

# National Health Expenditures, 1950-67

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THE TREND of increasing public financial participation in health programs continued in 1967. The full-year coverage of health care benefits under health insurance for the aged (Medicare) and the increased tempo of the medical assistance program (Medicaid) were largely responsible for the growth of public expenditures.

This year's article on national health expenditures presents data by type of expenditure for 1950, 1955, and 1960 and by source of funds for 1965-67. The availability of more up-to-date figures for 1965 and 1966 has resulted in slight revisions in those published earlier.

## EXPENDITURES IN 1967

Expenditures for health reached \$50.7 billion in 1967—an increase of \$5.6 billion from the total in the previous year (table 1). This 1-year growth of 12.6 percent was more than twice the rate of growth of the total output of goods and services (gross national product). As a result, health expenditures as a proportion of the GNP rose to 6.4 percent.

Operations of the Medicare program for its first full year and increased participation in Medicaid led to the following 1967 developments:

- Health spending per person—\$251—was more than 11 percent greater than the amount per person in the previous year.
- Public spending for health jumped nearly 41 percent in one year and reached \$17.8 billion.
- Intensified public spending for health brought the private share down from 75 percent in 1965 to 65 percent.
- The consumer paid out less for care in nongovernment hospitals than he did in 1966 and his share of these expenditures dropped to 62 percent; it had been 79 percent in 1966.
- Consumer expenditures for health accounted for a smaller proportion of the national disposable income than they had in the previous 2 years. They represented 6.0 percent in 1965 but only 5.6 percent in 1967.

—Medicare took over a large part of the personal health care expenditures previously financed out of the aged person's pocketbook. Third-party outlays, with Medicare payments included, paid for 56 percent of personal health care in 1967 for all persons but only 35 percent in 1950.

## Source of Funds

Spending for health comes largely from the private pocketbook. The \$32.8 billion spent by the private sector in 1967 represented 65 percent of total health expenditures. The burden on the private sector, however, has been becoming lighter at a rapid rate. The increase in public spending for health has far outpaced that of the private sector in the past 2 years. Since 1965 (pre-Medicare and pre-Medicaid), the public contribution has risen from less than 25 percent to more than 35 percent (chart 1).

In 1967 alone, public spending for health increased \$5.2 billion or nearly 41 percent, jumping to \$17.8 billion. On the other hand, private funds rose less than \$500 million—only about one-tenth of the aggregate public increase.

More than four-fifths of the public increase resulted from the growth of two major health programs of the Department of Health, Education, and Welfare—Medicare and Medicaid. Because all the Medicare benefits were available for a full year, the program registered a \$3.5 billion increase in spending for the year ending December 1967. (In 1966 expenditures under Medicare had represented only a half-year experience.) Expenditures under Medicare, which reflect the matching premium payments by consumers for the voluntary supplementary medical insurance program, are considered here to be public expenditures.

About \$850 million of the \$5.2 billion increase occurred in public assistance spending, primarily for Medicaid. As 1967 ended, 37 States and two jurisdictions had implemented Medicaid programs. As the remaining States take advantage of the Medicaid program, the growth rate of vendor medical payments under public assistance will accelerate.

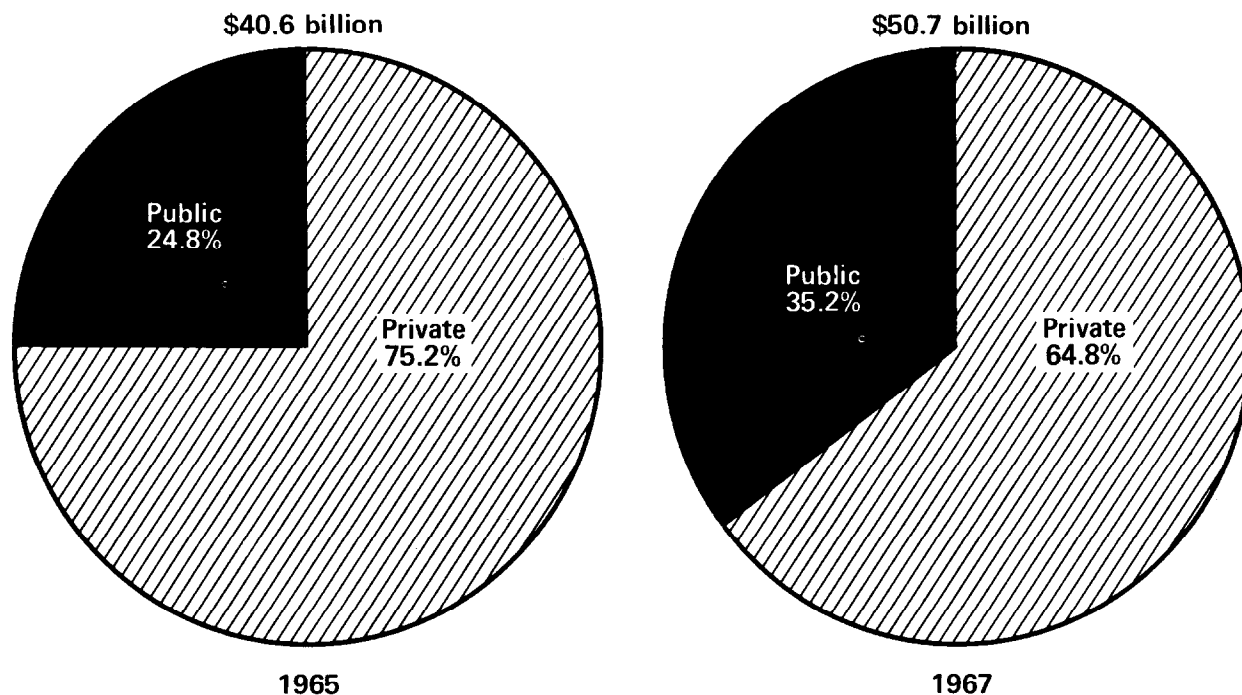
\* Division of Health Insurance Studies, Office of Research and Statistics.

TABLE 1.—National health expenditures, by type of expenditure and source of funds, calendar years, 1965–67

(In millions)

Type of expenditure	Total	Source of funds						
		Private				Public		
		Total	Consumers	Philanthropy	Other	Total	Federal	State and local
1967								
Total.....	\$50,655	\$32,833	\$30,417	\$1,467	\$949	\$17,822	\$11,825	\$5,999
Health services and supplies.....	46,885	31,497	30,417	710	370	15,388	9,863	5,527
Hospital care.....	17,946	9,092	8,752	340	-----	8,584	5,549	3,306
Federal facilities.....	1,877	177	177	-----	-----	1,700	1,677	23
State and local facilities.....	5,054	1,728	1,728	-----	-----	3,325	634	2,691
Nongovernmental facilities.....	11,016	7,187	6,847	340	-----	3,829	3,238	591
Physicians' services.....	10,163	8,201	8,191	10	-----	1,962	1,375	587
Dentists' services.....	3,186	3,063	3,063	-----	-----	124	68	55
Other professional services.....	1,447	1,348	1,323	25	-----	98	60	39
Drugs and drug sundries.....	5,569	5,337	5,337	-----	-----	232	120	112
Eyeglasses and appliances.....	1,584	1,545	1,545	-----	-----	39	19	20
Nursing-home care.....	1,858	666	646	20	-----	1,192	775	418
Expenses for prepayment and administration.....	1,777	1,560	1,560	-----	-----	217	217	-----
Government public health activities.....	914	-----	-----	-----	-----	914	-----	646
Other health services.....	2,441	685	-----	315	370	1,756	1,412	344
Research and medical-facilities construction.....	3,770	1,336	-----	757	579	2,434	1,962	472
Research.....	1,775	178	-----	178	-----	1,597	1,530	67
Construction.....	1,995	1,158	-----	579	579	837	432	405
Publicly owned facilities.....	628	-----	-----	-----	-----	625	235	393
Privately owned facilities.....	1,367	1,158	-----	579	579	209	197	12
1966								
Total.....	\$45,006	\$32,350	\$29,972	\$1,435	\$943	\$12,657	\$7,051	\$5,605
Health services and supplies.....	41,428	30,996	29,972	672	352	10,433	5,248	5,184
Hospital care.....	15,414	9,206	8,871	335	-----	6,209	2,940	3,269
Federal facilities.....	1,714	123	123	-----	-----	1,592	1,571	21
State and local facilities.....	4,466	1,458	1,458	-----	-----	3,009	286	2,723
Nongovernmental facilities.....	9,234	7,625	7,290	335	-----	1,609	1,083	526
Physicians' services.....	9,156	8,377	8,368	9	-----	778	277	501
Dentists' services.....	2,964	2,908	2,908	-----	-----	56	28	28
Other professional services.....	1,258	1,213	1,189	24	-----	45	13	32
Drugs and drug sundries.....	5,217	5,030	5,030	-----	-----	187	84	103
Eyeglasses and appliances.....	1,406	1,373	1,373	-----	-----	33	15	18
Nursing-home care.....	1,526	835	811	24	-----	692	336	356
Expenses for prepayment and administration.....	1,628	1,422	1,422	-----	-----	206	206	-----
Government public health activities.....	778	-----	-----	-----	-----	778	231	546
Other health services.....	2,081	692	-----	280	352	1,449	1,118	331
Research and medical-facilities construction.....	3,578	1,354	-----	763	591	2,224	1,803	421
Research.....	1,623	173	-----	173	-----	1,450	1,387	63
Construction.....	1,955	1,181	-----	590	591	774	416	358
Publicly owned facilities.....	508	-----	-----	-----	-----	508	161	347
Privately owned facilities.....	1,447	1,181	-----	590	591	266	255	11
1965								
Total.....	\$40,591	\$30,517	\$28,174	\$1,402	\$941	\$10,075	\$4,956	\$5,119
Health services and supplies.....	37,210	29,146	28,174	634	338	8,066	3,317	4,749
Hospital care.....	13,520	8,556	8,251	305	-----	4,964	1,853	3,111
Federal facilities.....	1,600	92	92	-----	-----	1,508	1,489	19
State and local facilities.....	3,990	1,242	1,242	-----	-----	2,749	147	2,602
Nongovernmental facilities.....	7,930	7,221	6,916	305	-----	709	218	491
Physicians' services.....	8,745	8,193	8,184	9	-----	552	112	440
Dentists' services.....	2,808	2,773	2,773	-----	-----	35	16	19
Other professional services.....	1,038	1,004	980	24	-----	34	7	28
Drugs and drug sundries.....	4,850	4,708	4,708	-----	-----	142	58	84
Eyeglasses and appliances.....	1,230	1,201	1,201	-----	-----	29	12	17
Nursing-home care.....	1,328	826	805	21	-----	502	219	283
Expenses for prepayment and administration.....	1,297	1,272	1,272	-----	-----	25	25	-----
Government public health activities.....	696	-----	-----	-----	-----	696	224	472
Other health services.....	1,698	613	-----	275	338	1,085	790	295
Research and medical-facilities construction.....	3,381	1,371	-----	768	603	2,009	1,639	370
Research.....	1,469	166	-----	166	-----	1,303	1,245	58
Construction.....	1,912	1,205	-----	602	603	706	394	312
Publicly owned facilities.....	521	-----	-----	-----	-----	521	219	361
Privately owned facilities.....	1,391	1,205	-----	602	603	186	175	11

CHART 1.—Distribution of national health expenditures, by source of funds, 1965 and 1967



Because Medicare is entirely a Federal program, most of the public growth has been Federal. State and local outlays amounted to \$6 billion in 1967, up less than \$400 million from 1966. More than three-fifths of this growth represented increased State and local expenditures under public assistance. The Federal Government's outlays were up about \$4.8 billion and totaled \$11.8 billion. From 1965 to 1967, the Federal share of public expenditures for health had risen from about half the total to about two-thirds.

Since the advent of Medicare and Medicaid, the distribution of the Federal health dollar by type of expenditure has been changing. In 1965, before the implementation of these two programs, about two-thirds of the Federal outlays financed health services and supplies and the remainder went for research and construction. In 1967, Federal funding of health services and supplies rose to 83 percent of total health outlays from this source. State and local governments have been spending most of their health dollar to purchase health services and supplies.

Similarly, the private sector utilizes by far the major part of their health funds for health services and supplies: 96 percent went for this

purpose in 1967. Private funds account for more than two-thirds of the total spending in this category, about three-fifths of all construction expenditures, and one-tenth of all outlays for medical research (table 2).

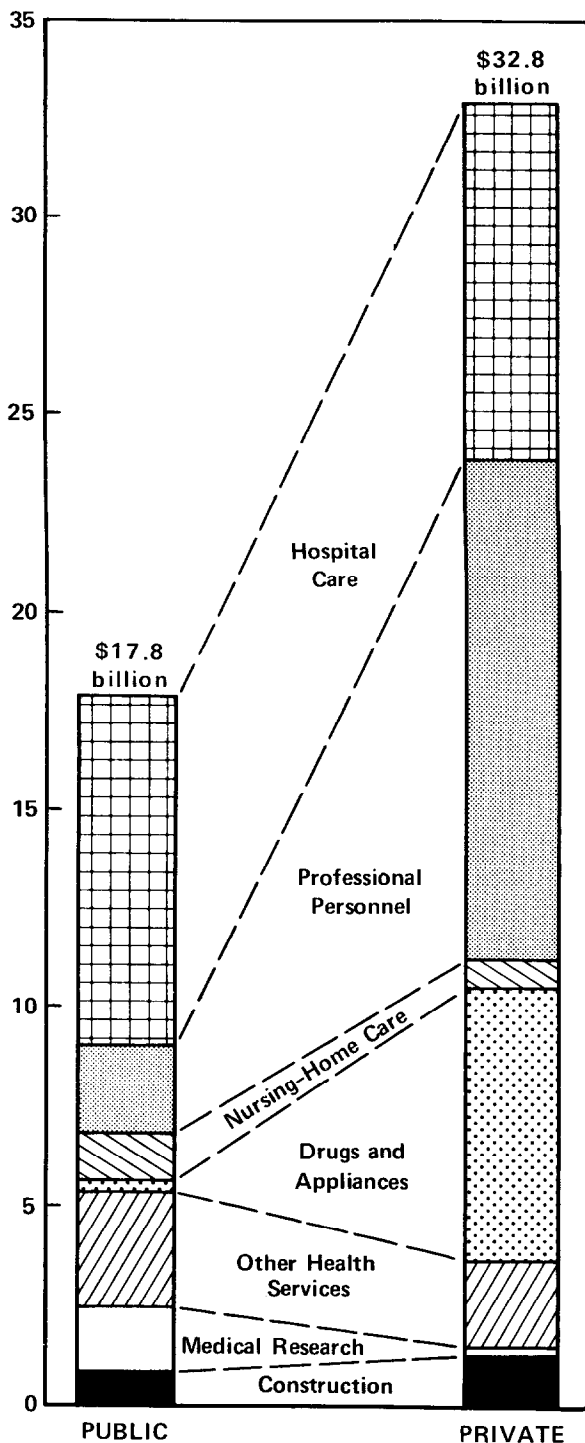
Most private expenditures represent payments made by private consumers or by private insurers

TABLE 2.—Percentage distribution of national health expenditures by source of funds and type of expenditure, 1965-67

Source of funds	Total	Health services	Research	Construction
1967, total.....	100.0	100.0	100.0	100.0
Private.....	64.8	67.2	10.0	58.0
Consumers.....	60.0	64.9	-----	-----
Philanthropy.....	2.9	1.5	10.0	29.0
Other.....	1.9	.8	-----	29.0
Public.....	35.2	32.8	90.0	42.0
Federal.....	23.3	21.0	86.2	21.7
State and local.....	11.8	11.8	3.8	20.3
1966, total.....	100.0	100.0	100.0	100.0
Private.....	71.9	74.8	10.7	60.4
Consumers.....	66.6	72.3	-----	-----
Philanthropy.....	3.2	1.6	10.7	30.2
Other.....	2.1	.8	-----	30.2
Public.....	28.1	25.2	89.3	39.6
Federal.....	15.7	12.7	85.5	21.3
State and local.....	12.5	12.5	3.9	18.3
1965, total.....	100.0	100.0	100.0	100.0
Private.....	75.2	78.3	11.3	63.0
Consumers.....	69.4	75.7	-----	-----
Philanthropy.....	3.5	1.7	11.3	31.5
Other.....	2.3	.9	-----	31.5
Public.....	24.8	21.7	88.7	36.9
Federal.....	12.2	8.9	84.8	20.6
State and local.....	12.6	12.8	3.9	16.3

in their behalf. Total consumer expenditures amounted to \$30.4 billion in 1967, an increase of \$445 million, or 1.5 percent more than the total in the previous year.

CHART 2.—Distribution of public and private health expenditures, by type of expenditure, 1967



The remaining private expenditures are of two major types—private philanthropy, which accounted for \$1.5 billion of 1967 expenditures, and other expenditures (\$949 million). The latter category represents amounts spent by industry for maintenance of in-plant health services (classified under “other health services”) and expenditures made from capital funds for expansion, renovation, or new construction of medical facilities.

The private sector differs significantly from the public in type of health expenditure (chart 2). Nearly half the public health dollar, for example, was spent for hospital care, compared with 28 percent of the private health dollar. On the other hand, 38 percent of the private dollar but only 12 percent of the public dollar purchased services of health professionals (doctors, dentists, nurses, etc.). The other major private expenditure, representing 16 percent of the private sector total, for drugs and drug sundries. Public expenditures for this category comprised less than 2 percent of the public total. Medical research was a much larger proportion of public than of private expenditures.

### Type of Expenditure

In 1967, the largest single item of expenditure, both public and private, was for hospital care, including inpatient and outpatient services. Nearly \$18 billion, or 35 percent of all health expenditures, went to purchase hospital care. Consumers and government each contributed about the same amount (\$8.8 billion and \$8.9 billion, respectively), and philanthropy provided the balance (\$300 million). Federal funds provided 63 percent of the government share and State and local governments contributed 37 percent. In 1966, government had provided substantially less, both in aggregate and relative terms. In that year, government spending for hospital care amounted to \$6.2 billion, or only 40 percent of the total. On the other hand, consumer spending for hospital care decreased more than \$119 million—from 58 percent of the total in 1966 to 49 percent in 1967.

The sources of financing vary with hospital ownership (table 3). Federal facilities, which include those maintained by the Department of

TABLE 3.—Expenditures for hospital care, by type of hospital and source of funds, 1967

[In millions]

Source of funds	All hospitals	Type of hospital		
		General	Tuber- culosis	Psy- chiatric
All hospitals				
Total.....	\$17,946.2	\$15,570.0	\$79.5	\$2,296.7
Consumers.....	8,752.0	8,439.8	10.5	301.7
Public.....	8,854.2	6,790.2	69.0	1,995.0
Federal.....	5,548.7	5,257.8	1.5	289.4
State and local.....	3,305.5	1,532.4	67.5	1,705.6
Philanthropy.....	340.0	340.0	-----	-----
Federal hospitals				
Total.....	\$1,876.9	\$1,562.7	\$1.5	\$312.7
Consumers.....	176.7	176.7	-----	-----
Public.....	1,700.2	1,386.0	1.5	312.7
Federal.....	1,676.9	1,386.0	1.5	289.4
State and local.....	23.3	-----	-----	23.3
State and local government hospitals				
Total.....	\$5,053.7	\$3,144.1	\$75.0	\$1,834.6
Consumers.....	1,728.4	1,568.6	7.5	152.3
Public.....	3,325.3	1,575.5	67.5	1,682.3
Federal.....	634.3	634.3	-----	-----
State and local.....	2,691.0	941.2	67.5	1,682.3
Nongovernmental hospitals				
Total.....	\$11,015.6	\$10,863.2	\$3.0	\$149.4
Consumers.....	6,846.9	6,694.5	3.0	149.4
Public.....	3,828.7	3,828.7	-----	-----
Federal.....	3,237.5	3,237.5	-----	-----
State and local.....	591.2	591.2	-----	-----
Philanthropy.....	340.0	340.0	-----	-----

Defense, the Veterans Administration, and the Public Health Service, are almost exclusively supported by the Federal Government. State and local governments financed 53 percent of the expenditures in their own hospitals, consumers furnished an additional 34 percent in these hospitals, and the Federal Government provided the remaining 13 percent. Voluntary and proprietary nongovernment hospitals received \$6.8 billion or 62 percent of their income from private consumers. In 1966, consumers had provided \$7.3 billion or 79 percent of the expenditures in these hospitals.

Largely as a result of Medicare, government has now taken over some of the consumer spending for hospital care, in terms of both proportions and aggregate amounts. Government spending in nongovernment hospitals more than doubled in a year, increasing from \$1.6 billion or 17 percent in 1966 to \$3.8 billion or 35 percent in 1967.

The second largest category of expenditure was for physicians' services, which amounted to \$10.2 billion or one-fifth of the total. In 1967, government assumed some of the consumer's burden of paying for physician care. In spite of rising prices for such care, consumer expenditures actually decreased from 1966 to 1967, falling from \$8.4 billion to \$8.2 billion. Concomitantly, government payments for physician care were two and one-half times the 1966 figures, increasing from \$778 million to \$2.0 billion. This growing public expenditure is in the Federal sector, also largely as a result of Medicare.

Dentists' services (\$3.2 billion), other professional services (\$1.4 billion), and drugs and drug sundries (\$5.6 billion) were almost entirely financed by private funds, chiefly by the consumer.

The financing of nursing-home care presents a different picture. Medicare's entry into the extended-care field on January 1, 1967, and the intensification of the Veterans Administration's nursing-home program have shifted some of the funding of such care from the consumer to the Government. In 1967, \$1.2 billion or 64 percent of the \$1.9 billion spent for nursing-home care was provided by government chiefly through Federal funds. In 1966, the Government share had been only 45 percent. The continuing growth of the Medicare and Medicaid expenditures in the nursing-home field should result in an even larger government role in the future.

The category "expenses for prepayments and administration," amounting to \$1.8 billion in 1967, consists of two types of expenditures—prepayment expenses and administrative expenses. The former, paid for by consumers, is the difference between subscription charges (or private health insurance premiums) and the claim (or benefit) expenditures. This category is often referred to as the net cost of insurance. Administrative expenses are the expenses of federally financed health programs for which the cost of administration can be identified. The largest administrative expenses (\$188 million out of the total \$217 million) are those under Medicare. Other expenses of the type include those of the Veterans Administration and those for military dependents' medical care in the Department of Defense, maternal and child health programs, and Indian health activities.

Medical research expenditures rose 9.4 percent from 1966, reaching \$1.8 billion in 1967. Nine-tenths of these outlays were provided by government, chiefly from Federal sources, and one-tenth came from philanthropy. These research figures do not include research expenditures made by pharmaceutical, medical-supply, and medical electronic industries (about \$610 million), since they are considered a business expense that is attached to the cost of the products and already accounted for.

Expenditures for medical-facility construction have been rising very slowly. Such expenditures amounted to \$2.0 billion in 1967 and were only \$40 million higher than the total in the previous year. Nearly seven-tenths of the construction outlays were for privately owned facilities, and six-tenths of the total outlay come from private funds.

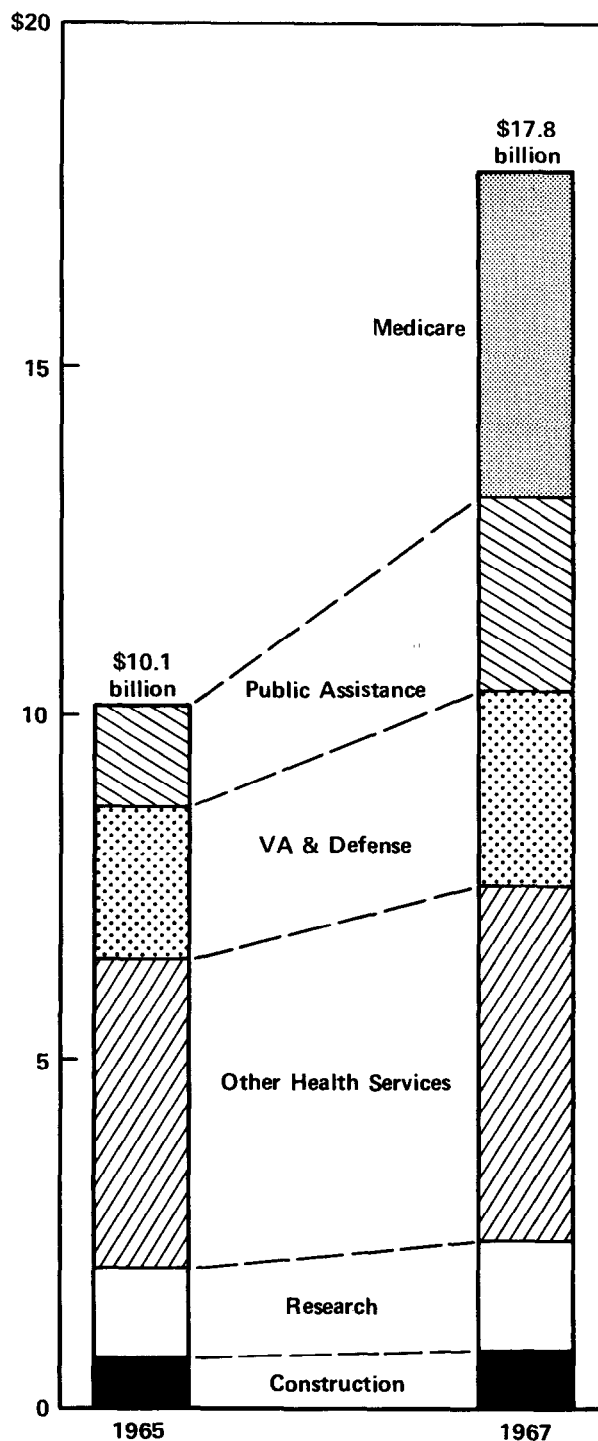
### Health Expenditures Under Public Programs

In 1967, government programs spent \$15.4 billion for health services and supplies—\$9.9 billion from Federal funds and \$5.5 billion from State and local sources.

Table 4 lists each of the government programs with health expenditures and distributes these amounts for 1965–67 by type of expenditure. The government programs are the same as those currently reported in the health expenditure table of the social welfare expenditure series published annually in the BULLETIN.<sup>1</sup> The calendar-year totals shown here for each program represent averages of the fiscal-year figures reported in the social welfare series, except for a few public programs for which calendar-year figures are available.

As mentioned previously, in 1967 public expenditures for health were considerably higher than those in 1966, and they showed an even more noticeable rise from expenditures in 1965. Much of the \$7.7 billion growth since 1965 was the result of the Medicare program (chart 3). That

CHART 3.—Growth in health expenditures under public programs, by program, 1965 and 1967



<sup>1</sup> Ida C. Merriam, Alfred M. Skolnik, and Sophie R. Dales, "Social Welfare Expenditures, 1967–68," *Social Security Bulletin*, December 1968; see also Ida C. Merriam and Alfred M. Skolnik, *Social Welfare Expenditures Under Public Programs in the United States, 1929–66* (Research Report No. 25, Office of Research and Statistics, Social Security Administration), 1968.

program alone was responsible for \$4.7 billion or three-fifths of the increase. Medicaid, the major component under the vendor medical program of public assistance, was also not in effect in 1965

and became the second largest contributor to the 1967 increase. Public assistance medical payments rose from \$1.5 billion in 1965 to \$2.8 billion two years later—an increase of \$1.3 billion.

The Department of Defense and the Veterans Administration contributed \$660 million to the 1965-67 increase; \$490 million came from the former agency and \$170 million from the latter. The nursing-home program of the Veterans Administration, which began in 1965, was responsible for much of the rise in that agency's health outlays.

Programs contributing to the 2-year difference include "other" public health activities, adding \$220 million; workmen's compensation, adding

\$130 million; and maternal and child health, adding \$85 million. The programs of the Office of Economic Opportunity, which started in 1965, added another \$80 million.

Medicare is by far the largest public program supporting health-care services and supplies. More than three-tenths or all 1967 public expenditures for these purposes and nearly half the Federal outlays came from Medicare. Other large Federal programs were public assistance (\$1.5 billion), Department of Defense (\$1.5 billion), and the Veterans Administration (\$1.3 billion).

The State and local program with the largest outlay was general hospital and medical care,

TABLE 4.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, 1965-67

[In millions]

Program and source of funds	Total	Hospital care	Physicians' services	Dentists' services	Other professional services	Drugs and drug sundries	Eye-glasses and appliances	Nursing-home care	Government public health activities	Other health services	Administration
<b>Total</b> .....	\$15,386.6	\$8,854.2	\$1,961.9	\$123.5	\$98.2	\$231.5	\$38.6	\$1,192.2	\$913.8	\$1,756.1	\$216.6
Health insurance for the aged.....	4,736.8	3,102.0	1,124.7	.....	42.6	.....	.....	254.8	.....	25.1	187.5
Temporary disability insurance (medical benefits).....	53.4	39.9	12.1	.....	.6	.4	.4	.....	.....	.....	.....
Workmen's compensation (medical benefits).....	735.0	257.2	426.3	.....	22.0	14.7	14.7	.....	.....	.....	.....
Public assistance (vendor medical payments).....	2,826.3	1,127.7	296.5	117.1	24.2	208.5	.....	907.7	.....	144.6	.....
General hospital and medical care.....	2,626.2	2,606.1	3.8	.7	.6	.6	.....	.....	.....	14.4	.....
Defense Department hospital and medical care (including military dependents).....	1,511.6	545.0	36.8	.....	.....	.....	.....	.....	.....	927.7	2.1
Maternal and child health services.....	327.6	58.3	16.6	3.9	8.2	4.4	5.5	.....	.....	228.8	1.9
School health.....	143.0	.....	.....	.....	.....	.....	.....	.....	.....	143.0	.....
Other public health activities.....	915.8	.....	.....	.....	.....	.....	.....	.....	913.8	.....	2.0
Veterans' hospital and medical care.....	1,320.4	1,079.1	10.2	1.8	.....	2.9	8.3	29.7	.....	165.5	23.1
Medical vocational rehabilitation.....	83.5	38.9	34.9	.....	.....	.....	9.7	.....	.....	.....	.....
Office of Economic Opportunity.....	107.0	.....	.....	.....	.....	.....	.....	.....	.....	107.0	.....
<b>Federal</b> .....	9,861.2	5,548.7	1,375.2	68.1	59.7	119.5	18.9	774.7	268.1	1,411.9	216.6
Health insurance for the aged.....	4,736.8	3,102.0	1,124.7	.....	42.6	.....	.....	254.8	.....	25.1	187.5
Workmen's compensation (medical benefits).....	15.2	9.8	3.8	.....	.9	.3	.3	.....	.....	.....	.....
Public assistance (vendor medical payments).....	1,526.2	609.0	160.1	63.2	13.1	112.6	.....	490.2	.....	78.1	.....
General hospital and medical care.....	167.0	146.9	3.8	.7	.6	.6	.....	.....	.....	14.4	.....
Defense Department hospital and medical care (including military dependents).....	1,511.6	545.0	36.8	.....	.....	.....	.....	.....	.....	927.7	2.1
Maternal and child health services.....	144.3	27.7	9.6	2.4	2.5	3.1	3.0	.....	.....	94.1	1.9
Other public health activities.....	270.1	.....	.....	.....	.....	.....	.....	.....	268.1	.....	2.0
Veterans' hospital and medical care.....	1,320.4	1,079.1	10.2	1.8	.....	2.9	8.3	29.7	.....	165.5	23.1
Medical vocational rehabilitation.....	62.6	29.2	26.2	.....	.....	.....	7.3	.....	.....	.....	.....
Office of Economic Opportunity.....	107.0	.....	.....	.....	.....	.....	.....	.....	.....	107.0	.....
<b>State and local</b> .....	5,525.4	3,305.5	586.8	55.3	38.6	112.0	19.7	417.6	645.7	344.2	.....
Temporary disability insurance.....	53.4	39.9	12.1	.....	.6	.4	.4	.....	.....	.....	.....
Workmen's compensation (medical benefits).....	719.8	247.4	422.5	.....	21.2	14.4	14.4	.....	.....	.....	.....
Public assistance (vendor medical payments).....	1,300.1	518.7	136.4	53.8	11.1	95.9	.....	417.6	.....	66.5	.....
General hospital and medical care.....	2,459.2	2,459.2	.....	.....	.....	.....	.....	.....	.....	.....	.....
Maternal and child health services.....	183.3	30.6	7.1	1.5	5.7	1.3	2.5	.....	.....	134.7	.....
School health.....	143.0	.....	.....	.....	.....	.....	.....	.....	.....	143.0	.....
Other public health activities.....	645.7	.....	.....	.....	.....	.....	.....	.....	645.7	.....	.....
Medical vocational rehabilitation.....	20.9	9.7	8.7	.....	.....	.....	.....	.....	.....	.....	.....

See footnote at end of table.

mainly in mental hospitals, with \$2.5 billion. This program's expenditures, however, have dropped slightly from 1966, probably as the result of a shift to Medicare and Medicaid support. State and local public assistance, mainly Medicaid, spent another \$1.3 billion. Thus these two programs alone furnished about 68 percent of State and local expenditures for health.

The type of expenditure receiving the largest public support was hospital care, which received 58 percent of all public outlays. The proportion of support going to hospitals varies, however, among the public programs. In 1967, hospital expenditures accounted for nearly all expenditures under general hospital and medical care,

65 percent of expenditures under Medicare, and 82 percent of those under Veterans Administration. On the other hand, hospital care expenditures represented only 18 percent of outlays for maternal and child health.

For physicians' services, the second largest public outlay for health, the distribution also varies among the programs. The workmen's compensation program devoted 58 percent of its health outlay to physicians' services. Medicare spent 24 percent for physicians' services, and the Veterans Administration less than 1 percent. It should be noted, however, that expenditures by the Veterans Administration, as well as those by the Department of Defense, for physicians' serv-

TABLE 4.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, 1965-67—Continued

[In millions]

Program and source of funds	Total	Hospital care	Physicians' services	Dentists' services	Other professional services	Drugs and drug sundries	Eye-glasses and appliances	Nursing-home care	Government public health activities	Other health services	Administration
1966											
Total.....	\$10,431.6	\$6,208.3	\$778.5	\$55.9	\$44.8	\$187.2	\$32.9	\$691.7	\$777.5	\$1,448.6	\$206.3
Health insurance for the aged.....	1,199.4	890.3	124.5		3.1					1.1	180.4
Temporary disability insurance (medical benefits).....	53.9	40.0	12.4		.6	.4	.4				
Workmen's compensation (medical benefits).....	665.0	232.8	385.7		20.0	13.3	13.3				
Public assistance (vendor medical payments).....	1,979.1	776.0	176.8	50.6	13.7	166.9		671.3		123.8	
General hospital and medical care.....	2,711.1	2,694.0	3.2	.6	.5	.5				12.3	
Defense Department hospital and medical care (including military dependents).....	1,269.2	474.7	26.2							767.1	1.2
Maternal and child health services.....	286.6	51.0	14.5	3.4	6.9	3.3	5.3			200.7	1.6
School health.....	137.5									137.5	
Other public health activities.....	779.3								777.5		1.8
Veterans' hospital and medical care.....	1,217.2	1,022.9	10.7	1.3		2.8	7.3	20.4		130.5	21.3
Medical vocational rehabilitation.....	57.7	26.6	24.5				6.6				
Office of Economic Opportunity.....	75.6									75.6	
Federal.....	5,247.9	2,939.5	277.4	27.8	13.0	84.5	14.9	335.9	231.3	1,117.5	206.3
Health insurance for the aged.....	1,199.4	890.3	124.5		3.1					1.1	180.4
Workmen's compensation (medical benefits).....	12.8	8.4	3.2		.8	.3	.3				
Public assistance (vendor medical payments).....	930.2	364.7	83.1	23.8	6.5	78.4		315.5		58.2	
General hospital and medical care.....	153.6	136.5	3.2	.6	.5	.5				12.3	
Defense Department hospital and medical care (including military dependents).....	1,269.2	474.7	26.2							767.1	1.2
Maternal and child health services.....	115.3	22.9	8.8	2.1	2.1	2.5	2.6			72.7	1.6
Other public health activities.....	233.1								231.3		1.8
Veterans' hospital and medical care.....	1,217.2	1,022.9	10.7	1.3		2.8	7.3	20.4		130.5	21.3
Medical vocational rehabilitation.....	41.5	19.1	17.7				4.7				
Office of Economic Opportunity.....	75.6									75.6	
State and local.....	5,183.7	3,268.8	501.0	28.1	31.9	102.7	17.9	355.8	546.2	331.1	
Temporary disability insurance (medical benefits).....	53.9	40.0	12.4		.6	.4	.4				
Workmen's compensation (medical benefits).....	652.2	224.4	382.3		19.2	13.0	13.0				
Public assistance (vendor medical payments).....	1,048.9	411.3	93.7	26.8	7.3	88.5		355.8		65.6	
General hospital and medical care.....	2,557.5	2,557.5									
Maternal and child health services.....	171.3	28.1	5.7	1.3	4.8	.8	2.7			128.0	
School health.....	137.5									137.5	
Other public health activities.....	546.2								546.2		
Medical vocational rehabilitation.....	16.2	7.5	6.8				1.8				

See footnote at end of table.



ices are included as part of hospital care expenditures (see section on definitions).

Eyeglasses and appliances were 12 percent of vocational rehabilitation outlays and did not even appear as an identifiable category in expenditures under public assistance and Department of Defense programs.

## HISTORICAL DATA

### Trends in Health Expenditures

From 1950 to 1967, the Nation's expenditures for medical care rose at an average annual rate of 8.4 percent—from \$12.9 billion to \$50.7 billion

(table 5). Much of this \$38 billion rise occurred in the past 2 years when expenditures increased 25 percent or an average of 11.7 percent a year. This phenomenal rate of growth far exceeded that of the gross national product. Consequently, health expenditures, as a percent of GNP, increased from 4.5 percent in 1950 to 6.4 percent in 1967. The 1967 proportion is up four percentage points from the preceding year alone.

Despite the rapid growth in health expenditures, their distribution by type of expenditure has exhibited little change. The biggest change between 1950 and 1967 has been in hospital care, which increased from 30 percent to 35 percent of the total. Expenditures for drugs and drug sundries declined 2.4 percentage points; those for

TABLE 4.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, 1965-67—Continued

[In millions]

Program and source of funds	Total	Hospital care	Physicians' services	Dentists' services	Other professional services	Drugs and drug sundries	Eye-glasses and appliances	Nursing-home care	Government public health activities	Other health services	Administration
<b>Total</b> .....	\$8,066.4	\$4,964.5	\$552.0	\$35.4	\$34.3	\$142.2	\$29.4	\$502.3	\$696.5	\$1,085.0	\$24.8
Temporary disability insurance (medical benefits).....	52.4	39.3	11.7		.6	.4	.4				
Workmen's compensation (medical benefits).....	605.0	211.8	350.9		18.2	12.1	12.1				
Public assistance (vendor medical payments).....	1,478.9	626.6	121.6	30.8	9.1	124.3		494.4		72.1	
General hospital and medical care.....	2,617.5	2,602.1	2.7	.5	.4	.4				11.5	
Defense Department hospital and medical care (including military dependents).....	1,021.8	443.9	26.7							549.9	1.3
Maternal and child health services.....	242.9	43.2	11.7	3.1	6.0	2.0	5.0			170.6	1.3
School health.....	133.5									133.5	
Other public health activities.....	698.3								696.5		<sup>1</sup> 1.8
Veterans' hospital and medical care.....	1,148.0	978.4	10.0	1.0		3.0	6.7	7.9		120.5	20.4
Medical vocational rehabilitation.....	41.1	19.2	16.7				5.2				26.4
Office of Economic Opportunity.....	26.9									26.9	
<b>Federal</b> .....	3,317.2	1,853.1	112.5	16.4	6.7	58.1	12.5	219.0	224.0	790.1	24.8
Workmen's compensation (medical benefits).....	11.5	7.5	2.9		.7	.2	.2				
Public assistance (vendor medical payments).....	631.5	267.6	51.9	13.1	3.9	53.1		211.1		30.8	
General hospital and medical care.....	142.0	126.6	2.7	.5	.4	.4				11.5	
Defense Department hospital and medical care (including military dependents).....	1,021.8	443.9	26.7							549.9	1.3
Maternal and child health services.....	82.9	16.6	7.4	1.8	1.7	1.4	2.2			50.5	1.3
Other public health activities.....	225.8								224.0		<sup>1</sup> 1.8
Veterans' hospital and medical care.....	1,148.0	978.4	10.0	1.0		3.0	6.7	7.9		120.5	20.4
Medical vocational rehabilitation.....	26.8	12.5	10.9				3.4				20.4
Office of Economic Opportunity.....	26.9									26.9	
<b>State and local</b> .....	4,749.0	3,111.3	439.5	18.9	27.5	84.1	16.9	283.3	472.5	294.9	
Temporary disability insurance (medical benefits).....	52.4	39.3	11.7		.6	.4	.4				
Workmen's compensation (medical benefits).....	593.4	204.2	348.0		17.4	11.9	11.9				
Public assistance (vendor medical payments).....	847.4	359.0	69.7	17.6	5.2	71.2		283.3		41.3	
General hospital and medical care.....	2,475.5	2,475.5									
Maternal and child health services.....	160.0	26.6	4.3	1.3	4.3	.6	2.8			120.1	
School health.....	133.5									133.5	
Other public health activities.....	472.5								472.5		
Medical vocational rehabilitation.....	14.3	6.7	5.8				1.8				

<sup>1</sup> Represents administrative expenses for Indian health services only.

nursing-home care rose 2.6 percentage points; and for other health services they were 2.3 percentage points lower. Expenditures for medical research rose from 0.9 percent to 3.5 percent of the total, while construction expenditures declined proportionately—from 6.5 percent to 3.9 percent.

The substantial rise in national health expenditures since 1950 is the result of many factors. One is simply the growth in population; other factors are the rising costs or prices per unit of service, the increase in the average per capita utilization of health services and supplies, and the rising level and scope of services through new techniques, drugs, and treatment procedures.

By examining expenditures in terms of per capita amounts, one can eliminate population growth as a factor (table 6). With this factor eliminated, health expenditures still show a substantial increase from 1950 to 1967. During the

17-year period, per capita expenditures rose from \$84.49 to \$250.63, averaging an increase of 6.6 percent each year or 197 percent in all.

By eliminating price as well as population growth, one can determine the increase in expenditures that is the result of more utilization and a higher level of care. When per capita expenditures are converted to constant 1967 dollars by means of the medical care component of the Bureau of Labor Statistics Consumer Price Index, health expenditures still maintain considerable growth. Per capita constant dollars rose 59 percent from 1950—an average annual rate of 2.8 percent. Much of this growth has occurred in the past few years. From 1965, per capita constant dollars increased 9.1 percent and from 1966 to 1967 alone registered a gain of nearly \$10.

Although the above discussion indicates the

TABLE 5.—Amount and percentage distribution of national health expenditures by type of expenditure, selected years, 1950–67

Type of expenditure	1950	1955	1960	1965	1966	1967
Amount (in millions)						
Total.....	\$12,867	\$18,036	\$26,973	\$40,591	\$45,006	\$50,655
Health services and supplies.....	11,910	17,099	25,263	37,210	41,428	46,885
Hospital care.....	3,845	5,929	9,044	13,520	15,414	17,946
Federal facilities.....	728	902	1,221	1,600	1,714	1,877
State and local facilities.....	1,175	1,911	2,827	3,990	4,466	5,054
Nongovernmental facilities.....	1,942	3,116	4,996	7,930	9,234	11,016
Physicians' services.....	2,755	3,680	5,684	8,745	9,156	10,163
Dentists' services.....	975	1,525	1,977	2,808	2,964	3,186
Other professional services.....	395	559	862	1,038	1,258	1,447
Drugs and drug sundries.....	1,730	2,385	3,657	4,850	5,217	5,569
Eyeglasses and appliances.....	490	597	776	1,230	1,406	1,584
Nursing-home care.....	142	222	526	1,328	1,526	1,858
Expenses for prepayment and administration.....	300	614	863	1,297	1,628	1,777
Government public health activities.....	361	377	412	696	778	914
Other health services.....	917	1,211	1,462	1,695	2,081	2,441
Research and medical-facilities construction.....	957	937	1,710	3,381	3,578	3,770
Research.....	117	216	662	1,469	1,623	1,775
Construction.....	840	721	1,048	1,912	1,955	1,995
Publicly owned.....	496	370	443	521	508	628
Privately owned.....	344	351	605	1,391	1,447	1,367
Percentage distribution						
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Health services and supplies.....	92.6	94.8	93.7	91.7	92.0	92.6
Hospital care.....	29.9	32.9	33.5	33.3	34.2	35.4
Federal facilities.....	5.7	5.0	4.5	3.9	3.8	3.7
State and local facilities.....	9.1	10.6	10.5	9.8	9.9	10.0
Nongovernmental facilities.....	15.1	17.3	18.5	19.5	20.5	21.7
Physicians' services.....	21.4	20.4	21.1	21.5	20.3	20.1
Dentists' services.....	7.6	8.4	7.3	6.9	6.6	6.3
Other professional services.....	3.1	3.1	3.2	2.6	2.8	2.9
Drugs and drug sundries.....	13.4	13.2	13.6	11.9	11.6	11.0
Eyeglasses and appliances.....	3.8	3.3	2.9	3.0	3.1	3.1
Nursing-home care.....	1.1	1.2	2.0	3.3	3.4	3.7
Expenses for prepayment and administration.....	2.3	3.4	3.2	3.2	3.6	3.5
Government public health activities.....	2.8	2.1	1.5	1.7	1.7	1.8
Other health services.....	7.1	6.7	5.4	4.2	4.6	4.8
Research and medical-facilities construction.....	7.4	5.2	6.3	8.3	8.0	7.4
Research.....	.9	1.2	2.5	3.6	3.6	3.5
Construction.....	6.5	4.0	3.9	4.7	4.3	3.9
Publicly owned.....	3.9	2.1	1.6	1.3	1.1	1.2
Privately owned.....	2.7	1.9	2.2	3.4	3.2	2.7
Total expenditures as a percent of gross national product.....	4.5	4.5	5.4	5.9	6.0	6.4

TABLE 6.—Per capita national health expenditures, selected years, 1950-67<sup>1</sup>

Type of expenditure	1950	1955	1960	1965	1966	1967
Total national health expenditures.....	\$84.49	\$108.67	\$149.25	\$205.55	\$225.19	\$250.63
Health services and supplies.....	78.20	103.03	139.79	188.43	207.29	231.98
Hospital care.....	25.25	35.72	50.04	68.47	77.13	88.79
Physicians' services.....	18.09	22.17	31.45	44.28	45.81	50.28
Dentists' services.....	6.40	9.19	10.94	14.22	14.83	15.76
Other professional services.....	2.59	3.37	4.77	5.26	6.29	7.16
Drugs and drug sundries.....	11.36	14.37	20.24	24.56	26.10	27.55
Eyeglasses and appliances.....	3.22	3.60	4.29	6.23	7.04	7.84
Nursing-home care.....	.93	1.34	2.91	6.73	7.64	9.19
Expenses for prepayment and administration.....	1.97	3.70	4.78	6.57	8.15	8.79
Government public health activities.....	2.37	2.27	2.28	3.52	3.89	4.52
Other health services.....	6.02	7.30	8.09	8.60	10.41	12.80
Total national health expenditures in 1967 prices <sup>2</sup> .....	157.34	167.70	188.69	229.66	241.10	250.63

<sup>1</sup> Based on total population, including Armed Forces and Federal civilian employees abroad as of July 1.

<sup>2</sup> Based on medical care component of the consumer price index.

effect of various factors on health expenditures, it does not show the proportion of the increase each of the factors produce. The calculation of these proportions is most meaningful in terms of per-

sonal health care expenditures, which increased nearly threefold—from the 1950 amount of \$11.1 billion to the 1967 figure of \$43.9 billion (table 7). Personal health care expenditures, as defined here

TABLE 7.—Amount and percent of personal health care expenditures and consumer expenditures for personal health care met by private insurance, selected years, 1950-67

Year	Personal health care expenditures <sup>1</sup>	Consumer expenditures for personal health care		Private insurance payments		
		Amount	Percent	Amount <sup>2</sup>	As a percent of—	
					Personal health care	Consumer expenditures
[In millions]						
All types of service						
1950.....	\$11,109	\$8,201	73.8	\$902	8.9	12.1
1955.....	15,933	11,807	74.1	2,536	15.9	21.5
1960.....	23,758	18,066	76.0	4,996	21.0	27.7
1965.....	34,942	26,002	77.0	8,729	25.0	32.4
1966.....	38,742	28,550	73.7	9,142	23.6	32.0
1967.....	43,879	28,857	65.8	9,545	21.8	33.1
Hospital care						
1950.....	\$3,845	\$1,965	51.1	\$680	17.7	34.6
1955.....	5,929	3,244	54.7	1,679	28.3	51.8
1960.....	9,044	5,188	57.4	3,304	36.5	63.7
1965.....	13,520	8,251	61.0	5,790	42.8	70.2
1966.....	15,414	8,871	57.6	5,993	38.9	67.6
1967.....	17,946	8,752	48.8	6,133	34.2	70.1
Physicians' services <sup>3</sup>						
1950.....	\$2,755	\$2,597	94.3	\$312	11.3	12.0
1955.....	3,680	3,433	93.3	857	23.3	25.0
1960.....	5,684	5,309	93.4	1,593	28.0	30.0
1965.....	8,745	8,184	93.6	2,680	30.6	32.7
1966.....	9,156	8,368	91.4	2,831	30.9	33.8
1967.....	10,163	8,191	80.6	2,964	29.2	36.2
Other						
1950.....	\$4,509	\$3,639	80.7	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
1955.....	6,324	5,130	81.1	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
1960.....	9,030	7,569	83.8	\$909	1.1	1.3
1965.....	12,677	10,467	82.6	259	2.0	2.5
1966.....	14,172	11,311	79.8	318	2.2	2.8
1967.....	15,770	11,914	75.5	447	2.8	3.8

<sup>1</sup> All expenditures for health services and supplies other than (1) expenses for prepayment and administration, (2) government public health activities, and (3) expenditures of private voluntary agencies for other health services.

<sup>2</sup> Based on data from annual articles on private health insurance coverage

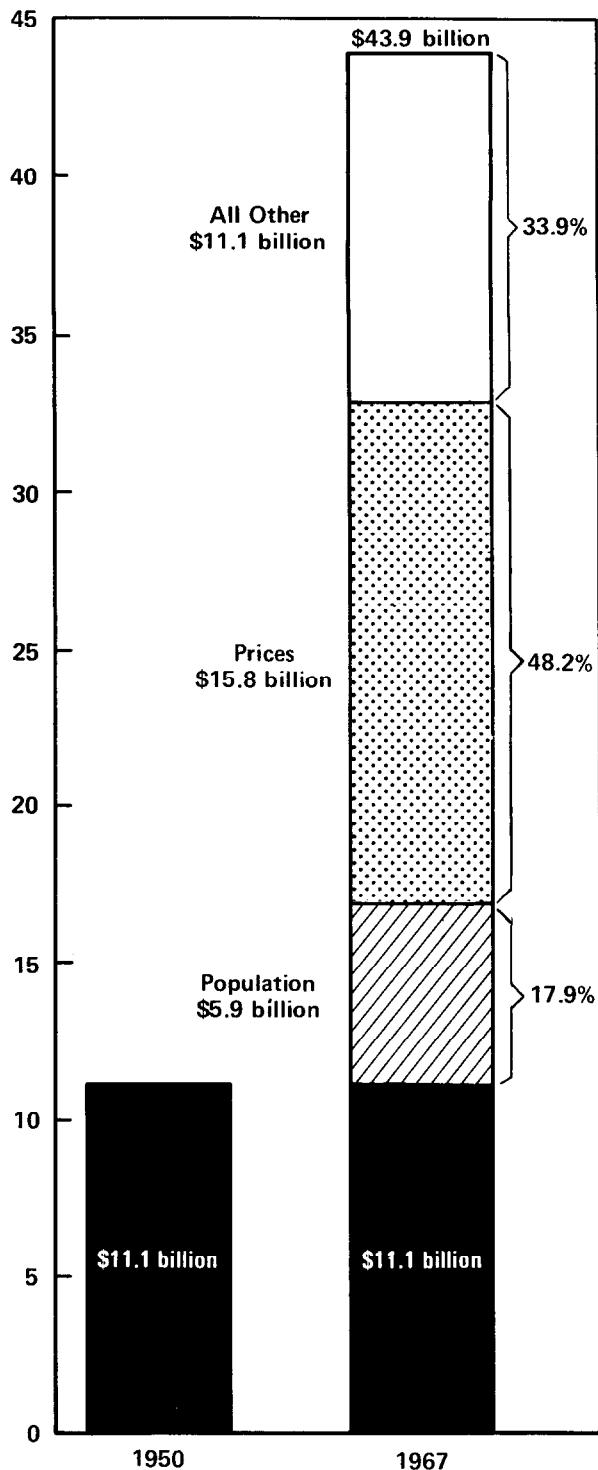
and financial experience in the *Social Security Bulletin*.

<sup>3</sup> Includes insurance payments of small amounts for other types of professional services for 1950 and 1955.

<sup>4</sup> Included in physicians' services.

and in the social welfare series, represent all expenditures for health services and supplies except expenses for prepayment and administration,

CHART 4.—Factors affecting the increase in personal health care expenditures, 1950 and 1967



government public health activities, and amounts spent by private voluntary agencies for fund-raising and general health services.

As chart 4 shows, of the \$32.8 billion increase from 1950 to 1967, population growth accounted for 18 percent, prices produced about half, and the remainder resulted from greater utilization of services and the introduction of new medical techniques.

### Consumer Expenditures

Private consumer expenditures for health services and supplies, as shown here, include all direct payments by private individuals for such care and benefit expenditures and administrative costs of private health insurance. These health insurance expenditures include premium payments by individuals and by employers for the purchase of health insurance for their employees. Consumer expenditures do not, however, reflect premium payments by aged persons enrolled under Medicare, payments for the medical care of injured workers under workmen's compensation programs, or payments for medical care made by the State funds under the California and New York temporary disability programs. Such payments have been classified as government expenditures. Also classified separately are philanthropic contributions to hospitals or other health agencies and payments by philanthropic organizations, "united funds," "community chests," and similar organizations to hospitals, physicians, etc., for the care of needy or medically indigent patients.

Private consumer expenditures for health services and supplies amounted to \$30.4 billion in 1967 and accounted for 5.6 percent of the national disposable income—a decline from the 1966 proportion of 5.9 percent (table 8). The year 1966 marked the first year in the history of the series when the health portion of disposable income declined from the previous year. The 1967 drop from the preceding year was substantially larger, however, than the 1966 decline. This drop indicates that public health programs are, in fact, taking over some of the burden on consumers for financing the high costs of medical care and are leaving a greater proportion of the consumers' income for other items.

TABLE 8.—Aggregate and per capita amounts of private consumer expenditures for health services and supplies, by type of expenditure, selected years, 1950-67

Type of expenditure	1950	1955	1960	1965	1966	1967
Amount (in millions)						
Total.....	\$8,501	\$12,421	\$18,911	\$28,174	\$29,972	\$30,417
Hospital care.....	1,965	3,244	5,188	8,251	8,871	8,752
Physicians' services.....	2,597	3,433	5,309	8,184	8,368	8,191
Dentists' services.....	961	1,508	1,974	2,773	2,908	3,063
Other professional services.....	370	531	826	980	1,189	1,323
Drugs and drug sundries.....	1,716	2,355	3,598	4,708	5,030	5,337
Eyeglasses and appliances.....	482	586	760	1,201	1,373	1,545
Nursing-home care.....	110	150	411	805	811	646
Expense for prepayment.....	300	614	845	1,272	1,422	1,560
Total consumer expenditures as a percent of national disposable personal income.....	4.1	4.5	5.4	6.0	5.9	5.6
Per capita <sup>1</sup>						
Total.....	\$56.38	\$76.22	\$106.15	\$146.82	\$154.67	\$155.45
Hospital care.....	13.03	19.91	29.12	43.00	45.78	44.73
Physicians' services.....	17.22	21.07	29.80	42.65	43.18	41.86
Dentists' services.....	6.37	9.25	11.08	14.45	15.01	15.65
Other professional services.....	2.45	3.26	4.64	5.11	6.14	6.78
Drugs and drug sundries.....	11.38	14.45	20.20	24.53	25.96	27.28
Eyeglasses and appliances.....	3.20	3.60	4.27	6.26	7.09	7.90
Nursing-home care.....	.73	.92	2.31	4.20	4.19	3.30
Expense for prepayment.....	1.99	3.77	4.74	6.63	7.34	7.97
Total consumer expenditures per capita in 1967 prices <sup>2</sup> .....	104.99	117.62	134.20	164.04	165.60	155.45

<sup>1</sup> Based on U.S. civilian resident population as of July 1.

<sup>2</sup> Based on medical care component of the consumer price index.

Per capita consumer expenditures, amounting to \$155.45 in 1967, were 176 percent higher than the figure for 1950. They were only \$1 more than the 1966 figure. When adjustments are made for the rise in medical care prices, consumer spending for health purposes grew only 48 percent from 1950 to 1967 and actually showed a decrease from spending in 1966, when it went from \$165.60 to \$155.45. This drop is the result of the increasing shift to public financing of health.

Also indicative of the shift is the declining proportion of all expenditures for personal health care that consumer expenditure for this purpose represent. In 1965, this proportion was 77.0 percent; in 1966, it was 73.7 percent; and in 1967 it had declined to 65.8 percent.

### Third-Party Payments

Third-party payments include private health insurance benefit payments, government expenditures (including those for health insurance for the aged), and philanthropy and the expenditures of employers to maintain industrial in-plant health facilities.

The proportion of personal health care expendi-

tures met by third parties has increased significantly since 1950, rising from 35 percent to 56 percent in 1967 (table 9). In 1967 alone, this proportion has jumped more than 6 percentage points.

The recent rise in third-party payments has taken place solely in the area of government expenditures. Government payments as a proportion of personal health care expenditures have grown from 23 percent in 1950 to 24 percent in 1966, and to more than 32 percent in 1967. Other third-party payments have shown a reverse trend. For private health insurance payments the proportion declined from 25 percent in 1965 to 22 percent in 1967. The diminishing role played by private health insurance is primarily with respect to hospital care. Private insurance payments represented 34 percent of hospital care expenditures in 1967, compared with 39 percent in 1966 and 43 percent in 1965 (table 7). In paying for physicians' services, the decline was nominal; for other health services there has been a slight increase.

The substantial government payments for hospital care of the aged clearly has reduced the need for major private health insurance outlays for the purpose among this large population group. For those under age 65, private insurance

TABLE 9.—Amount and percent of expenditures for personal health care met by third parties, selected years, 1950–67

[Amounts in millions]

Year	Personal health care expenditures <sup>1</sup>	Out-of-pocket expenditures		Third-party payments							
				Total		Private health insurance		Government		Philanthropy and others	
				Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1950.....	\$11,109	\$7,209	64.9	\$3,900	35.1	\$992	8.9	\$2,588	23.3	\$320	2.9
1955.....	15,933	9,271	58.2	6,662	41.8	2,536	15.9	3,705	23.3	421	2.6
1960.....	23,758	13,068	55.0	10,690	45.0	4,996	21.0	5,157	21.7	537	2.3
1965.....	34,942	18,171	52.0	16,771	48.0	8,729	25.0	7,345	21.0	697	2.0
1966.....	38,742	19,407	50.1	19,335	49.9	9,142	23.6	<sup>2</sup> 9,449	24.4	744	1.9
1967.....	43,879	19,312	44.0	24,567	56.0	9,545	21.8	<sup>2</sup> 14,257	32.5	765	1.7

<sup>1</sup> All expenditures for health services and supplies other than (1) expenses for prepayment and administration, (2) government public health activities, and (3) expenditures of private voluntary agencies for other health services.

<sup>2</sup> Includes benefit payments under health insurance for the aged (Medicare).

payments have continued, however, to play an increasing role in terms of consumer expenditures for personal health care. As a proportion of consumer expenditures, private health insurance payments have risen from 12.1 percent in 1950 to 33.1 percent in 1967.

The personal health care expenditures contributed by philanthropy and "other" third parties has been dropping steadily since 1950. In that year, their share was 2.9 percent; in 1960, it was 2.3 percent; and in 1967 it had declined to 1.7 percent.

The difference between total personal health care expenditures and third-party payments is the amount the consumer must pay out of his own pocket. In 1967, not only did this proportion drop, as it had in 1966, but for the first time the aggregate amount declined slightly (chart 5). In 1966, out-of-pocket expenditures amounted to \$19.4 billion, representing one-half of all personal health care outlays. In 1967, the proportion went down to 44 percent and the aggregate amount to \$19.3 billion.

### Definitions, Methodology, and Sources of Data

The national health expenditures estimates in this article are prepared in conjunction with similar data presented in the annual social welfare expenditure series. The amounts reported in the two series are essentially the same, except that estimates in this series are on a calendar-year basis and those in the social welfare series are on a fiscal-year basis. In addition, the national health expenditures shown here are reported by

type of expenditure (hospital care, physicians' and dentists' services, etc.) and by source of funds. The social welfare series presents the expenditures in the public sector by government program and those in the private sector by major category of expenditure (direct payments, insurance benefits, etc.).

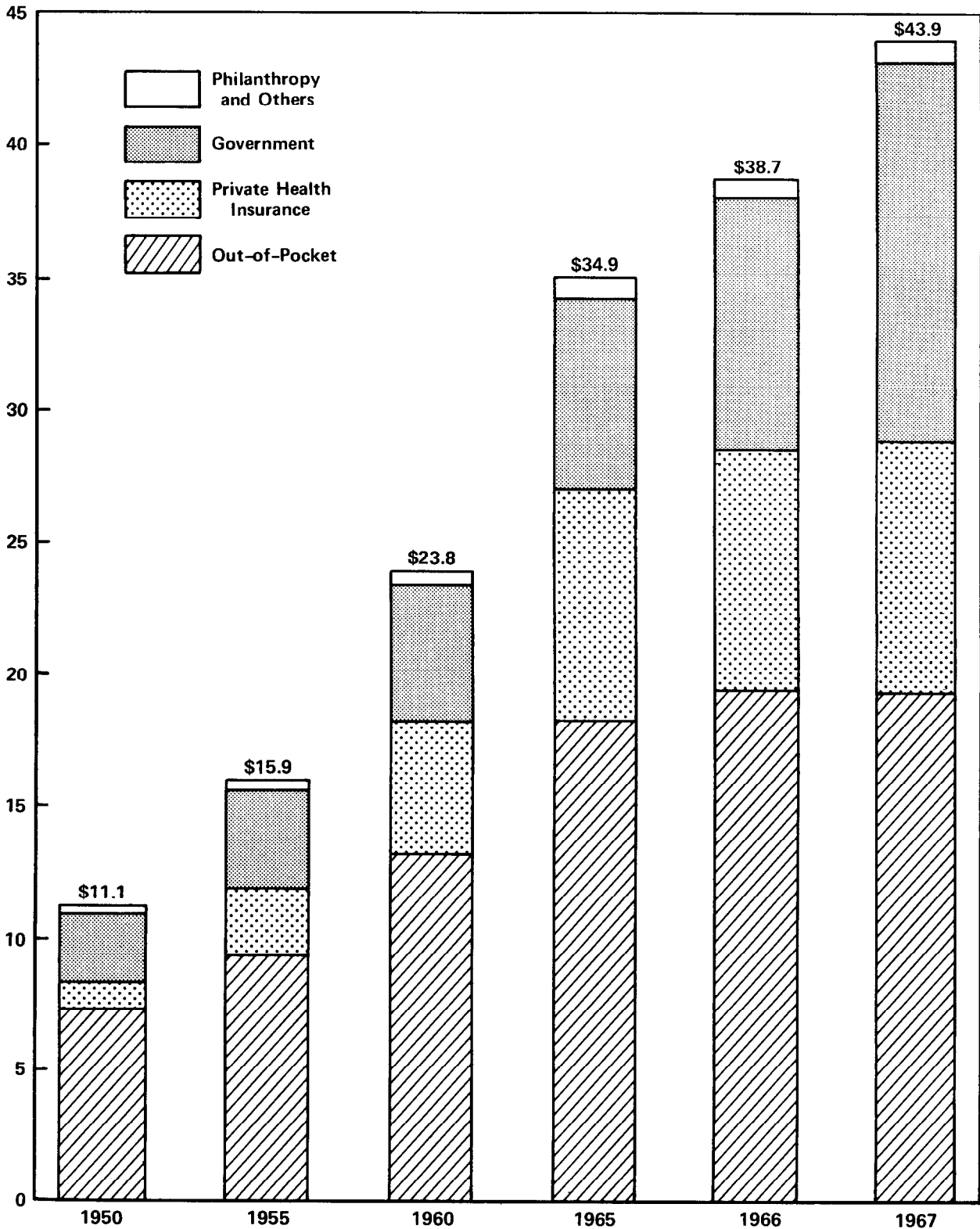
Expenditures for both series are developed at the same time. The health and medical expenditures under public programs in the social welfare series are calculated by adding to fiscal-year expenditures for health programs the medical care expenditures under programs for social insurance, public assistance, veterans' programs, and other programs.<sup>2</sup>

In the private sector, the data are estimated first on a calendar-year basis by type of expenditure and then presented in summary form in the fiscal-year report. The general method is to estimate the total outlays for each type of medical service or expenditure and to deduct the amounts paid to public and private hospitals, physicians in private practice, etc., under the public programs reported in the social welfare expenditure series. Except for a few programs where calendar-year figures are available, the fiscal-year figures from the social welfare series are averaged to obtain calendar-year figures and then allocated by type of expenditure on the basis of published and unpublished reports for each program. In general, the consumer expenditures are residual amounts, derived by deducting expenditures from philanthropic and government sources from the total expenditures for each type of service.

<sup>2</sup> For a complete description of these public programs, see Research Report No. 25, *op. cit.*

CHART 5.—Personal health care expenditures by source of payment, selected years, 1950–67

Billions of Dollars



## Hospital Care

The estimates of expenditures for hospital care are based on the data on hospital finances published by the American Hospital Association, projected to represent data for the calendar year in question and increased slightly to allow for nonreporting and osteopathic hospitals. Expenditures for the education and training of physicians and other health personnel are included only where they are not separable from the costs of hospital operations.

There are some definitional differences between the public and private sectors in hospital care expenditures. Expenditures by the Veterans Administration and the Department of Defense for physicians' services are included as part of hospital care expenditures. Services of paid physicians in mental, tuberculosis, and general hospitals—whether public or private—are part of hospital care, but self-employed physicians' services in hospitals are not counted as hospital expenditures. The cost of drugs used in hospitals are also included in hospital care. Anesthesia and X-ray services are sometimes hospital care expenditures and sometimes expenditures for physician services.

Estimates of the sources of funds are made for each type of hospital ownership separately. The Federal expenditures for Federal hospitals represent the total expenses of the hospitals, less consumer payments for care in such hospitals and any payments to them by State and local governments.

State and local government expenditures for care in their own hospitals represent total hospital expenses of State and local governments, plus vendor payments from State and local programs, less State and local payments to Federal and nongovernment hospitals.

Consumer payments for care in nongovernment hospitals represent total revenues of the hospitals, less Federal, State, and local government payments and less estimated receipts from philanthropy.

### Services of Physicians and Other Health Professionals

The estimates of expenditures for the services of physicians and dentists in private practice are

based on the gross incomes from self-employment practice reported by physicians and dentists to the Internal Revenue Service on Schedule C of the income-tax return (as shown in *Statistics of Income*, published by the Internal Revenue Service). Data are totaled for practitioners in sole proprietorships, partnerships, and offices organized as corporations. The total also includes the estimated gross receipts of osteopathic physicians, the gross receipts of medical and dental laboratories estimated to represent patient payments to medical laboratories, and the estimated expenses of group-practice prepayment plans in providing physicians' services (to the extent that these are not included in physicians' income from self-employment). Estimated receipts of physicians for making life insurance examinations are deducted.

The gross receipts of physicians and dentists represent total expenditures for these services. Consumer payments are estimated by deducting vendor payments under government programs and estimated payments to physicians and dentists from philanthropic agencies.

The salaries of physicians and dentists on the staffs of hospitals and hospital outpatient facilities are considered a component of hospital care. The salaries of physicians and dentists serving in dispensaries and field services of the Armed Forces and Indian health activities are included with expenditures of "other health services." Expenditures for the education and training of medical personnel (except in hospitals) are considered as expenditures for education and excluded from health expenditures.

The Internal Revenue Service now provides data on the income of other health professionals in private practice. Salaries of visiting nurse associations, estimated from surveys conducted by the National League for Nursing, are added to the private income of other health professionals. Deductions and exclusions are made in the same manner as for expenditures for physicians' and dentists' services.

### Drugs, Drug Sundries, Eyeglasses, Appliances

The basic source of the estimates for drugs and drug sundries and for eyeglasses and appliances is the report of personal consumption expendi-



tures in the Department of Commerce national income accounts in the *Survey of Current Business*. To estimate the consumer portion, vendor payments under workmen's compensation programs are subtracted. The Department of Commerce counts this expenditure as a consumer expenditure, but the Office of Research and Statistics counts it as an expenditure of government. Total expenditures for drugs and appliances are the sum of the Department of Commerce estimates and the expenditures under all public programs for these products.

### **Nursing-Home Care**

Only rough estimates of national expenditures for nursing-home care can be made from available data. Baseline data for 1965 were estimated from the number of long-term general beds reported by State hospital planning agencies under the Hill-Burton hospital construction program, with adjustments to exclude long-term beds in non-Federal general hospitals. Occupancy rates for the various ownership groups of nursing homes, as reported in a U.S. Public Health Service inventory, were applied to yield the estimated number of days of care provided in nursing homes. Application of the average cost per day to total days of care provided the baseline total expenditures. The 1966 and 1967 percentage increases in total expenditures reported in the annual nationwide survey of *Professional Nursing Home* were then applied to the baseline data to obtain the figures used in this report.

Consumer expenditures in nursing homes represent the difference between total nursing-home expenditures and expenditures from philanthropic and government sources.

### **Expenses for Prepayment and Administration**

Prepayment expenses represent the difference between the earned premiums or subscription charges of health insurance organizations and their claim or benefit expenditures (expenditures in providing such services in the case of organizations that directly provide services). In other

words, it is the amount retained by health insurance organizations for operating expenses, additions to reserves, and profits and is considered a consumer expenditure.

The data on the financial experience of health insurance organizations are reported annually in an article on private health insurance.<sup>3</sup>

The administration component represents the administrative expenses (where they are reported) of federally financed health programs. Such data were available for the following programs: health insurance for the aged, military dependents' medical care, maternal and child health services, Indian health activities, and the Veterans Administration hospital and medical program.

### **Government Public Health Activities**

The category "government public health activities" is the same as the "other public health activities" category in the social welfare series. The Federal portion consists of Public Health Service expenditures for disease prevention, community health, environmental control, Indian health field services, salaries and expenses of the Office of the Surgeon General, national health statistics, the National Library of Medicine, emergency health activities, and other miscellaneous items. In addition, public health activities of the Food and Drug Administration, Canal Zone, and the Cuban refugee program are included. The data for these programs are taken from the *United States Budget and Budget Appendix*.

The State and local portion represents expenditures of all State and local health departments and intergovernment payments to the States and localities for public health activities. It excludes expenditures of other State and local government departments for air-pollution and water-pollution control, sanitation, water supplies, and sewage treatment. The source of these data is *Government Finances*, annual publication of the Bureau of the Census.

<sup>3</sup> See Louis S. Reed, "Private Health Insurance: Coverage and Financial Experience, 1940-66," *Social Security Bulletin*, November 1967, and Louis S. Reed and Willine Carr, "Private Health Insurance in the United States, 1967," *Social Security Bulletin*, February 1969 (in press).

## Other Health Services

Items of expenditures that could not be elsewhere classified are brought together in the category "other health services." It includes, for each public program, the residual amount of expenditures not classified as a specific type of medical service. In addition, it includes the following programs, at one time listed separately: (1) industrial in-plant services, (2) school health services, (3) medical activities in Federal units other than hospitals, and (4) those of private voluntary health agencies.

Industrial in-plant services consist of amounts spent for maintaining in-plant health services and are based on estimates made by the Division of Occupational Health of the Public Health Service. This item is classified as a private expenditure in the "other" category and is readily identifiable in table 1 as the only portion of "other health services" so classified.

School health services are also readily identified as they are the only State and local expenditure in this category. Expenses for these services, estimated by the Office of Education, are reported as a separate item in the social welfare expenditure series. The amounts reported here are an average of the fiscal-year data.

Medical activities in Federal units other than hospitals are residual amounts that represent primarily the cost of maintaining outpatient facilities (separately from hospitals), dispensaries, and field and shipboard medical stations.

Expenditures for private voluntary health agencies, identified as a private philanthropic expense, are the expenditures that remain after amounts for hospital care, physicians' services, etc., have been distributed. They represent the amounts spent for health education, lobbying, fundraising, etc.

## Medical Research

Expenditures for medical research include all such spending by agencies whose primary object

is the advancement of human health. Also included are those research expenditures directly related to health that are made by other agencies, such as those of the Department of Defense or the National Aeronautics and Space Administration. Research expenditures of drug and medical supply companies are excluded, since they are included in the cost of the product. The public amounts reported here represent the averages of the fiscal-year data for medical research reported in the social welfare expenditure series. The amounts shown for public and private expenditures are based on published and unpublished estimates prepared by the Resources Analysis Branch of the National Institutes of Health, primarily in the periodic publications, *Resources for Medical Research* and *Basic Data Relating to the National Institutes of Health*.

## Construction of Medical Facilities

Expenditures for construction represent "value put in place" for hospitals, nursing homes, medical clinics, and medical-research facilities but not for private office buildings providing office space for private practitioners. Excluded are amounts spent for construction of water-treatment or sewage-treatment plants and Federal grants for these purposes.

The data for value put in place for construction of publicly and privately owned medical facilities in each year are taken from the Department of Commerce report, *Construction Review*. Amounts spent by Federal and State and local governments for construction, as reported in the social welfare expenditure series, are converted to a calendar-year basis and subtracted from the total. The residual represents the amount coming from private funds. The source-of-funds distribution of expenditures in each type of facility (public and private) is based on various published and unpublished reports of the agencies concerned.