterans' hometown medical care	31.5	7.7	8.3	1.0		10.1	4.4		
Federal									
Total	\$644.4	\$278.9	\$102.3	\$12.8	\$12.4	\$52.8	\$13.2	\$142.0	\$30.0
Indian health	10.2	6.8	2.2	.4		.3	.3		.2
Maternal and child health <sup>2</sup>	49.6	10.0	4.2	1.6	1.6	.8	1.6		29.8
Medical vocational rehabilitation	15.1	3.5	7.9				2.7	1.0	
Military dependents' medical care	72.2	43.3	28.9						
Public assistance vendor medical payments	457.1	204.7	45.6	9.8	10.8	41.0	4.2	141.0	
Workmen's compensation medical benefits	8.7	2.9	5.2			.6			
Veterans' hometown medical care	31.5	7.7	8.3	1.0		10.1	4.4		
State and local									
Total	\$1,091.5	\$419.2	\$342.1	\$11.8	\$13.8	\$60.4	\$7.9	\$140.3	\$96.0
Temporary disability insurance <sup>1</sup>	23.2	23.2							
Maternal and child health <sup>2</sup>	129.7	22.3	3.3	2.1	3.1	.8	2.1		96.0
Medical vocational rehabilitation	8.9	2.1	4.7				1.6	.5	
Public assistance vendor medical payments	453.4	203.0	45.3	9.7	10.7	40.7	4.2	139.8	
Workmen's compensation medical benefits	476.3	168.6	288.8			18.9			

<sup>1</sup> Payments for hospital care made by the State fund under the California temporary disability insurance program.

<sup>2</sup> Services for crippled children and maternal and child health services.

three types of expenditures come from consumer sources. That is, part of what consumers pay for hospital or nursing-home care is spent by hospitals and nursing homes for new construction or for servicing debts incurred to finance past construction.

Private and government expenditures for health purposes differ markedly in terms of object of expenditure (table 5 and chart 2). Of the \$23.8 billion from private sources, 27 percent was for hospital care; of the \$8.0 billion from public funds, more than half was for hospital care. Almost two-fifths of the private expenditures were for the services of physicians, dentists, nurses, and other professional personnel in private practice, but only 6 percent of the public expenditures went for these services. Likewise, the proportion of private expenditures going for drugs, eyeglasses, and appliances was far greater than the proportion spent for these purposes under public programs. (Most of the expenditures by the Veterans Administration and the Department of Defense for physicians' and dentists' services, drugs, appliances, etc., are included as part of "hospital care" and "medical activities in Federal units other than hospitals.")

Expenditures for medical research constituted more than 10 percent of the total public expenditures and only 1/2 of 1 percent of the private expenditures. As previously noted, research ex-

penditures by drug and medical supply companies are not reported here separately since such expenditures are counted as a cost of production and are therefore included in the cost of the products.

There are, of course, a few health expenditure items in the private sector—16.7 percent of that total in 1962—that have no counterpart under public programs. They include the net cost of insurance, the expenditures by private voluntary health agencies that cannot be allocated to specific services, and industrial inplant health services. On the other hand, expenditures by government for public health activities, for medical activities in Federal units other than hospitals, and for school health services have no counterpart in the private sector. These government expenditures make up 15.0 percent of the public expenditures.

### THIRD PARTY PAYMENTS FOR MEDICAL CARE

A significant portion of all expenditures for medical care of individuals—that is, personal health services—is made by third parties. The national expenditures for personal health services—approximately \$27.3 billion—are calculated by subtracting from the total for all health purposes the expenditures for construction of facilities, research, the net cost of health insurance, government public health activities, and the item labeled

TABLE 5.—Percentage distribution of national health expenditures by object of expenditure, 1962

Object of expenditure	Total	Source of funds						
		Private			Public			
		Total	Consumers	Philanthropy	Other	Total	Federal	State and local
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Health services, supplies, and research	95.7	96.7	100.0	69.3	40.8	92.4	92.2	92.5
Hospital care	33.2	26.7	27.8	22.8		52.4	43.1	61.5
Federal facilities	4.6	.1	.1			18.0	36.0	.4
Non-Federal facilities	28.6	26.6	27.7	22.8		34.5	7.1	61.1
Physicians' services	19.8	24.5	26.6	1.1		5.6	2.6	8.5
Dentists' services	7.0	9.3	10.0			.3	.3	.3
Other professional services	3.0	3.9	4.0	4.0		.3	.3	.3
Drugs and drug sundries	13.5	17.5	18.9			1.4	1.4	1.5
Eyeglasses and appliances	4.4	5.8	6.3			.3	.3	.2
Nursing-home care	2.1	1.5	1.6	1.2		3.8	3.6	3.9
Net cost of insurance	3.3	4.5	4.8					
Government public health activities	2.0					8.0	4.1	11.9
Medical activities in Federal units other than hospitals	1.7					7.0	14.1	
Private voluntary health agencies	1.1	1.4		29.9				
School health services	.4					1.7		3.4
Industrial inplant health services	.9	1.2			40.8			
Medical research	3.3	.5		10.3		11.5	22.3	1.0
Medical-facilities construction	4.3	3.2		30.7	59.2	7.6	7.8	7.5
Publicly owned facilities	1.6					6.3	5.3	7.3
Privately owned facilities	2.8	3.2		30.7	59.2	1.3	2.6	.1

private voluntary health agencies in table 1. This figure probably understates slightly the expenditures for personal health services, since some of the expenditures shown for government public health activities are for personal service (for example, public health nursing services, treatment of venereal disease, immunization services, and dental services for children).

Some of the expenditures shown for voluntary health agencies are also for personal health services. Unfortunately, data are lacking that would permit an accurate division of the expenditures under these two categories between personal health services and other services and activities (statistics, environmental health services, health education, etc.). As far as the item "private voluntary health agencies" is concerned, this is itself a residual, representing those expenditures of private health agencies that cannot be identified as being for specified services (see note on methodology); it consists primarily of expenditures for health education, fund raising, and administration.

Of the \$27.3 billion calculated as spent for personal health services, \$6.5 billion—24 percent—

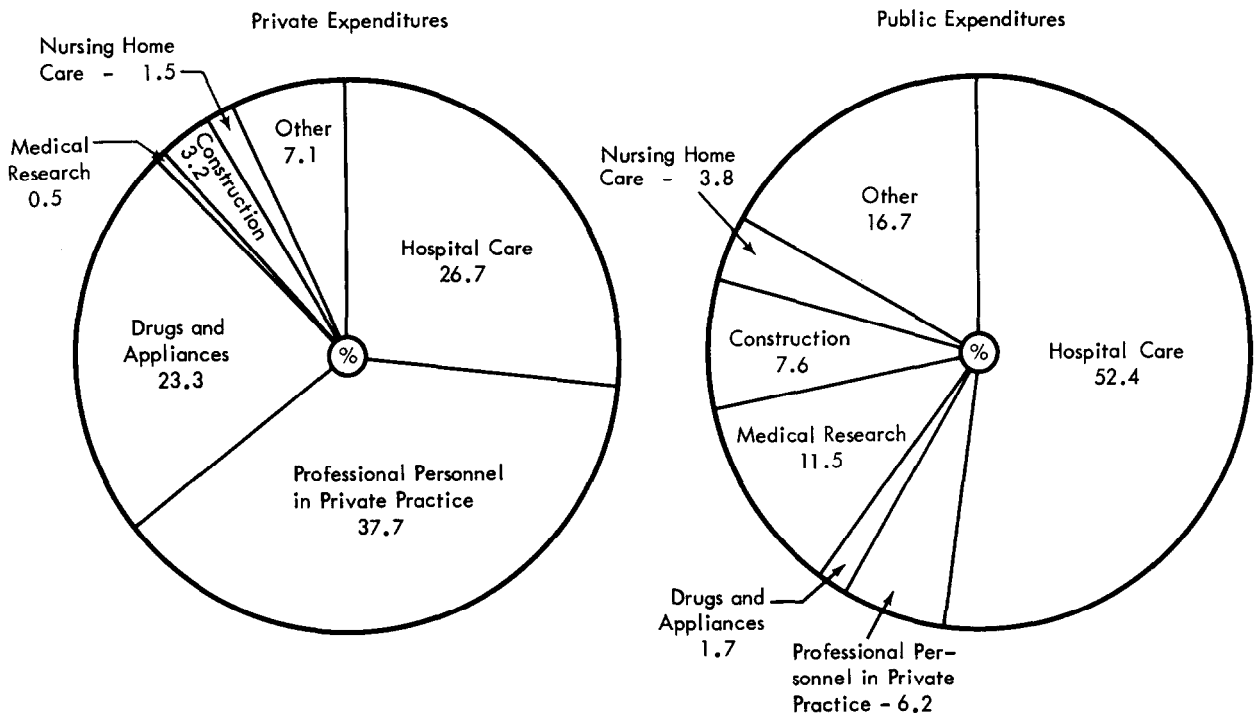
represented payments by health insurance organizations to hospitals, physicians, etc., for services rendered to insured persons or payments to insured persons to reimburse them for costs incurred.<sup>1</sup> An additional \$5.8 billion was expended by government agencies for provision of medical care and personal health services. Philanthropic sources—gifts and contributions to hospitals for operating expenses, income from hospital endowments, payments to hospitals from united funds, etc.—and industry (for implant health services) accounted for \$600 million of expenditures for personal health services. Thus, of the \$27.3 billion spent in 1962 for personal health services, \$12.9 billion—47 percent—was expended by third parties, and only a little more than half was paid directly by those receiving the service.

### CHANGES IN DISTRIBUTION OF HEALTH EXPENDITURES, 1929-62

Probably the first estimate of overall expenditures for health and medical care in the United

<sup>1</sup> Louis S. Reed and Dorothy P. Rice, *op. cit.*

CHART 2.—Distribution of public and private health expenditures, 1962<sup>1</sup>



<sup>1</sup> "Other" private expenditures include those for private voluntary health agencies and industrial implant health services, as well as the net cost of obtaining health services. "Other" public expenditures include those for

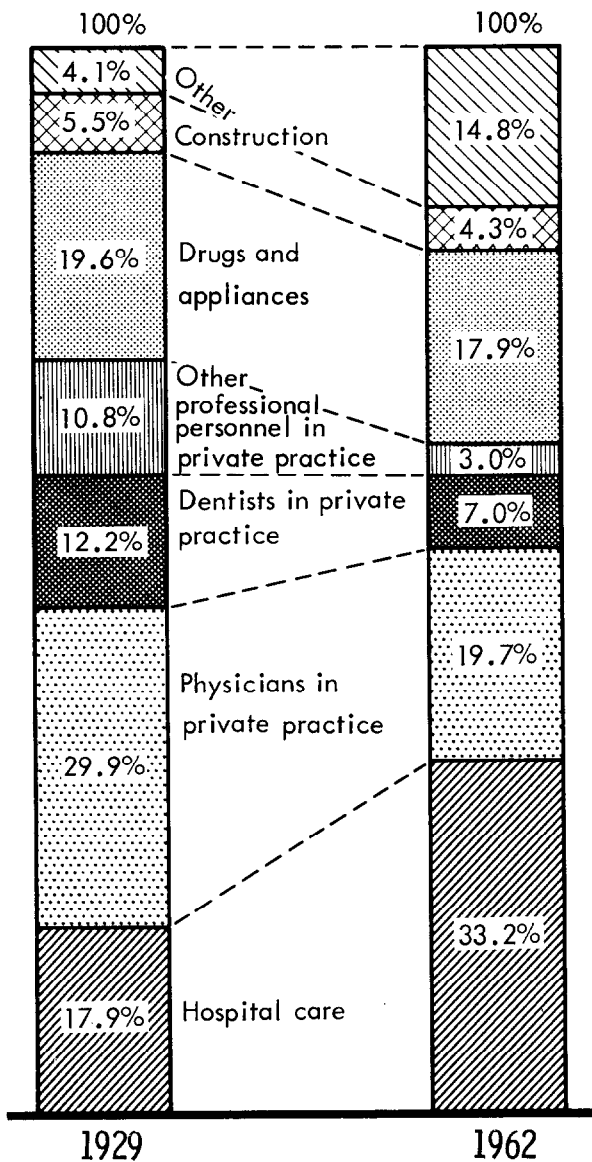
nongovernment public health activities, medical activities in Federal units other than hospitals, and school health services.



States was made for 1929 by the Committee on the Costs of Medical Care.<sup>10</sup> Though that estimate and the present estimates may not be precisely comparable, they can be used to illustrate the significant changes that have taken place in the distribution of health care expenditures by

<sup>10</sup> I. S. Falk, C. Rufus Rorem, and Martha D. Ring, *The Costs of Medical Care*, University of Chicago Press, 1933, page 9.

CHART 3.—Distribution of health expenditures, 1929 and 1962<sup>1</sup>



<sup>1</sup> "Other" expenditures include those for government public health activities, medical research, medical activities in Federal units other than hospitals, private voluntary health agencies, school health services, and industrial implant health services as well as the net cost of obtaining health insurance.

type of service and source of funds. Chart 3 shows the percentage distribution of total expenditures for health in 1929 and 1962.

Of the 1929 total for health care (\$4 billion), 30 percent went for physicians in private practice and only 18 percent for the operating expenses of hospitals (both Federal and non-Federal). In 1962, 20 percent of all expenditures went for physicians' services in private practice and 33 percent for hospital care (including care in Federal hospitals). There has been, in short, a complete reversal of the relative importance, in terms of the amounts spent, of these two services.<sup>11</sup> This change reflects the growth of the hospital as a center of health care.

Expenditures for dentists in private practice amounted in 1929 to 12 percent of the total; the proportion had shrunk to 7 percent in 1962. Drugs accounted for 18 percent of all expenditures in 1929; the proportion was 14 percent in 1962. One item of current health expenditures—the net cost of health insurance—was virtually nonexistent in 1929.

In 1929, consumers—that is, patients—made 79 percent of all health expenditures; government, 14 percent; philanthropy, 5 percent; and industry, 2 percent. By 1962 the proportion of consumer expenditures had decreased to 69 percent of the total. Government expenditures advanced to 25 percent, and the proportions of costs met by philanthropy and industry declined. (Again, it should be borne in mind that the large amounts contributed by employers for health insurance for employees are here treated as a supplement to wages and hence are included with other consumer expenditures for health care.)

### SUMMARY

Data from the two annual series of estimates made by the Division of Research and Statistics and published in the BULLETIN are integrated in this article to give a total picture of national expenditures for health purposes in 1962. Of the \$32 billion spent in the Nation for health and medical care, three-fourths came from private

<sup>11</sup> Hospital care includes, of course, the services of physicians who serve as members of the hospital's paid staff.

persons or private agencies and a fourth from public funds or under government programs.

One-third of the total expenditures went for hospital care. The proportion spent for hospital care was different, however, in the private and public sectors. About a fourth of the private expenditures was for hospital care, and more than half of the public expenditures was for this purpose.

Payments for services of physicians, dentists, and other professional personnel in private practice totaled \$9.5 billion—three-tenths of the total expenditures. About 5 percent of this total came from government under programs that pay for the services of medical personnel in private practice.

Almost one-fifth of the total was spent for drugs, drug sundries, eyeglasses, and appliances. Most of the funds for these medical supplies, like those for payments to medical personnel, come from the private sector.

Construction of medical facilities cost \$1.4 billion—55 percent of it from the private sector. All expenditures for certain other items were privately financed. Others were financed entirely from public sources.

Health expenditures have increased substantially since 1929, and the distribution of expenditures by type of service and source of funds has changed significantly. During the 33 years, the growth of the hospital as the center for health care has been reflected in the larger share of expenditures for hospital care. Government now finances a considerably larger portion of the total expenditures than formerly.

#### **NOTES ON METHODOLOGY AND SOURCES OF DATA**

The general procedure followed in this article is to estimate first the expenditures for the major objects of expenditures and then the breakdown by source of funds. Total expenditures for hospital care, for example, are based on total operating expenses and revenues of hospitals, as published by the American Hospital Association, and total expenditures for services of physicians and dentists in private practice are based on their gross incomes as reported to the Internal Revenue

Service. In general, the consumer expenditures are residual amounts derived by subtracting from the total the amounts paid to hospitals, physicians, etc., under the various government medical programs and from philanthropic sources.

For a full understanding of the methodology and sources of data, the reader is referred to the articles in the *BULLETIN* for December of 1961, 1962, and 1963 on private consumer expenditures for medical care and voluntary health insurance. Expenditures under public programs are shown in the social welfare expenditures series, published annually in the November issue of the *BULLETIN*. In the present article, expenditures under public programs reported separately in the November *BULLETIN* article are, in general, allocated by object of expenditure on the basis of published and unpublished reports of the specific programs, as indicated below.

Expenditures for vendor payments for medical care under public assistance are allocated by type of care on the basis of reports of the Bureau of Family Services, Welfare Administration, which publishes a breakdown of vendor payments for medical care by type of service. The only adjustments involved the allocation of some small expenditures, not reported by type of service, by assuming that they were distributed in the same way as the amounts reported for specific services. Expenditures under public assistance for "other" services are allocated to nursing care and appliances as indicated by the Bureau of Family Services. Similar data were obtained from the Children's Bureau for expenditures by type of service under the maternal and child health programs, including services for crippled children. Most of the expenditures under these programs by local health departments are for maternity and well-baby clinics; these are classified as public health services. The Office of Vocational Rehabilitation supplied the data on expenditures for medical vocational rehabilitation by type of service.

The Public Health Service provided data on the breakdown by type of service under the Indian health services program, and the Veterans Administration furnished data on the expenditures for physicians, dental care, drugs, etc., under the Veterans Administration "hometown" medical care program. Expenditures for contract hospital care in non-Federal facilities by the

Veterans Administration were obtained from the Federal Budget.

The health expenditures under temporary disability insurance are limited to payments for hospital care made by the State-operated fund under the California temporary disability insurance program. The breakdown by type of service for expenditures for medical care under workmen's compensation programs is based on a detailed study of a few States that publish these data. The ratios found for these States are applied to the total expenditures.

The expenditures under the military dependents' medical care program for hospital care and physicians' services are based on data shown in the annual report of this program.

Several public programs involve payments for medical care by State and local governments with funds received from the Federal Government. They include the expenditures for vendor payments for medical care under public assistance, for medical vocational rehabilitation programs, and for programs for maternal and child health. Only the health programs for mothers and children supplied the breakdown between Federal expenditures and State and local expenditures by type of service. For the other two programs, the breakdown by source of funds is estimated on the basis of the overall ratios for the total program as reported by the agencies.

Philanthropic expenditures for medical care include contributions from voluntary health and welfare agencies, united funds, religious organizations, and private individuals and income from hospital endowments. These philanthropic expenditures are for a variety of activities and services, including research, health education, hospital inpatient and outpatient care, nursing care, and other miscellaneous health services. Also included are the costs of fund raising and central administration. The amount and breakdown are estimated on the basis of various reports for specific segments of the philanthropic field. The data on philanthropic contributions for short-term hospital care and construction, for example, are based mainly on a report by Herbert E. Klarman on the role of philanthropy in hospitals.<sup>12</sup>

Philanthropic contributions to private visiting nurse agencies are estimated on the basis of a study of income and expenditures in public health nursing agencies.<sup>13</sup> Expenditures for medical research by philanthropic agencies are obtained from the National Institutes of Health, which publish overall data on expenditures for medical research. The remaining amounts, which could not be allocated to specific types of services or supplies, are classified as expenditures of private voluntary health agencies and include those for lay and professional health education, community health services, fund raising, and costs of administration.

Data on expenditures for medical-facilities construction by source of funds and for publicly and privately owned facilities are derived from a combination of sources. The total is based on data reported in *Construction Review* (Business and Defense Services Administration, Department of Commerce), which gives a breakdown between publicly and privately owned facilities. Federal expenditures were obtained directly from the Federal Budget or from the agencies administering the various public programs—those of the Veterans Administration, the Department of Defense, and the Public Health Service (including the Hill-Burton program). Expenditures for medical-facilities construction from private funds are based on data reported in the *Construction Review*, with the estimated amounts of the Hill-Burton grants subtracted.

Philanthropic contributions for hospital construction are estimated on the basis of the data in Dr. Klarman's report on philanthropy's role. It was determined that the remaining sources of funds for construction, other than public and philanthropic, represent expenditures for plant expansion or renovation made by hospitals out of accumulated funds, funds borrowed by hospitals to pay for new construction, or funds advanced by owners-to-be of hospitals or nursing homes for construction of these facilities. These are the capital funds included in the "other" category of private expenditures and derived as a residual amount after deducting government and philanthropic expenditures from the total.

<sup>12</sup> Herbert E. Klarman, "Role of Philanthropy in Hospitals," *American Journal of Public Health*, August 1962.

<sup>13</sup> "Income and Expenditures in Public Health Nursing Agencies, 1958," *Nursing Outlook*, May 1960.