
National Health Expenditures, Fiscal Year 1977

by Robert M. Gibson and Charles R. Fisher*

The Nation spent \$163 billion for health care in fiscal year 1977 or \$737 per person, according to preliminary figures compiled by the Health Care Financing Administration. This figure was 12 percent higher than spending for such purposes in the previous 12 months and represented an 8.8-percent share of the GNP. Public spending, which financed 42 percent of all health care in 1977, increased 11 percent while private spending rose 13 percent. Spending for hospital care went up 14 percent to \$68.4 billion, and the total spent for physicians' services (\$32.2 billion) reflected a 13-percent rise. Third-party payments financed 70 percent of all personal health care in the country.

The Nation spent an estimated \$163 billion for health care in fiscal year 1977 (October 1976 through September 1977), or \$737 for each person in the United States. Highlights of the figures behind this estimate reveal that—

- Health care expenditures continue to increase at a greater rate than the gross national product (GNP). Fiscal year 1977 spending levels for health care were 12 percent higher than those for the previous 12 months while the GNP increased by 10.2 percent in the same period. Thus, the health care share of the GNP has grown from 8.7 percent for the year ending September 1976 to 8.8 percent in fiscal year 1977.
- Spending by all government programs for health care increased 11 percent in fiscal year 1977, private spending increased 13 percent. Public spending (\$68.4 billion) represented 42 percent of all 1977 money spent for health care.
- Expenditures for hospital care, including both inpatient and outpatient care in public and private hospitals, represented 40 percent of total spending and reached \$65.6 billion in fiscal year 1977, 14 percent more than the total in the previous year.
- All third parties combined—private health insurers, philanthropy, and industry, as well as governments—financed 94 percent of hospital care in fiscal 1977.
- Spending for physicians' services increased 13 percent in 1977, amounting to \$32.2 billion or 20 percent

of total health spending. In the year ending September 1976 such spending had increased 16 percent.

- Outlays for health care benefits by the Medicare and Medicaid programs amounted to \$37 billion in fiscal year 1977—26 percent of the \$142.6 billion spent for personal health care (excluding spending for research, construction, public health, and administrative costs).

Expenditures in Fiscal Year 1977

The \$162.6 billion figure represents estimated outlays for health care over the 12-month period from October 1, 1976 to September 30, 1977—the accounting year adopted by the Federal Government for fiscal year 1977 (table 1). Fiscal year 1976 had spanned the 12 months ending on June 30, 1976. The intervening 3 months—July through September 1976, were separately identified in the Federal Government budget as the “transition quarter” with outlays and obligations reported separately for that period. The levels of spending for this transition quarter, as well as for fiscal years 1976 and 1977, are presented in the tabulation at the top of the next column.

Analysis of recent spending trends is complicated by this convention, however. The statement that health spending rose 15 percent from fiscal year 1976 to fiscal year 1977 is technically correct but misleading since it is not a true annual increase. For this report therefore, in addition to presenting revised estimates for fiscal years 1975 and 1976 and preliminary estimates for fiscal year 1977, figures were derived for health spending for the

* Office of Policy, Planning and Research, Financial and Actuarial Analyses, Health Care Financing Administration

Type of expenditure	Fiscal year 1976	Transition quarter	Fiscal year 1977
Total	\$141 0	\$37 5	\$162 6
Personal health care	122 5	32 5	142 6
Hospital care	55 6	14 9	65 6
Physicians' services	27 5	7 4	32 2
Drugs and drug sundries	11 3	2 9	12 5
Other personal ¹	28 1	7 3	32 3
Other health spending ²	18 6	5 0	20 0

¹Includes spending for dentists' services, other professional services, eyeglasses and orthopedic appliances, nursing home care, and other health services

²Includes spending for prepayment and administration, public health, research, and construction

12-month periods ending with September 1975 and September 1976. In most of the tables, these year-ending-September estimates are presented along with the fiscal year 1977 figures to allow true annual comparisons to be made.

As usual in compiling the Nation's health expenditures, data presented for the past two years have been revised. Estimates for the most recent years require projections based on the latest figures available from many of the basic data sources and, in many cases, it is not possible to get recent and accurate data. Thus, the estimate for health spending in fiscal year 1976 may now be given more precisely as \$141.0 billion—slightly higher than the \$139.3 billion estimated last year.

Uses of the Health Care Dollar

As the percentages given below illustrate, two-fifths of the health spending in 1977 was for health care services provided by hospitals.

Total	100 0
Hospital care	40 4
Physicians' services	19 8
Dentists' services	6 2
Drugs and drug sundries	7 7
Nursing-home care	7 8
Other personal health care	6 0
Other health spending	12 3

Hospital care tends to be the most expensive type of care, and much of the health care in the United States is obtained in hospitals (table 2). The total spent for this purpose (\$65.6 billion) includes all inpatient and outpatient care in public and private hospitals and all services and supplies provided by hospitals. Expenditures for physicians' services rendered in hospitals are excluded except for the services of those who are part of the hospital staff.

Eighty-two percent of expenditures for hospital care went for services in community hospitals (non-Federal short-term general and other special hospitals). A significant portion of this spending was for ambulatory care

Outpatient revenues (in community hospitals) represented nearly 10 percent of all money spent for community hospitals.

Spending for physicians' services accounted for 20 percent of all health care spending in 1977, or \$32.2 billion. This amount included the cost of all services and supplies provided in physicians' offices, expenditures for services by private practitioners in hospitals and other institutions, and diagnostic laboratory work in independent clinical laboratories ordered by physicians. The laboratory work in both physicians' offices and independent laboratories amounted to nearly \$4 billion in fiscal year 1977.

Physicians influence health spending levels to a much greater extent than indicated by the 20-percent share of spending devoted toward their services. Physicians are the most important determinant in the process of deciding who will receive hospital care, what care shall be provided, and what the duration of care will be. Prescription drug expenditures also are influenced significantly by physicians.

Expenditures for drugs and drug sundries accounted for nearly 8 percent of health spending (\$12.5 billion) in 1977. It should be pointed out that this figure represents only prescription drugs, over-the-counter drugs, and medical sundries dispensed through retail channels. Expenditures for drugs dispensed in inpatient settings, through outpatient clinics, and by physicians are reported within those cost categories. It has been estimated that 56 percent of all dollars for drugs and drug sundries are spent for prescription drugs.

An additional \$12.6 billion (8 percent of the total) went for nursing-home care. This care was provided in skilled-nursing facilities, intermediate-care facilities, and personal-care homes with provision for nursing care and in special units of other institutions that supply this type of care.

Dental services consumed another 6 percent of total spending. The dollar amount of expenditures for these services exceeded \$10 billion.

Research and the construction of medical facilities required \$8.7 billion in 1977. Expenditures for research (both biomedical research and research in the delivery of health care) include only government funds for research and expenditures by research and development organizations. Research and development expenditures by drug companies (estimated at \$1.3 billion in calendar year 1976) and by other manufacturers and providers of medical equipment and supplies (estimated at \$328 million) are not included with research expenditures but are included in the expenditure class in which the product or service falls.

Expenditures for medical facilities (primarily for the construction of hospital facilities) were \$5.1 billion in 1977. Excluded from this figure is the cost of providing office and laboratory facilities for private practitioners.

Table 1 —Aggregate and per capita national health expenditures, by source of funds and percent of gross national product, selected years, 1929–77

Year	Gross national product (in billions)	Health expenditures								
		Total			Private			Public		
		Amount (in millions)	Per capita	Percent of GNP	Amount (in millions)	Per capita	Percent of total	Amount (in millions)	Per capita	Percent of total
Ending June—										
1929	\$101.3	\$3,589	\$29.16	3.5	\$3,112	\$25.28	86.7	\$477	\$3.88	13.3
1935	68.9	2,846	22.04	4.1	2,303	17.84	80.9	543	4.21	19.1
1940	95.4	3,883	28.98	4.1	3,101	23.14	79.9	782	5.84	20.1
1950	264.8	12,027	78.35	4.5	8,962	58.38	74.5	3,065	19.97	25.5
1955	381.0	17,330	103.76	4.5	12,909	77.29	74.5	4,421	26.47	25.5
1960	498.3	25,856	141.63	5.2	19,461	106.60	75.3	6,395	35.03	24.7
1965	658.0	38,892	197.75	5.9	29,357	149.27	75.5	9,535	48.48	24.5
1966	722.4	42,109	211.56	5.8	31,279	157.15	74.3	10,830	54.41	25.7
1967	773.5	47,897	237.93	6.2	32,026	159.15	66.9	15,853	78.78	33.1
1968	830.2	53,765	264.37	6.5	33,725	165.83	62.7	20,040	98.54	37.3
1969	904.2	60,617	295.20	6.7	37,680	183.50	62.2	22,937	111.70	37.8
1970	960.2	69,201	333.57	7.2	43,810	211.18	63.3	25,391	122.39	36.7
1971	1,019.8	77,162	368.25	7.6	48,387	230.92	62.7	28,775	137.32	37.3
1972	1,111.8	86,687	409.71	7.8	53,214	251.50	61.4	33,473	158.20	38.6
1973	1,238.6	95,383	447.31	7.7	58,715	275.35	61.6	36,668	171.96	38.4
1974	1,361.2	106,321	495.01	7.8	64,809	301.74	61.0	41,512	193.27	39.0
1975 ¹	1,454.5	123,716	571.21	8.5	71,348	329.42	57.7	52,368	241.79	42.3
1976 ¹	1,625.4	141,013	645.76	8.7	80,831	370.16	57.3	60,182	275.60	42.7
Ending September—										
1975	1,487.1	127,719	588.48	8.6	73,238	337.45	57.3	54,481	251.03	42.7
1976	1,667.4	145,102	663.06	8.7	83,560	381.84	57.6	61,542	281.22	42.4
1977 ^{2,3}	1,838.0	162,627	736.92	8.8	94,185	426.78	57.9	68,442	310.13	42.1

¹ Revised estimates

² New Federal fiscal year

³ Preliminary estimates

Per Capita Spending

The total health spending figure of \$162.6 billion translates into \$737 for each person in the country. The average person spent \$297 for hospital care, \$146 for physicians' services and \$57 for drugs and drug sundries. An additional \$90 was spent per person for items other than personal health care—research, health-related construction, public health, and the prepayment cost of private health insurance.

Financing of Health Care

One aspect of the health care system in the United States that receives considerable attention is the manner in which health services are paid for. Instead of a simple transaction in which the consumer of the health service pays the provider of the service, payments are frequently handled by a financial agent—a "third party." In fiscal year 1977, 70 percent of the funds spent for personal health care involved third parties of various kinds, principally private health insurers or public agencies acting as insurers or in some cases as providers of health services.

The details of the transactions vary—the private health insurance organization may reimburse the provider in whole or in part for the cost of service, or the consumer is reimbursed for money he has paid out for

insured services. Public agencies may use the private insurance industry to disburse provider payments on behalf of entitled beneficiaries, although the agency retains financial responsibility. For selected groups, government agencies may provide health care services directly.

Thus the consumer is relieved of most of the immediate cost of health care when a third party is involved. His private insurance premiums may increase in the future but not in direct proportion to the care he has used.

The consumers of health services were left with the responsibility for 30 percent of personal health care in 1977. This share, referred to here as direct payments, amounted to \$196 of the total per capita amount of \$646 for personal health care. These direct payments represent illness-related costs such as deductible and coinsurance amounts and costs of care not covered by private insurance or public programs. Direct payments fall short of "out of pocket" costs by the amount of money that individuals pay for private health insurance (and Medicare) premiums. The share of insurance premiums paid by employers (estimated at 75 percent of total premiums) is not normally considered to be "out-of-pocket" expenses. If an adjustment is made to direct payments to reflect these premium payments, out-of-pocket spending becomes 39 percent of personal health care expenses.

Table 2.—National health expenditures, by type of expenditure and source of funds, years ending September 1975–77

Type of expenditure	Total	Source of funds					
		Private			Public		
		Total	Consumers	Other ¹	Total	Federal	State and local
1977 ²							
Total	\$162,627	\$94,185	\$87,807	\$6,378	\$68,442	\$46,563	\$21,879
Health services and supplies	153,887	91,294	87,807	3,487	62,594	42,542	20,051
Personal health care	142,586	85,465	82,574	2,891	57,121	39,823	17,299
Hospital care	65,627	29,427	27,887	1,540	36,199	25,715	10,484
Physicians services	32,184	24,360	24,318	42	7,824	5,808	2,016
Dentists services	10,020	9,520	9,520	0	500	310	190
Other professional services	3,212	2,288	2,175	113	924	683	241
Drugs and drug sundries	12,516	11,373	11,373	0	1,143	614	529
Eyeglasses and appliances	2,086	1,956	1,956	0	130	66	64
Nursing home care	12,618	5,434	5,343	91	7,184	4,204	2,980
Other health services	4,322	1,105	0	1,105	3,217	2,424	793
Expenses for prepayment and administration	7,572	5,829	5,233	596	1,743	1,430	313
Government public health activities	3,729				3,729	1,289	2,440
Research and medical-facilities construction	8,739	2,891		2,891	5,848	4,020	1,828
Research ³	3,684	284		284	3,400	3,139	261
Construction	5,055	2,607		2,607	2,448	881	1,567
1976							
Total	\$145,102	\$83,560	\$77,470	\$6,090	\$61,542	\$41,648	\$19,894
Health services and supplies	136,368	80,726	77,470	3,256	55,642	37,669	17,973
Personal health care	126,217	75,740	73,043	2,698	50,477	34,990	15,488
Hospital care	57,497	25,470	24,013	1,457	32,028	22,538	9,490
Physicians' services	28,504	21,628	21,588	40	6,876	5,059	1,817
Dentists services	8,987	8,519	8,519	0	468	290	177
Other professional services	2,849	2,136	2,029	107	713	508	204
Drugs and drug sundries	11,472	10,396	10,396	0	1,076	585	491
Eyeglasses and appliances	1,986	1,864	1,864	0	121	65	56
Nursing home care	10,834	4,718	4,633	86	6,115	3,615	2,500
Other health services	4,088	1,007	0	1,007	3,081	2,329	752
Expenses for prepayment and administration	6,628	4,986	4,427	558	1,643	1,378	265
Government public health activities	3,522				3,522	1,301	2,221
Research and medical-facilities construction	8,734	2,834		2,834	5,900	3,979	1,921
Research ³	3,623	274		274	3,348	3,096	252
Construction	5,111	2,559		2,559	2,551	883	1,669
1975							
Total	\$127,719	\$73,238	\$67,375	\$5,862	\$54,481	\$35,899	\$18,583
Health services and supplies	119,771	70,300	67,375	2,924	49,472	32,589	16,883
Personal health care	110,665	65,630	63,211	2,419	45,035	30,290	14,745
Hospital care	49,973	21,348	20,035	1,313	28,626	19,534	9,092
Physicians services	24,553	18,382	18,346	36	6,171	4,427	1,745
Dentists services	8,034	7,587	7,587	0	447	270	177
Other professional services	2,463	1,913	1,817	97	550	378	172
Drugs and drug sundries	10,582	9,609	9,609	0	973	510	463
Eyeglasses and appliances	1,822	1,710	1,710	0	112	63	49
Nursing home care	9,620	4,185	4,107	77	5,436	3,100	2,336
Other health services	3,616	896	0	896	2,720	2,009	711
Expenses for prepayment and administration	6,016	4,670	4,164	506	1,346	1,108	238
Government public health activities	3,091				3,091	1,191	1,900
Research and medical-facilities construction	7,947	2,938		2,938	5,009	3,310	1,700
Research ³	3,132	278		278	2,854	2,612	242
Construction	4,815	2,660		2,660	2,155	697	1,458

¹ Includes spending by philanthropic organizations and for industrial in-plant health services

² Preliminary estimates

³ Research and development expenditures of drug companies and other manufacturers and providers of medical equipment and supplies excluded from "research expenditures" but included in the expenditure class in which the product falls

Third-Party Financing

In fiscal year 1977, third parties financed \$99.3 billion or 70 percent of the outlays for personal health care in the Nation. Benefits paid by private health insurance financed 28 percent of total spending, and the Federal

Government accounted for 28 percent. State and local government funds supplied an additional 12 percent. Contributions from private charity and services provided by private industry to their employees accounted for an additional 2 percent.

Private health insurance benefits amounted to \$39.3

billion in fiscal year 1977, covering 28 percent of personal health care spending (table 3) Private insurance coverage varies by type of service, with about 37 percent of both hospital care and physicians' service expenses paid For dental services the share drops to 16 percent, drugs to 8 percent There are no significant payments for nursing-home care About 2 percent of personal health care spending is financed by private charitable organizations or provided in industrial in-plant clinics and other health services (chart 1)

Public Spending

Government-sponsored programs provided 40 percent of personal health care spending in 1977, counting ex-

penditures under all programs established by public law Amounts spent under workers' compensation programs are included with government expenditures, for example, although they involve benefits paid by private insurers from premiums collected from private sources

Federal programs financed \$40 billion of the personal health care bill of \$142 billion in fiscal year 1977 State government spending, combined with that of local government units, financed an additional \$17 billion

The two largest government programs involved in the financing of health care are Medicare and Medicaid, which together paid \$37 billion in benefits in fiscal year 1977 This amount financed 26 percent of the \$142.6 billion spent for personal health care The State share of Medicaid benefits came to 5 percent of total health

Table 3 —Aggregate and per capita amount and percentage distribution of personal health care expenditures by type of expenditure, years ending September 1975-77

Source of payment	Total	Hospital care	Physicians' services	Dentists' services	Other professional services	Drugs and drug sundries	Eyeglasses and appliances	Nursing-home care	Other health services
Aggregate amount (in millions)									
1977 ¹									
Total	\$142,586	\$65,627	\$32,184	\$10,020	\$3,212	\$12,516	\$2,086	\$12,618	\$4,322
Direct payments	43,274	3,866	12,502	7,965	1,398	10,401	1,918	5,226	
Third party payments	99,312	61,761	19,682	2,055	1,814	2,115	169	7,393	4,322
Private health insurance	39,299	24,021	11,817	1,554	777	973	39	118	
Philanthropy and industrial inplant	2,891	1,540	42		113			91	1,105
Government	57,121	36,199	7,823	501	924	1,142	130	7,184	3,217
Federal	39,823	25,715	5,807	311	683	613	66	4,204	2,424
Medicare	20,770	15,520	4,431		457			362	
Medicaid	9,181	3,368	1,032	225	184	573		3,603	195
Other	9,872	6,827	344	85	42	40	66	238	2,229
State and local	17,299	10,484	2,016	190	241	529	64	2,980	793
Medicaid	7,076	2,596	795	173	142	442		2,777	150
Other	10,223	7,888	1,220	17	99	87	64	203	642
Per capita amount									
Total	\$646.11	\$297.38	\$145.84	\$45.41	\$14.56	\$56.72	\$9.45	\$57.18	\$19.59
Direct payments	196.09	17.52	56.64	36.10	6.34	47.13	8.69	23.68	
Third party payments	450.02	279.86	89.19	9.31	8.22	9.59	77	33.49	19.59
Private health insurance	178.08	108.85	53.55	7.04	3.52	4.41	18	53	
Philanthropy and industrial inplant	13.10	6.98	19		51			41	5.01
Government	258.84	164.03	35.45	2.27	4.19	5.18	59	32.55	14.58
Federal	180.45	116.52	26.32	1.40	3.09	2.78	30	19.05	10.99
Medicare	94.12	70.33	20.08		2.07			1.64	
Medicaid	41.60	15.26	4.68	1.02	83	2.60		16.33	88
Other	44.73	30.93	1.56	38	19	18	30	1.08	10.10
State and local	78.39	47.51	9.13	86	1.09	2.40	29	13.50	3.59
Medicaid	32.06	11.76	3.60	78	64	2.01		12.58	68
Other	46.33	35.75	5.53	08	45	39	29	92	2.91
Percentage distribution									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct payments	30.3	5.9	38.8	79.5	43.5	83.1	91.9	41.4	
Third-party payments	69.7	94.1	61.2	20.5	56.5	16.9	8.1	58.6	100.0
Private health insurance	27.6	36.6	36.7	15.5	24.2	7.8	1.9	9	
Philanthropy and industrial inplant	2.0	2.3	1		3.5			7	25.6
Government	40.1	55.2	24.3	5.0	28.8	9.1	6.2	56.9	74.4
Federal	27.9	39.2	18.0	3.1	21.3	4.9	3.2	33.3	56.1
Medicare	14.6	23.6	13.8		14.2			2.9	
Medicaid	6.4	5.1	3.2	2.2	5.7	4.6		28.6	4.5
Other	6.9	10.4	1.1	8	1.3	3	3.2	1.9	51.6
State and local	12.1	16.0	6.3	1.9	7.5	4.2	3.1	23.6	18.3
Medicaid	5.0	4.0	2.5	1.7	4.4	3.5		22.0	3.5
Other	7.2	12.0	3.8	2	3.1	7	3.1	1.6	14.9

¹ Preliminary estimates

Table 3.—Aggregate and per capita amount and percentage distribution of personal health care expenditures met by third parties, by type of expenditure, years ending September 1975–77—Continued

Source of payment	Total	Hospital care	Physicians' services	Dentists services	Other professional services	Drugs and drug sundries	Eyeglasses and appliances	Nursing home care	Other health services
Aggregate amount (in millions)									
1976									
Total	\$126 217	\$57,497	\$28,504	\$8,987	\$2,849	\$11 472	\$1,986	\$10,834	\$4,088
Direct payments	39 425	3 423	11 394	7 250	1,398	9,597	1 831	4 532	
Third party payments	86 792	54 074	17,110	1,737	1,451	1,875	155	6 302	4 088
Private health insurance	33,618	20,589	10,194	1,270	631	799	34	101	
Philanthropy and industrial implant	2 698	1,457	40		107			86	1,007
Government	50 477	32 028	6,876	468	713	1 076	121	6 115	3,081
Federal	34 990	22,538	5,059	290	508	585	65	3,615	2,329
Medicare	17 643	13,274	3,734		309			326	
Medicaid	8 142	2,926	1 011	213	159	549		3,095	189
Other	9,206	6,338	314	77	40	36	65	194	2 140
State and local	15,488	9,490	1 817	177	204	491	56	2,500	752
Medicaid	5 859	2 100	732	154	114	395		2 228	136
Other	9 628	7,390	1,085	23	90	96	56	273	616
Per capita amount									
Total	\$576 77	\$262 74	\$130 25	\$41 07	\$13 02	\$2 42	\$9 07	\$49 51	\$18 68
Direct payments	180 16	15 64	52 07	33 13	6 39	43 85	8 37	20 71	
Third party payments	396 61	247 10	78 19	7 94	6 63	8 57	71	28 80	18 68
Private health insurance	153 62	94 09	46 58	5 80	2 88	3 65	15	46	
Philanthropy and industrial implant	12 33	6 66	18		49			39	4 60
Government	230 66	146 35	31 42	2 14	3 26	4 92	56	27 94	14 08
Federal	159 89	102 99	23 12	1 33	2 32	2 68	30	16 52	10 64
Medicare	80 62	60 66	17 06		1 41			1 49	
Medicaid	37 21	13 37	4 62	97	73	2 51		14 14	86
Other	42 07	28 96	1 44	35	18	17	30	89	9 78
State and local	70 77	43 37	8 31	81	93	2 24	26	11 43	3 43
Medicaid	26 77	9 60	3 35	70	52	1 81		10 18	62
Other	44 00	33 77	4 96	11	41	43	26	1 25	2 81
Percentage distribution									
Total	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Direct payments	31 2	6 0	40 0	80 7	49 1	83 7	92 2	41 8	
Third party payments	68 8	94 0	60 0	19 3	50 9	16 3	7 8	58 2	100 0
Private health insurance	26 6	35 8	35 8	14 1	22 2	7 0	1 7	9	
Philanthropy and industrial implant	2 1	2 5	1		3 8			8	24 6
Government	40 0	55 7	24 1	5 2	25 0	9 4	6 1	56 4	75 4
Federal	27 7	39 2	17 7	3 2	17 8	5 1	3 3	33 4	57 0
Medicare	14 0	23 1	13 1		10 8			3 0	
Medicaid	6 5	5 1	3 5	2 4	5 6	4 8		28 6	4 6
Other	7 3	11 0	1 1	9	1 4	3	3 3	1 8	52 3
State and local	12 3	16 5	6 4	2 0	7 2	4 3	2 8	23 1	18 4
Medicaid	4 6	3 7	2 6	1 7	4 0	3 4		20 6	3 3
Other	7 6	12 9	3 8	3	3 2	8	2 8	2 5	15 1

spending, with Federal funds financing the remaining 21 percent—15 percent under Medicare alone. More than 26 million persons are enrolled under the Medicare program, 90 percent of whom are aged 65 or older. Benefits averaging about \$1,442 per person receiving benefits were paid in fiscal year for approximately 14.4 million persons. Medicaid benefits (\$753 per recipient) were paid to about 22 million recipients.

In 1977, the administration of these two programs was consolidated under a new agency—the Health Care Financing Administration—in the Department of Health, Education, and Welfare.

Medicare paid 24 percent of the money for hospital care in 1977, and Medicaid paid 9 percent. For physicians' services the Medicare share was 14 percent and that for Medicaid 6 percent. One-half of the nursing-home care in the Nation in fiscal year 1977 was paid for

by Medicaid. Although the amount of money involved is relatively small, Medicare and Medicaid paid a significant portion of the expense for other professional services—14 percent and 10 percent, respectively. These amounts were primarily for home health services. The 5 percent of the expenditures for drug and drug sundries that was paid by Medicaid represents the only significant public expenditure in this area—\$1 billion.

The other health services category represents primarily spending by public programs that cannot be classified under the other types of service, including such services as the field and shipboard facilities of the Defense Department and health services providers in public schools. The services provided in industrial plants for employees are also included in this category.

In addition to amounts spent for Medicare and Medicaid, other expenditures by Federal, State, and local govern-

Table 3.—Aggregate and per capita amount and percentage distribution of personal health care expenditures, years ending September 1975-77—Continued

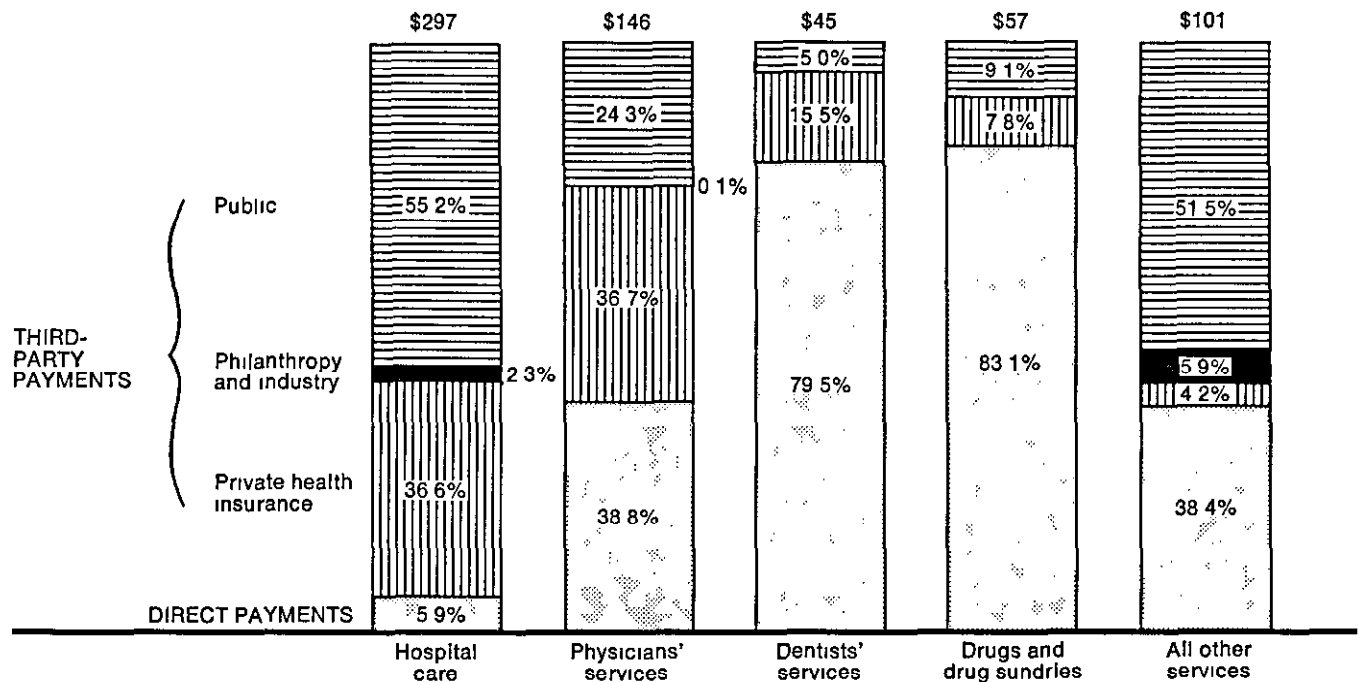
Source of payment	Total	Hospital care	Physicians' services	Dentists services	Other professional services	Drugs and drug sundries	Eyeglasses and appliances	Nursing home care	Other health services
Aggregate amount (In millions)									
1975									
Total	\$110 665	\$49,973	\$24,553	\$8 034	\$2 463	\$10 582	\$1,822	\$9 620	\$3 616
Direct payments	34 697	2,589	9 622	6 573	1,248	8,953	1 682	4 029	
Third-party payments	75 968	47,385	14,931	1 461	1,215	1,628	140	5 592	3 616
Private health insurance	28,514	17,446	8 723	1 014	568	656	29	79	
Philanthropy and industrial inplant	2 419	1 313	36		97			77	896
Government	45,035	28,626	6 171	447	550	973	112	5 436	2 720
Federal	30,290	19,534	4 427	270	378	510	63	3 100	2 009
Medicare	14 880	11 233	3,140		222			285	
Medicaid	7,084	2 461	998	197	119	478		2 647	184
Other	8,326	5 841	289	73	36	32	63	168	1 825
State and local	14 745	9 092	1,745	177	172	463	49	2,336	711
Medicaid	5 579	1 938	786	155	94	377		2 085	145
Other	9,166	7,154	959	22	78	86	49	251	566
Per capita amount									
Total	\$509 90	\$230 25	\$113 13	\$37 02	\$11 35	\$48 76	\$8 40	\$44 33	\$16 66
Direct payments	159 87	11 93	44 34	30 29	5 75	41 25	7 75	18 57	
Third-party payments	350 03	218 33	68 79	6 73	5 60	7 50	65	25 76	16 66
Private health insurance	131 38	80 39	40 19	4 67	2 62	3 02	13	36	
Philanthropy and industrial inplant	11 14	6 05	17		44			36	4 13
Government	207 50	131 90	28 43	2 06	2 54	4 48	52	25 05	12 53
Federal	139 57	90 01	20 40	1 24	1 74	2 35	29	14 28	9 26
Medicare	68 56	51 76	14 47		1 02			1 31	
Medicaid	32 64	11,34	4 60	91	55	2 20		12 20	85
Other	38 36	26 91	1 33	34	17	15	29	77	8 41
State and local	67 94	41 89	8 04	82	79	2 13	23	10 76	3 28
Medicaid	25 71	8 93	3 62	71	43	1 74		9 61	67
Other	42 23	32 96	4 42	10	36	40	23	1 16	2 61
Percentage distribution									
Total	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Direct payments	31 4	5 2	39 2	81 8	50 7	84 5	92 3	41 9	
Third-party payments	68 6	94 8	60 8	18 2	49 3	15 4	7 7	58 1	100 0
Private health insurance	25 8	34 9	35 5	12 6	23 1	6 2	1 6	8	
Philanthropy and industrial inplant	2 2	2 6	1		3 9			8	24 8
Government	40 7	57 3	25 1	5 6	22 3	9 2	6 1	56 5	75 2
Federal	27 4	39 1	18 0	3 4	15 4	4 8	3 4	32 2	55 6
Medicare	13 4	22 5	12 8		9 0			3 0	
Medicaid	6 4	4 9	4 1	2 5	4 8	4 5		27 5	5 1
Other	7 5	11 7	1 2	9	1 5	3	3 4	1 7	50 5
State and local	13 3	18 2	7 1	2 2	7 0	4 4	2 7	24 3	19 7
Medicaid	5 0	3 9	3 2	1 9	3 8	3 6		21 7	4 0
Other	8 3	14 3	3 9	3	3 2	8	2 7	2 6	15 7

ments (totaling \$23 9 billion in fiscal year 1977) represented a significant involvement in the provision and financing of personal health care (table 4) As the following table shows, more than 14 percent of public spending for health was under programs grouped in the category of general hospital and medical care

Public program	All care	Hospital services	Physicians services	Nursing home care
All programs	100 0	100 0	100 0	100 0
Medicare	36 4	42 9	56 6	5 0
Medicaid	28 5	16 5	23 4	88 8
General hospital and medical care	14 5	19 0	3	0
Veterans Administration	7 5	9 9	7	3 3
Department of Defense	5 9	6 8	1 2	0
Workers' compensation	4 6	3 6	14 2	0
All other	2 7	1 3	3 6	2 9

This proportion includes spending by the Department of Health, Education, and Welfare for direct care and grants-in-aid not identified separately, including the Indian Health Service, Public Health Service hospitals, programs of the Alcohol, Drug Abuse, and Mental Health Administration, State and local spending for hospital care not funded or reimbursed from other program sources, and State and local spending for health services in public schools Seven percent of total public expenditures was spent by the Veterans Administration for health care for veterans and 6 percent by the Defense Department for military personnel and dependents Government payments for hospital services included a 19-percent share for general hospital and medical care programs and the 10 percent expended for programs for veterans

Chart 1.—Percentage distribution of per capita personal health care expenditures, by type of expenditure and source of funds, fiscal year 1977



Trends in Health Care Spending

Health expenditures continue to increase at a faster rate than the economy as a whole. In the fiscal year 1977, for example, health spending rose 12 percent while the GNP increased by 10 percent. Health as a proportion of the GNP has grown from 7.2 percent in 1970 to 8.8 percent in 1977, as chart 2 shows. The exceptionally rapid rate of increase in health care prices is the major cause of the faster growth in outlays for health. Price increases for medical care services have been outpacing the other major necessities of life (except for fuel in 1977) as the following figures from the consumer price index show.

Item	Percentage increase		
	1975	1976	1977
CPI all items	9.1	5.7	6.5
Medical care services	12.6	10.0	9.9
Housing	10.8	6.2	7.0
Fuel, oil and coal	9.6	6.6	13.0
Transportation	9.4	9.9	7.1
Apparel and upkeep	4.5	3.7	4.5

Source: Bureau of Labor Statistics, *Consumer Price Index*.

Partly as a result of these rapid price increases, health spending for each person has nearly doubled just since 1970, growing from \$334 to \$737 (table 5). Other factors, such as increased per capita use of goods and services and changes in the kinds of goods and services provided, have also contributed to the rising level of outlays for health purposes.

One of the fastest-growing expenditure categories—and the one receiving the most public attention in recent years—is hospital care. In 1965, hospital care expenditures represented 34 percent of all national health spending, by 1977, this proportion had reached 40 percent. During those same years, such expenditures went from \$13.1 billion to \$65.6 billion—five times the level of spending at the beginning of the period. The average annual increase has been 14 percent a year. The amount spent per capita has grown \$172 since 1970.

Community hospitals, primarily non-Federal short-term general hospitals, account for 82 percent of the dollars spent for hospital care in the Nation and are the focal point of public attention. The number of inpatient days provided in community hospitals has increased 22 percent from 1966 to 1977 (table 6). Because the average number of days per stay has declined since 1968, it appears that more resources per day are being utilized. Average occupancy rates have been declining, dropping from 79 percent in 1969 to 74 percent in 1977—an indication that more unused beds are being maintained, with the attendant overhead costs. The increase in the number of outpatient visits has been dramatic in this period—200 percent. To the extent that these visits provide services that would otherwise be provided on an inpatient basis they could have a moderating effect on overall costs, but they frequently are providing services that substitute for services in a physician's office.

The rate of increase in hospital care spending can be examined in terms of input factors. Since 1970, the expense of providing an inpatient day has increased 13

Table 4.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, years ending September 1975–77

[In millions]

Program and source of funds	Total	Hospital care	Physicians' services	Dentists' services	Other professional services	Drugs and drug sundries	Eyeglasses and appliances	Nursing home care	Government public health activities	Administration	Other health services
1977 ¹											
Total	\$62,594	\$36,199	\$7,824	\$500	\$924	\$1,143	\$130	\$7,184	\$3,729	\$1,743	\$3,217
Medicare (health insurance for the aged and disabled) ²	21,591	15,520	4,431		457			362		821	
Temporary disability insurance (medical benefits) ³	103	74	25		2	1	1				
Workers' compensation (medical benefits) ³	2,609	1,315	1,109		80	52	52				
Medicaid ⁴	17,103	5,964	1,827	398	325	1,016		6,380		846	346
Other public assistance medical vendor payments	517	190	58	13	10	32		203			11
General hospital and medical care	8,296	6,877	21	4		3					1,391
Defense Department hospital and medical care ⁵	3,392	2,459	91	8		12				31	791
Maternal and child health services	637	97	60	15	49	14	19			5	378
Government public health activities ⁶	3,729								3,729		
Veterans' hospital and medical care	4,334	3,589	58	63		13	31	238		40	302
Medical vocational rehabilitation	283	115	142				27				
Federal	42,542	25,715	5,808	310	683	614	66	4,204	1,289	1,430	2,424
Medicare (health insurance for the aged and disabled) ²	21,591	15,520	4,431		457			362		821	
Workers' compensation (medical benefits) ³	69	45	17		4	1	1				
Medicaid ⁴	9,713	3,368	1,032	225	184	573		3,603		533	195
General hospital and medical care	1,605	592	21	4		3					984
Defense Department hospital and medical care ⁵	3,392	2,459	91	8		12				31	791
Maternal and child health services	322	50	44	10	38	11	12			5	152
Government public health activities ⁶	1,289								1,289		
Veterans' hospital and medical care	4,334	3,589	58	63		13	31	238		40	302
Medical vocational rehabilitation	227	92	113				22				
State and local	20,051	10,484	2,016	190	241	529	64	2,980	2,440	313	793
Temporary disability insurance (medical benefits) ³	103	74	25		2	1	1				
Workers' compensation (medical benefits) ³	2,540	1,270	1,092		76	51	51				
Medicaid ⁴	7,389	2,596	795	173	142	442		2,777		313	150
Other public assistance medical vendor payments	517	190	58	13	10	32		203			11
General hospital and medical care	6,691	6,284									406
Maternal and child health services	315	47	17	4	11	3	7				225
Government public health activities ⁶	2,440								2,440		
Medical vocational rehabilitation	57	23	28				5				

See footnotes at end of table

percent. Approximately 34 percent of this 1970–77 increase reflected higher wages and salaries for an 1970 level of employees, and 23 percent resulted from the price of goods and services that hospitals had to purchase to maintain a 1970 level of services. The remaining 42 percent resulted from changes in the resources applied to a day of care. These resource changes, sometimes referred to as “intensity” changes, include the utilization of greater numbers of employees and/or more highly skilled employees, increased use of services

(laboratory tests, X-rays, etc.) per day of care, and the provision of new and more expensive kinds of services such as computerized tomographic scans or heart bypass surgery.

Expenditures for physicians' services have also been growing at a rapid pace. In 1970 they amounted to \$13.4 billion or \$65 per person, in 1977 they had jumped to \$32.2 billion or \$146 per person. In fiscal year 1977 and the previous year the physicians' bill grew 13 percent and 16 percent, respectively.

Table 4.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, years ending September 1975–77—Continued

[In millions]

Program and source of funds	Total	Hospital care	Physicians' services	Dentists services	Other professional services	Drugs and drug sundries	Eyeglasses and appliances	Nursing home care	Government public health activities	Administration	Other health services
1976 ⁷											
Total	\$55,642	\$32,028	\$6 876	\$468	\$713	\$1 076	\$121	\$6 115	\$3 522	\$1,643	\$3,081
Medicare (health insurance for the aged and disabled) ²	18 498	13 274	3,734		309			326		855	
Temporary disability insurance (medical benefits) ³	90	65	22		2	1	1				
Workers compensation (medical benefits) ³	2 233	1,127	948		69	45	45				
Medicaid ⁴	14 720	5,026	1,743	368	272	944		5,322		720	325
Other public assistance medical vendor payments	717	257	89	19	14	48		273			17
General hospital and medical care	7,845	6,486	20	4		2					1 333
Defense Department hospital and medical care ⁵	3,203	2 313	80	7		11				25	768
Maternal and child health services	604	92	58	14	47	14	18			5	356
Government public health activities ⁶	3,522								3,522		
Veterans' hospital and medical care	3 932	3,275	44	56		11	31	194		37	282
Medical vocational rehabilitation	278	113	139				26				
Federal	37,669	22 538	5,059	290	508	585	65	3,615	1,301	1 378	2 329
Medicare (health insurance for the aged and disabled) ²	18,498	13,274	3 734		309			326		855	
Workers compensation (medical benefits) ³	68	44	17		4	1	1				
Medicaid ⁴	8 597	2,926	1,011	213	159	549		3,095		455	189
General hospital and medical care	1,536	567	20	4		2					943
Defense Department hospital and medical care ⁵	3,203	2,313	80	7		11				25	768
Maternal and child health services	312	48	42	10	36	11	12			5	147
Government public health activities ⁶	1,301								1 301		
Veterans' hospital and medical care	3,932	3 275	44	56		11	31	194		37	282
Medical vocational rehabilitation	222	90	111				21				
State and local	17 973	9 490	1,817	177	204	491	56	2 500	2,221	265	752
Temporary disability insurance (medical benefits) ³	90	65	22		2	1	1				
Workers compensation (medical benefits) ³	2 165	1 083	931		65	43	43				
Medicaid ⁴	6 124	2,100	732	154	114	395		2,228		265	136
Other public assistance medical vendor payments	717	257	89	19	14	48		273			17
General hospital and medical care	6,309	5,919									390
Maternal and child health services	292	44	15	4	11	3	6				209
Government public health activities ⁶	2,221								2,221		
Medical vocational rehabilitation	56	23	28				5				

See footnotes at end of table

The increasing numbers of physicians and increasing specialization of physicians play a part in this growth. It has been suggested that physicians generate their own demand so that an increase in the supply of physicians increases the demand accordingly. In calendar year 1975, for example, the number of office-based physicians rose 5 percent and at the same time gross revenues of physicians rose some 20 percent. According to a recent study, the growing trend toward specialization is a

significant contributor to increased expenditures for physicians' services ¹

In addition, increased concern over liability for malpractice has no doubt contributed to the number and complexity of diagnostic tests performed, adding to the cost of physicians' services. As third parties assume the

¹ Nancy Worthington, "Expenditures for Hospital Care and Physician Services: Factors Affecting Annual Changes," *Social Security Bulletin*, November 1975

Table 4.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, years ending September 1975–77— Continued

[In millions]

Program and source of funds	Total	Hospital care	Physicians' services	Dentists services	Other professional services	Drugs and drug sundries	Eyeglasses and appliances	Nursing home care	Government public health activities	Administration	Other health services
1975 ⁷											
Total	\$49 472	\$28 626	\$6,171	\$447	\$550	\$973	\$112	\$5,436	\$3,091	\$1 346	\$2,720
Medicare (health insurance for the aged and disabled) ²	15 580	11,233	3,140		222			285		700	
Temporary disability insurance (medical benefits) ³	75	54	18		1	1	1				
Workers' compensation (medical benefits) ³	1 926	971	818		59	39	39				
Medicaid ⁴	13 245	4 399	1,784	351	213	855		4,732		582	329
Other public assistance medical vendor payments	670	233	94	19	11	45		250			17
General hospital and medical care	7,503	6,345	16	4		2					1,137
Defense Department hospital and medical care ⁵	3 132	2 348	78	8		10				22	666
Maternal and child health services	558	85	53	13	43	13	17			4	330
Government public health activities ⁶	3,091								3 091		
Veterans' hospital and medical care	3,426	2,852	36	52		9	31	168		38	240
Medical vocational rehabilitation	265	108	133				25				
Federal	32,589	19 534	4 427	270	378	510	63	3,100	1,191	1,108	2 009
Medicare (health insurance for the aged and disabled) ²	15,580	11,233	3,140		222			285		700	
Workers' compensation (medical benefits) ³	54	35	14		3	1	1				
Medicaid ⁴	7,428	2,461	998	197	119	478		2 647		344	184
General hospital and medical care	1,281	476	16	4		2					783
Defense Department hospital and medical care ⁵	3 132	2,348	78	8		10				22	666
Maternal and child health services	285	44	39	9	33	10	11			4	135
Government public health activities ⁶	1,191								1,191		
Veterans' hospital and medical care	3,426	2 852	36	52		9	31	168		38	240
Medical vocational rehabilitation	212	86	106				20				
State and local	16,883	9,092	1,745	177	172	463	49	2 336	1,900	238	711
Temporary disability insurance (medical benefits) ³	75	54	18		1	1	1				
Workers' compensation (medical benefits) ³	1,872	936	805		56	37	37				
Medicaid ⁴	5,817	1,938	786	155	94	377		2 085		238	145
Other public assistance medical vendor payments	670	233	94	19	11	45		250			17
General hospital and medical care	6,222	5 869									353
Maternal and child health services	273	41	14	4	10	3	6				195
Government public health activities ⁶	1,900								1,900		
Medical vocational rehabilitation	53	22	27				5				

¹ Preliminary estimates

² Represents total expenditures from trust funds for benefits and administrative costs. Trust fund income includes premium payments paid by or on behalf of enrollees.

³ Includes medical benefits paid under public law by private insurance carriers and self-insurers.

⁴ Includes funds paid into Medicare trust funds by States under "buy-in" agree-

ments to cover premiums for public assistance recipients and for persons who are medically indigent.

⁵ Includes care for retirees and military dependents. Payments for services other than hospital care and other health services represent only those made under contract medical programs.

⁶ Includes expenditures before 1974 reported under the Office of Economic Opportunity.

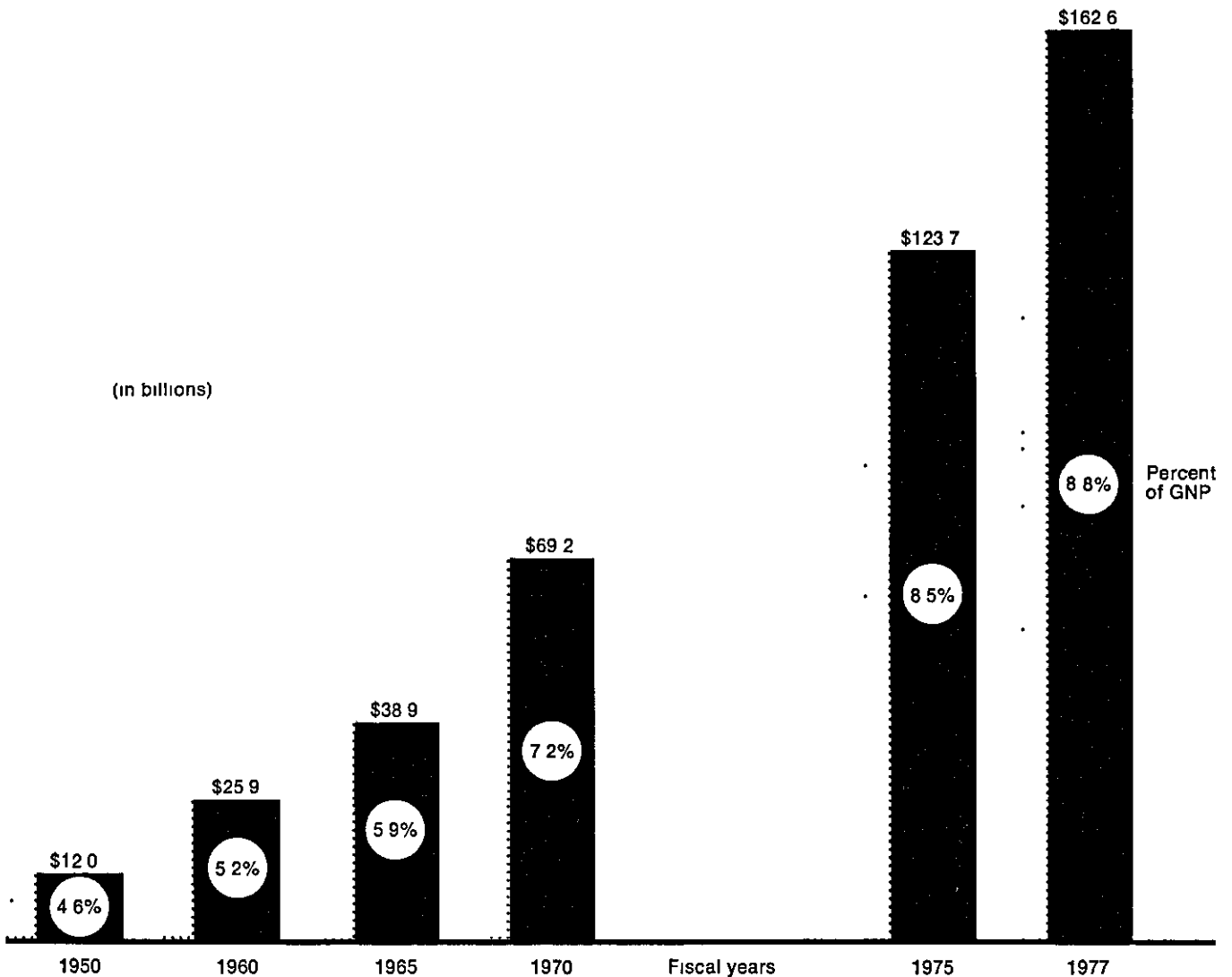
⁷ Revised estimates.

financing of a larger share of these services, there is less "discounting" of charges for persons who are less able to pay and greater reimbursement for services ²

² Zachary Y. Dyckman, *A Study of Physicians' Fees*, Council on Wage and Price Stability, March 1978.

An underlying factor prompting the growth in price, use, complexity, and intensity of services is the growth in third-party payments for health care, particularly for hospital and physicians' services. Contributing to rising health expenditures are the greater health insurance en-

Chart 2 —National health expenditures and percent of gross national product, selected fiscal years 1950–77



rollment, the implementation of Medicare and Medicaid, and the greater reliance on reimbursement for services, whatever the costs incurred (in hospitals) or whatever the fees charged (by physicians)

In 1960, third parties financed 45 percent of all personal health care expenditures, 81 percent of hospital care, and 33 percent of physicians' services. By 1970, the total third-party share had risen to 60 percent and in 1977 third parties paid 70 percent overall, with a 94-percent contribution toward hospital care financing and a 61-percent contribution for physicians' services.

Despite the increases in third-party financing of hospital and physicians' services, the consumer still pays directly a large share of outlays for all other health services, including dentists' and other professional services, drugs and drug sundries, eyeglasses and appliances, and nursing-home care. As of 1977, relatively little private insurance had been written to cover such services (though dental care coverage is growing significantly).

Consequently, private insurance paid only 6 percent of these costs. Government spending (mostly through Medicaid) accounted for 29 percent, leaving the consumer to make direct payments for slightly more than three-fifths of these bills.

Public Program Spending

Preliminary data indicate that the share of total health expenditures paid from public funds, which had been rising steadily since the advent of Medicare and Medicaid in 1966, began to decline in 1976. The public's share of health spending was 25 percent throughout the early 1960's. Beginning in 1966, it increased steadily to 43 percent in fiscal year 1976 but declined slightly to 42 percent in the year ending September 1976.

Medicare expenditures as a percentage of total health care costs continued to rise—from 12 percent of health expenditures in the year ending September 1975 to 13 per-

Table 5.—Aggregate and per capita amount and percentage distribution of national health expenditures, selected years 1929–77

Type of expenditure	Years ending June—							Year ending September 1977 ²
	1929	1940	1950	1960	1965	1970	1975 ¹	
Aggregate amount (in millions)								
Total	\$3 589	\$3,883	\$12,027	\$25 856	\$38 892	\$69,201	\$123,716	\$162 627
Health services and supplies	3,382	3,729	11,181	24,162	35 664	64 065	116,111	153,887
Personal health care expense	3,165	3,414	10,400	22,729	33,498	60,113	107 383	142 586
Hospital care	651	969	3,698	8,499	13,152	25 879	48 376	65,627
Physicians services	994	946	2,689	5,580	8,405	13 443	23 839	32,184
Dentists services	476	402	940	1 944	2,728	4,473	7,870	10 020
Other professional services	248	173	384	848	989	1 385	2,378	3,212
Drugs and drug sundries	601	621	1,642	3,591	4 647	7,114	10,357	12,516
Eyeglasses and appliances	131	180	475	750	1 151	1,776	1,751	2,086
Nursing home care		28	178	480	1 271	3 818	9,342	12,618
Other health services	64	95	394	1 037	1 155	2 225	3,469	4,322
Expense for prepayment and administration	128	160	430	1 012	1,495	2,515	5,768	7,572
Government public health activities	89	155	351	401	671	1 437	2 960	3,729
Research and medical facilities construction	207	134	847	1,694	3,228	5 137	7 605	8,739
Research		3	110	592	1 391	1 846	2,972	3,684
Construction	207	131	737	1,102	1 837	3,291	4,633	5,055
Per capita amount ³								
Total	\$29 16	\$28 82	\$78 35	\$141 63	\$197 75	\$333 57	\$571 21	\$736 92
Health services and supplies	27 48	27 83	72 83	132 35	181 34	308 81	536 09	697 32
Personal health care expense	25 72	25 47	67 75	124 50	170 32	289 76	495 80	646 11
Hospital care	5 29	7 23	24 09	46.56	66 87	124 74	223 36	297 38
Physicians services	8 08	7 06	17 52	30 57	42 74	64 80	110 07	145 84
Dentists services	3 87	3 00	6 12	10 65	13 87	21 56	36.34	45 11
Other professional services	2 01	1 29	2 50	4 65	5 03	6 68	10 98	14 56
Drugs and drug sundries	4 88	4 66	10 70	19 67	23 63	34 29	47 82	56 72
Eyeglasses and appliances	1 06	1 34	3 09	4 11	5 85	8 56	8 08	9 45
Nursing home care		21	1 16	2 63	6.46	18 40	43 13	57 18
Other health services	53	68	2 57	5 66	5 87	10 73	16 02	19 59
Expense for prepayment and administration	1 04	1 20	2 79	5 66	7 61	12 12	26 63	34 31
Government public health activities	72	1 16	2 29	2 19	3 41	6 93	13 66	16 90
Research and medical facilities construction	1 68	1 00	5 52	9 28	16 41	24 76	35 11	39 60
Research		02	72	3 21	7 07	8 90	13 72	16 70
Construction	1 68	98	4 80	6 04	9 34	15 86	21 39	22 91
Percentage distribution								
Total	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Health services and supplies	94 2	96 0	93 0	93 4	91 7	92 6	93 9	94 6
Personal health care expense	88 2	87 9	86 5	87 9	86 1	86 9	86 8	87 7
Hospital care	18 1	25 0	30 7	32 9	33 8	37 4	39 1	40 4
Physicians services	27 7	24 4	22 4	21 6	21 6	19 4	19 3	19 8
Dentists' services	13 3	10 4	7 8	7 5	7 0	6 5	6 4	6 2
Other professional services	6 9	4 5	3 2	3 3	2 5	2 0	1 9	2 0
Drugs and drug sundries	16 7	16 0	13 7	13 9	11 9	10 3	8 4	7 7
Eyeglasses and appliances	3 7	4 6	3 9	2 9	3 0	2 6	1 4	1 3
Nursing home care		7	1 5	1 9	3 3	5 5	7 6	7 8
Other health services	1 8	2 4	3 3	4 0	3 0	3 2	2 8	2 7
Expense for prepayment and administration	3 6	4 1	3 6	3 9	3 8	3 6	4 7	4 7
Government public health activities	2 5	4 0	2 9	1 6	1 7	2 1	2 4	2 3
Research and medical-facilities construction	5 8	3 5	7 0	6 6	8 3	7 4	6 1	5 4
Research		1	9	2 3	3 6	2 7	2 4	2 3
Construction	5 8	3 4	6 1	4 3	4 7	4 8	3 7	3 1

¹ Revised estimates

² Preliminary estimates

³ Based on January 1 data (April 1 for the year ending September) data from civilian employers overseas and the civilian population of outlying areas

cent in the 12 months ending September 1977. Medicaid expenditures remained relatively constant at 11 percent, and State and local spending other than Medicaid decreased from 9 percent of total spending to 8 percent. Federal spending other than Medicare and Medicaid also declined from 8 percent of total spending in 1975 to 7 percent in 1977.

The increase in Medicare expenditures reflects in part the rapidly increasing hospital costs, which substantially affect health costs for persons aged 65 and over, high

users of hospital services. Also contributing to the increase is the relatively fast growth in enrollment of disabled persons and those with end-stage renal disease—a group that uses high levels of medical services.

On the other hand, the relative stability in the rate of growth for Medicaid payments in recent years is a reflection, in part, of the stability in the number of Medicaid recipients. The distribution of payments under Medicaid is also changing. Since 1975, the share of Medicaid dollars paid for physicians' services and drugs

Table 6.—Hospital expenditures and utilization measures in community hospitals, 1966–77

Year ending September—	All hospital, expenditures (in millions)	Community hospitals ¹				
		Total expenditures (in millions)	Number of inpatient days	Average length of stay (in days)	Occupancy rate	Number of outpatient visits
1966	(²)	\$10,564	214,571	7.9	76.5	106,524
1967	(²)	12,480	223,384	8.3	77.6	109,987
1968	\$20,015	14,561	230,715	8.4	78.2	114,097
1969	23,098	17,011	237,560	8.3	78.8	120,831
1970	26,576	19,930	241,459	8.2	78.0	133,545
1971	29,966	22,908	242,645	8.0	76.7	148,423
1972	34,080	25,827	242,297	7.9	75.4	162,668
1973	37,599	28,593	247,821	7.8	75.7	173,068
1974	42,929	32,903	255,193	7.8	75.6	188,940
1975	49,973	39,248	257,594	7.7	75.0	190,672
1976	57,497	46,180	260,742	7.7	74.6	201,247
1977 ³	65,627	53,661	261,000	7.6	74.0	209,600
Percentage change from preceding year						
1967		18.1	4.1	5.1	1.4	3.2
1968		16.7	3.3	1.2	.8	3.7
1969	15.4	16.8	3.0	-1.2	.8	5.9
1970	15.1	17.2	1.6	-1.2	-1.0	10.5
1971	12.8	14.9	.5	-2.4	-1.7	11.1
1972	13.7	12.7	-1	-1.2	-1.7	9.6
1973	10.3	10.7	2.3	-1.3	.4	6.4
1974	14.2	15.1	3.0	0	-1	9.2
1975	16.4	19.3	9	-1.3	-8	9
1976	15.1	17.7	1.2	0	-5	5.5
1977	14.1	16.2	1	-1.3	-8	4.2

¹ Based on data compiled by the American Hospital Association from the Annual Survey of Hospitals and the National Hospital Panel Survey

² Data not available

³ Preliminary estimates

has declined while the share paid for hospitals and nursing homes has gone up (table 4). Large increases in payments to intermediate care facilities for the mentally retarded explain part of the growing share of Medicaid payments expended for nursing-home care. Factors contributing to the decline in the public's share of health spending are decreases in Department of Defense outlays and spending for State and local psychiatric hospitals.

premium level paid by persons aged 65 and older. Since SMI benefit payments have grown faster than premium payments limited by these provisions, Federal matching funds required to maintain the trust fund have grown proportionately faster.

Income to the HI trust fund from the payroll tax has declined slightly—from 92 percent in 1974 to 89 percent in 1977. This drop is primarily the result of the increase coming from general revenues.

Medicare Financing

All Medicare benefit payments are made from either the hospital insurance (HI) trust fund or the supplementary medical insurance (SMI) trust fund. Recently, contributions to these trust funds have been drawn increasingly from general tax revenues rather than premium payments and payroll taxes, as the data for 1975–77 in the tabulation at the bottom of the next column show.

In fiscal year 1976, 19 percent of the income of the trust fund was from general revenues, in 1977 this share was 26 percent.

The rapid growth of general revenues as a percent of all Medicare receipts comes primarily from the increase in Federal matching funds for premiums paid into the SMI trust fund. Changes in the amount of premiums paid for individuals into this fund are limited by the factor used in raising the amount of monthly cash retirement and survivor benefits under the social security program. For persons eligible for disability benefits or end-stage renal disease benefits, the premiums are further limited to the

Source of funds	Fiscal year			
	1974	1975	1976	1977
Total Medicare receipts	100.0	100.0	100.0	100.0
Percent from—				
Payroll tax	69.4	67.6	65.6	60.0
Premium payments by enrollees	9.9	9.9	9.2	8.5
Premium payments by Medicaid	1.1	1.3	1.3	1.1
General revenues	16.4	16.9	19.4	26.4
Interest	3.1	4.3	4.4	4.0
Hospital insurance receipts	100.0	100.0	100.0	100.0
Percent from—				
Payroll tax ¹	92.2	90.9	89.8	88.8
General revenues	4.3	4.2	4.8	6.1
Interest	3.5	4.9	5.3	5.1
Supplementary medical insurance receipts	100.0	100.0	100.0	100.0
Percent from—				
Premium payments by enrollees	40.3	38.7	34.2	26.2
Premium payments by Medicaid	4.5	4.9	4.9	3.5
General revenues	53.3	53.9	58.8	68.4
Interest	2.0	2.4	2.1	1.9

¹ Includes small amounts paid in HI premiums by persons previously uninsured.

Source: Unpublished Treasury reports keyed to Final Statement of Receipts and Expenditures of U.S. Government.

Concepts, Definitions, and Sources of Data

Estimates of national health expenditures are compiled by type of expenditure (use of funds) and channel of financing (source of funds). In most instances, the total level of the expenditures for each type of service is developed for the Nation as a whole, estimates for government spending for these services are then subtracted to derive the private contribution. In all cases the intent is to account for each dollar spent for the provision of health care and to count it only once as it moves through the complex channels that are involved in the American health care system.

Expenditures by Government Programs

All expenditures for health care that are channeled through any program established by public law are treated as a public expenditure in these estimates. Expenditures under workers' compensation programs, for example, are included with government expenditures although they involve benefits paid by private insurers from premiums that have been collected from private sources.

Funds disbursed by public programs are reported as program expenditures, including private contributions made by enrollees in the supplemental medical insurance (SMI) program under Medicare. The benefit expenditures reported in this series are not adjusted to eliminate the Medicare-Medicaid duplication that exists because payments are made by State governments into the Medicare trust fund in the form of SMI premiums for public assistance and supplemental security income (SSI) recipients and reported as a Medicaid expenditure. This "buy-in" amount was \$259 million in 1977.

Federal expenditures. Federal program expenditure levels correspond closely with those reported in the analysis of Federal health care programs prepared by the Office of Management and Budget from data supplied by the various Federal agencies.³

Several significant differences exist, however, because of the conceptual framework on which the national health expenditure series is based. Expenditure for education and training of health professionals are excluded. These Federal expenditures include, principally, direct support for health professional schools and for student assistance through loans and scholarships. Training is funded for a wide variety of health professionals—including physicians, dentists, nurses, mental health and other health professionals, research personnel, and paramedical personnel. Also excluded are payments by agencies for health insurance for em-

ployees, which are treated along with other private health insurance expenditures.

Outlays by Federal programs are classified by the type of health care provided, according to the best information available from each program.

"General hospital and medical care" is the term used to describe all Federal spending that is not separately reported in this series. Included are expenditures of the Indian Health Service, Public Health Service hospitals, and the Alcohol, Drug Abuse, and Mental Health Administration.

State and local government expenditures. In general, all spending of State and local government units for health care that is not financed by Federal funds as benefit payments or grants-in-aid or by patients or their agents is treated as State and local expenditures. For State-administered programs, such as Medicaid, the figure reported is net of matching revenues from the Federal Government.

Health expenditures made by State and local governments that involve funds received from the Federal Government under revenue sharing are reported as a State and local expenditure, not as a Federal expenditure.⁴ No information is available on the use of such funds by specific programs.

Payments for employee health insurance by State and local governments as employers are excluded from government spending and included under private health insurance expenditures as are Federal Government expenditures for its employees.

State and local spending classed as general hospital and medical care includes spending in all State and local hospitals paid for by State and local governments from their own revenues after deducting revenues from Federal or private sources or under State programs reported elsewhere in this report. Spending for public school health programs is also included here under "other health services."

Hospital Care

The estimates of expenditures for hospital care are compiled chiefly from data on hospital finances collected by the American Hospital Association (AHA) as part of their **Annual Survey of Hospitals** and the monthly **National Hospital Panel Survey**. The data from the monthly survey is used to project levels of community hospital expenditures for periods more recent than the latest annual survey and to adjust the annual survey data to correspond to the various periods for which estimates are made.

The composite estimate represents all spending for hospital services in the Nation for both inpatient and

³ See Office of Management and Budget, "Special Analysis L: Federal Health Programs," **Special Analyses, Budget of the United States Government, Fiscal Year 1979**, January 1978.

⁴ See Sophie R. Dales, "Federal Grants to State and Local Governments, Fiscal Year 1975: A Quarter Century Review," **Social Security Bulletin**, September 1976, table 3, page 28.

outpatient care, including all services by hospital staff (including physicians salaried by the hospital) and spending for drugs and other supplies. Self-employed physicians' services in hospitals (surgeons, for example) are not counted as hospital expenditures. Anesthesia and X-ray services are sometimes classified as hospital care expenditures and sometimes as expenditures for physicians' services, depending on billing practices.

The focus is on outlays for hospital services rather than the cost of providing service. Total revenue data are therefore used for community hospitals, for other types of hospitals, where revenue data are not available, total expenses are used. Certain adjustments are made in the AHA data. Additions are made to allow for a small number of hospitals not included, small amounts of Federal grants in aid are deducted since they are counted as research expenditures, and spending for intermediate-level care for the mentally retarded is moved to the nursing-home category. For Federal hospitals, agency rather than AHA figures are used.

Nursing-Home Care

Expenditures for nursing-home care encompass spending in all facilities or parts of facilities providing some level of nursing care. Included are all nursing homes certified by Medicare and/or Medicaid as skilled-nursing facilities, those certified by Medicaid as intermediate-care facilities for regular patients as well as solely for the mentally retarded, and all other homes providing some level of nursing care even though they are not certified under either program.

The estimates for total nursing-home expenditures other than those intermediate-care facilities serving the mentally retarded are derived from data on facilities, utilization and charges, and wages.⁵ Estimates for years for which no data are available are based on available economic and other indicators.

Services of Physicians, Dentists, and Other Health Professionals

Expenditures for the services of these practitioners are primarily based on data compiled from business income tax returns filed with the Internal Revenue Service. The Internal Revenue Service prepares summaries of the financial information on the returns by type of business. Annual reports of these summaries are published in **Statistics of Income—Business Income Tax Returns**.

⁵ For a definition of facilities data, see National Center for Health Statistics, "Selected Operating and Financial Characteristics of Nursing Homes," **Vital and Health Statistics** (Series 13, No. 22). Data on charges based on published and unpublished figures from National Center for Health Statistics, **Vital and Health Statistics**, Series 14. Information on wages from Bureau of Labor Statistics, **Industry Wage Survey** Bulletin 1638, October 1967-April 1968, Bulletin 1855, May 1973, Bulletin 1964, May 1976.

For physicians and dentists, total business receipts (which excludes non-practice-derived income) are totaled for sole proprietorships, partnerships, and incorporated practices. For physicians, that portion of spending for outpatient independent laboratory services billed directly to patients and not included with physicians' business receipts is added, as well as estimated expenses of group-practice prepayment plans in providing physicians' services (to the extent that they are not duplicated in physicians' income from self-employment). Estimated receipts by physicians for life insurance exams are deducted. Physician group practices that are non-profit corporations are included with prepayment plans as indicated above or, in some cases, with hospital expenditures where services are provided under contract to hospitals.

The salaries of physicians and dentists on the staffs of hospitals and hospital outpatient facilities are considered a component of hospital care, if they are serving in field services of the Armed Forces their salaries are included in "other health services." Where they are separable, expenditures for the education and training of medical personnel are considered as expenditures for education and excluded from health expenditures.

Expenditures for group-practice dental clinics are added to dentists' business receipts. No separate adjustment is made for dental laboratories, since all billings are through dentists' offices.

The Internal Revenue Service also compiles data on the income of other health professionals in private practice. These include private-duty nurses, chiropractors, and optometrists, as well as other undesignated health professionals. Estimates for the salaries of visiting nurses are added to the private income of other health professionals. The portions of optometrists' receipts that are for eyeglasses are deducted since it is assumed that they are included under spending for eyeglasses and appliances.

Drug and Drug Sundries, Eyeglasses and Orthopedic Appliances

Expenditures in these categories include only spending for outpatient drugs and appliances and exclude those provided to hospital inpatients, nursing-home patients, and through physicians' offices. The basic source of the estimates for drugs and drug sundries and for eyeglasses and appliances is the estimate of personal consumption expenditures compiled by the Bureau of Economic Analysis of the Department of Commerce as part of the National Income and Product Accounts. This estimate is adjusted by deducting estimated payments by workers' compensation programs (a part of which is private consumer payment in the Commerce series but treated as a public expenditure in this National Health Expenditure series). The resulting private spending fig-

ure for drugs and for appliances is combined with expenditures for all public programs for these products arrive at the total amount of expenditures for the Nation

Other Health Services

Items of expenditure that could not be classified elsewhere 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 (1) industrial in-plant services, (2) school health services, and (3) medical activities in Federal units other than hospitals.

Expenditures for industrial in-plant services consist of amounts spent for maintaining health services in private industry. School health spending is reported under the source-of-funds category of general hospital and medical care. Expenditures for medical activities in Federal units other than hospitals are residual amounts that represent primarily the cost of maintaining outpatient facilities (separately from hospitals) and field and ship-board medical stations.

Government Public Health Activities

The Federal portion of government public health activities consists of outlays for the organization and delivery of health services, the prevention and control of health problems, and similar health activities administered by various Federal agencies, chiefly the Department of Health, Education, and Welfare. The data for these programs are taken from the Special Analyses of the Budget.

The State and local portion represents expenditures of all State and local health departments less 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).

Expenses for Prepayment and Administration

Prepayment expense represents the difference between the earned premiums or subscription income of private health insurance organizations and their claims or benefit expenditures (or expenditures for 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.

The administration component includes nonpersonal

health expenditures of private voluntary health organizations for health education, lobbying, fund-raising, etc. In addition, it includes administrative expenses (where they are separately identified) of federally financed health programs. Such data were available for Medicare, Medicaid, and the Veterans Administration and Department of Defense contract programs for medical care.

Medical Research

Expenditures for medical research include all spending for biomedical research and research in the delivery of health services by private organizations and public 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 Federal amounts represent those reported as medical research in the Special Analyses of the Budget. The amounts shown for State and local governments and private expenditures are based on published estimates prepared by the National Institutes of Health—primarily in the annual publication, **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 and laboratory facilities for private practitioners. Also 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 Department of Commerce reports. Some portion of the construction dollars reported in a given year is reported again in subsequent years as depreciation. It is estimated that the majority of new medical facility construction is currently being financed through long-term loans from the private capital markets. Depreciation costs are treated as legitimate expenses to be covered by reimbursements from both private and public insurance. Thus, some duplication exists in the reporting of health spending since a portion of the construction outlays in earlier years is subsequently reported as depreciation expenses. This duplication is estimated to be small, not significantly affecting total health expenditures.

Population Estimates

The estimates of population used to calculate per capita expenditures for health care, based on data from the Bureau of the Census, follow

Period	Total U S population (in thousands)
January 1	
1929	123,077
1935	129,118
1940	134,012
1950	153,513
1955	167,022
1960	182,557
1965	196,671
1966	199,038
1967	201,234
1968	203,369
1969	205,345
1970	207,457
1971	209,539
1972	211,583
1973	213,238

1974	214,783
1975	216,587
1976	218,368
1977	220,245
April 1	
1975	217,031
1976	218,843
1977	220,685

These figures represent the entire population, including the Armed Forces and Federal civilian employees overseas and the civilian population of outlying areas

Private Health Insurance

Estimates of benefits paid and the prepayment expense of private health insurance organizations are derived from the data series on the financial experience of private health insurance organizations compiled by the Health Care Financing Administration. The latest annual report in this series will be carried in the September 1978 **Social Security Bulletin**

Recent Publications *

Social Security Administration

Center for Policy Research, Inc **Using Blood Tests to Establish Paternity.** Washington Office of Child Support Enforcement, Planning and Evaluation Branch, 1977 45 pp

Lerner, Philip R **Social Security Beneficiaries Residing Abroad, 1976.** Washington Office of Research and Statistics, 1978 32 pp

Lingg, Barbara A **Social Security Beneficiaries in Metropolitan Areas, 1976.** Washington Office of Research and Statistics, 1978 42 pp

McManus, Leo A **The Effects of Disability on Lifetime Earnings.** (Office of Research and Statistics, Staff Paper No 30) Washington U S Govt Print Off, 1978 30 pp

Office of Research and Statistics Comparative Studies Staff **Social Security Programs Throughout the World, 1977.** (Research Report No 50) Washington U S Govt Print Off, 1978 259 pp

U S Department of Commerce Office of Federal Statistical Policy and Standards Bureau of the Census **Social Indicators, 1976.** Washington U S Govt Print Off, December 1977 564 pp \$7 00

Contains comprehensive graphic collection of statistical data describing current social conditions and trends

U S Department of Labor Bureau of Labor Statistics **U.S. Working Women: A Databook.** Washington U S Govt Print Off, 1977 67 pp \$2 50

Tables, charts, and text present changing trends in the past quarter century

Retirement and Old Age

Baumhover, Lorin A and Jones, Joan DeChow (editors) **Handbook of American Aging Programs.** Westport, Conn Greenwood Press, 1977 188 pp \$17 50

Sheppard, Harold L and Rix, Sara E **The Graying of Working America—The Coming Crisis in Retirement-Age Policy.** New York The Free Press, 1977 174 pp \$12 95

Focuses on social and economic impact of current retirement-age policy and need for change in the near future

(Continued on page 35)

* Prepared in cooperation with the Office of Research and Statistics Library, Social Security Administration. Orders for items listed should be directed to publishers and booksellers. Federal publications should be ordered from the Superintendent of Documents, U S Government Printing Office, Washington, D C 20402