

# National Health Expenditures, 1929-70

by DOROTHY P. RICE and BARBARA S. COOPER\*

*This article departs slightly from previous articles in the annual series on national health expenditures. Presentation and analysis of the data were formerly on a calendar-year basis; this year the discussion and tabular data will focus on developments in the fiscal year 1970.<sup>1</sup>*

THE NATION'S health and medical care expenditures amounted to \$67.2 billion in fiscal year 1970, representing an increase of 12.2 percent over the health bill for the previous year. A measure of the significance of the amount can be seen in its relationship to the gross national product (GNP). In that year, 7.0 percent of the market value of all goods and services produced in the United States went for health. Just one year before, the percentage was 6.7 (chart 1).

The unusually rapid increase in the proportion of GNP spent on health and medical care can be attributed, in part, to the slowdown in the general economy. An increasing level of unemployment and spiraling prices that resulted in curtailment of consumer expenditures led to a slower rate of growth in the economy. The GNP rose 6 percent in fiscal year 1970, compared with an 8-percent average annual rate of growth in the 5 preceding years. Medical care needs do not know fiscal restraints, however. The rapid climb of medical care prices continued, but the demand for health care services did not diminish. Hence, health expenditures rose at twice the rate of the economy as a whole.

Summary highlights for fiscal year 1970 reveal that

—the health bill for the Nation reached \$67.2 billion and jumped to 7.0 percent of the gross national product from the 6.7 percent of the previous year

—the average health bill per person in the United States was \$324: about \$33 higher than the average in the previous year

—total health outlays rose 12 percent over the previous years and, for the first time in several years, the private sector showed a greater increase than the public sector: 14 percent, compared with 10 percent

—the slowdown in the growth of health spending in the public sector resulted in a slight increase in the private share of the total: from 62 percent in fiscal year 1969 to 63 percent in 1970

—spending under the Medicare program (\$7.1 billion) rose at about one-third the rate of increase registered in the previous year: 8 percent, compared with 23 percent

—Medicaid outlays rose 18 percent to an estimated \$4.9 billion, compared with a 26-percent increase in the previous year

—hospital care again registered the largest increase in health outlays, growing 15 percent in a single year to reach \$25.6 billion

—spending for physicians' services also continued to show a large gain, rising 9.5 percent to \$12.9 billion

—construction spending showed a sizable increase of more than \$900 million, largely because the private effort showed a 56-percent gain

—three-fifths of personal health care expenditures were met by third parties (government, private health insurance, philanthropy, and industry), with government responsible for 58 percent of the third-party bill.

## SOURCE OF FUNDS

By far the larger share of the medical care dollar has always come from private funds, but, as Medicare and Medicaid were added in fiscal year 1967, a shift to more public financing occurred. In fiscal year 1966 (before Medicare and Medicaid), the public share was 25.6 percent. By fiscal year 1969, the government share had risen to 38.0 percent. In fiscal year 1970, however, there was a deceleration in the rate of increase in government spending and a very slight decline to 37.2 percent in the government share (table 1 and chart 2). Public outlays (\$25.0 billion) rose at two-thirds the rate that they had registered in the preceding year—9.7 percent in 1970, compared with 14.3 percent in 1969.

This deceleration in public spending was pri-

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

<sup>1</sup> For detailed historical and 1969 calendar-year data by source of funds and type of expenditures, see Barbara S. Cooper and Mary McGee, *National Health Expenditures, Fiscal Years 1929-70 and Calendar Years 1929-69* (Research and Statistics Note No. 25), Office of Research and Statistics, 1970.

marily the result of a slowdown in expenditures under the Medicare program. Medicare spending, constituting about one-third of public outlays, rose only 8.4 percent in fiscal year 1970; the increase

had been 23.4 percent the previous year. Several factors account for the decline in the rate of increase. For the first time in several years, the average length of stay in community hospitals for

CHART 1.—National health expenditures and percent of gross national product, selected fiscal years 1929-70

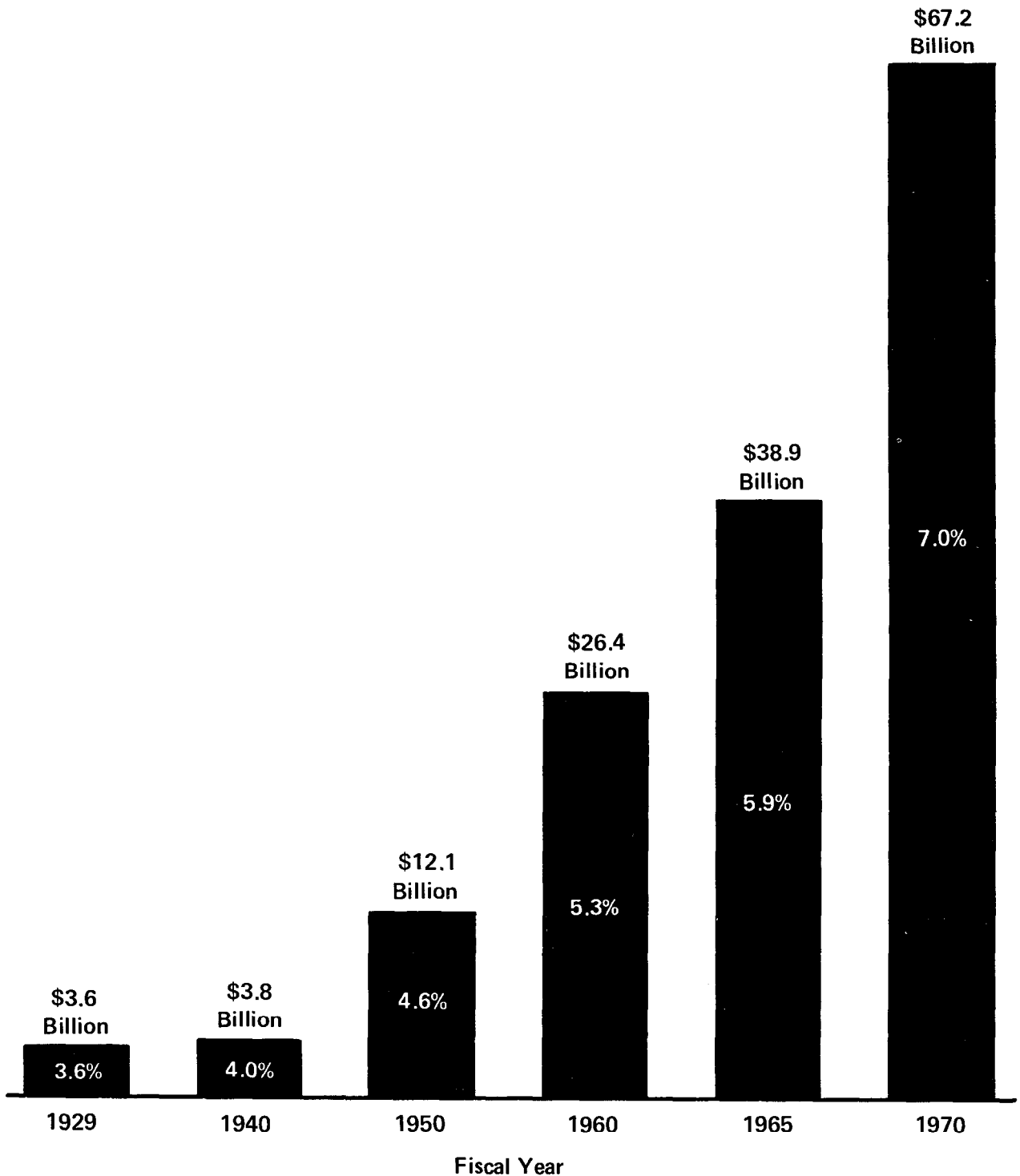


TABLE 1.—Aggregate and per capita national health expenditures, by source of funds, and percent of gross national product, selected years, fiscal 1928–29 through 1969–70 and calendar 1929–69

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
<b>Fiscal year:</b>										
1928–29	\$101.0	\$3,589	\$29.16	3.6	\$3,112	\$25.28	86.7	\$477	\$3.88	13.3
1934–35	68.7	2,846	22.04	4.1	2,303	17.84	80.9	543	4.21	19.1
1939–40	95.1	3,805	28.39	4.0	3,023	22.56	79.5	782	6.84	20.6
1944–45	211.1	7,914	55.73	3.7	5,335	37.57	67.4	2,580	18.17	32.6
1949–50	263.4	12,130	79.01	4.6	9,064	59.04	74.7	3,065	19.97	25.3
1954–55	379.7	17,924	107.32	4.7	13,503	80.85	75.3	4,421	26.47	24.7
1959–60	495.6	26,367	144.93	5.3	19,972	109.78	75.7	6,395	35.15	24.3
1960–61	506.5	28,031	151.59	5.5	20,972	113.41	74.8	7,059	38.17	25.2
1961–62	541.7	30,187	160.59	5.6	22,550	119.96	74.7	7,638	40.63	25.3
1962–63	574.5	32,581	170.70	5.7	24,276	127.19	74.5	8,305	43.51	25.5
1963–64	611.6	35,048	184.09	5.8	26,677	137.76	74.8	8,371	46.33	25.2
1964–65	655.6	38,912	198.20	5.9	29,366	149.58	75.5	9,546	48.62	24.5
1965–66	718.5	42,286	212.74	5.9	31,464	158.29	74.4	10,822	54.45	25.6
1966–67	771.3	47,003	238.23	6.2	32,185	160.06	67.2	15,717	78.16	32.8
1967–68	827.4	53,650	263.97	6.5	33,726	165.93	62.9	19,923	98.02	37.1
1968–69	899.6	59,905	291.78	6.7	37,125	180.81	62.0	22,780	110.95	38.0
1969–70	956.2	67,240	324.32	7.0	42,258	203.82	62.8	24,982	120.50	37.2
<b>Calendar year:</b>										
1929	103.1	3,644	29.45	8.5	3,149	25.45	86.4	495	4.00	13.6
1935	72.2	2,935	22.65	4.1	2,372	18.30	80.8	563	4.34	19.2
1940	99.7	3,956	29.39	4.0	3,145	23.37	79.5	811	6.03	20.5
1950	284.8	12,867	83.19	4.5	9,289	60.05	72.2	3,578	23.13	27.8
1955	398.0	18,036	107.11	4.5	13,398	79.57	74.3	4,638	27.54	25.7
1960	503.7	26,973	147.20	5.4	20,339	110.99	75.4	6,637	36.22	24.6
1961	520.1	28,887	155.00	5.6	21,611	115.96	74.8	7,278	39.05	25.2
1962	560.3	31,404	165.88	5.6	23,480	124.02	74.8	7,924	41.85	25.2
1963	590.5	33,629	175.01	5.7	25,071	130.47	74.6	8,558	44.54	25.4
1964	632.4	37,549	192.63	5.9	28,263	145.10	75.3	9,286	47.54	24.7
1965	684.9	40,591	205.55	5.9	30,517	154.54	75.2	10,075	51.02	24.8
1966	749.9	45,114	225.75	6.0	32,361	161.93	71.7	12,753	63.82	28.3
1967	793.9	50,763	251.17	6.4	32,734	161.97	64.5	18,030	89.21	35.5
1968	865.0	56,378	277.07	6.5	35,195	172.36	62.2	21,382	104.71	37.8
1969	931.4	63,827	309.43	6.9	40,039	194.11	62.7	23,790	115.33	37.3

persons aged 65 and over showed a large decrease—from 13.2 days to 12.8 days.<sup>2</sup> Hospital admissions rose slightly—from 5.9 million to 6.1 million. Coupled with the shorter average stay, however, total days of care for the aged rose only 0.6 percent, compared with a 7-percent increase the previous year.

In addition, a 2-percent special allowance in the hospital reimbursement formula was removed in fiscal year 1970. A special effort was also made to tighten controls on the use of extended-care facilities under the Medicare program. The result was a reduction in expenditures for this purpose from \$367 million in fiscal year 1969 to \$295 million in the following year.

Although Medicare spending slowed down in fiscal year 1970, other public programs continued to expand at a rapid rate. By the beginning of 1970, for example, all but two States (Alaska and Arizona) were participating in the State-Federal medical assistance program (Medicaid). With more States participating and more persons re-

ceiving medical care services financed through Medicaid, expenditures rose 18.2 percent in fiscal year 1970 to an estimated \$4.9 billion.

In the amounts shown for Medicare and Medicaid, a small amount of duplication exists. Medical vendor expenditures under the public assistance programs include the premiums paid into the supplementary medical insurance trust fund of the Medicare program for coverage of old-age assistance recipients. These premium payments are counted again to the extent that they are also subsequently reflected in disbursements made by the supplementary medical insurance trust fund. For each fiscal year since Medicare began operations, the amount of premiums paid by States to “buy in” coverage for their aged recipients is as follows:

<i>Fiscal year</i>	<i>Amount (in millions)</i>
1967 -----	\$32.1
1968 -----	53.0
1969 -----	75.8
1970 -----	97.2

<sup>2</sup> “Hospital Indicators,” *Hospitals*, midmonth issues.

TABLE 2.—National health expenditures, by type of expenditure and source of funds, fiscal years, 1966-67 through 1969-70

(In millions)

Type of expenditure	Total	Source of funds					
		Private			Public		
		Total	Consumers	Other	Total	Federal	State and local
1969-70							
Total.....	\$67,240	\$42,258	\$38,389	\$3,869	\$24,982	\$16,667	\$8,315
Health services and supplies.....	61,923	39,647	38,389	1,258	22,275	14,502	7,772
Hospital care.....	25,625	13,292	12,926	366	12,333	8,029	4,304
Physicians' services.....	12,930	9,655	9,644	11	3,275	2,364	911
Dentists' services.....	4,147	3,906	3,906	-----	241	134	107
Other professional services.....	1,434	1,186	1,160	26	248	194	54
Drugs and drug sundries.....	6,741	6,297	6,297	-----	444	222	222
Eyeglasses and appliances.....	1,802	1,742	1,742	-----	60	32	28
Nursing-home care.....	2,844	1,068	1,047	21	1,776	1,058	718
Expenses for prepayment and administration.....	2,050	1,667	1,667	-----	383	383	-----
Government public health activities.....	1,429	-----	-----	-----	1,429	627	802
Other health services.....	2,921	834	-----	834	2,087	1,460	626
Research and medical-facilities construction.....	5,319	2,611	-----	2,611	2,708	2,165	543
Research.....	1,890	195	-----	195	1,695	1,622	73
Construction.....	3,429	2,416	-----	2,416	1,013	543	470
Publicly owned facilities.....	872	-----	-----	-----	872	415	457
Privately owned facilities.....	2,557	2,416	-----	2,416	141	128	13
1968-69							
Total.....	\$59,905	\$37,125	\$34,192	\$2,933	\$22,780	\$15,149	\$7,632
Health services and supplies.....	55,615	35,382	34,192	1,190	20,231	13,133	7,099
Hospital care.....	22,300	10,974	10,626	348	11,326	7,293	4,032
Physicians' services.....	11,804	8,925	8,915	10	2,879	2,069	810
Dentists' services.....	3,815	3,581	3,581	-----	234	124	110
Other professional services.....	1,329	1,130	1,104	26	199	148	51
Drugs and drug sundries.....	6,338	5,988	5,988	-----	350	175	175
Eyeglasses and appliances.....	1,735	1,682	1,682	-----	53	27	26
Nursing-home care.....	2,461	735	715	20	1,726	1,066	660
Expenses for prepayment and administration.....	1,894	1,581	1,581	-----	313	313	-----
Government public health activities.....	1,195	-----	-----	-----	1,195	525	670
Other health services.....	2,744	786	-----	786	1,958	1,393	565
Research and medical-facilities construction.....	4,292	1,743	-----	1,743	2,549	2,016	533
Research.....	1,792	192	-----	192	1,600	1,528	72
Construction.....	2,500	1,551	-----	1,551	949	488	461
Publicly owned facilities.....	708	-----	-----	-----	708	260	448
Privately owned facilities.....	1,792	1,551	-----	1,551	241	228	13
1967-68							
Total.....	\$53,652	\$33,728	\$31,102	\$2,626	\$19,923	\$13,021	\$6,901
Health services and supplies.....	49,688	32,218	31,102	1,116	17,468	11,097	6,371
Hospital care.....	19,259	9,346	9,006	340	9,913	6,106	3,807
Physicians' services.....	10,734	8,406	8,396	10	2,328	1,640	688
Dentists' services.....	3,498	3,295	3,295	-----	203	103	101
Other professional services.....	1,210	1,073	1,048	25	137	92	45
Drugs and drug sundries.....	5,864	5,594	5,594	-----	270	129	141
Eyeglasses and appliances.....	1,665	1,621	1,621	-----	44	22	22
Nursing-home care.....	2,070	604	584	20	1,466	912	554
Expenses for prepayment and administration.....	1,793	1,558	1,558	-----	235	235	-----
Government public health activities.....	1,001	-----	-----	-----	1,001	427	574
Other health services.....	2,594	721	-----	721	1,873	1,432	441
Research and medical-facilities construction.....	3,964	1,510	-----	1,510	2,455	1,924	530
Research.....	1,800	185	-----	185	1,616	1,546	69
Construction.....	2,164	1,325	-----	1,325	839	378	461
Publicly owned facilities.....	709	-----	-----	-----	709	260	449
Privately owned facilities.....	1,455	1,325	-----	1,325	130	118	12

The growth in the private sector was even greater than that in the public sector. Private outlays rose 13.8 percent from the previous year and reached \$42.3 billion. Factors contributing to the substantial increase in private expenditures were the rising prices and the increased utilization of medical care services by the population under

age 65. Hospital utilization for the nonaged, for example, whose care is for the most part paid for privately, rose at four times the rate for the aged, whose care is in general paid for from public funds.

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

in their behalf. These consumer expenditures amounted to \$38.4 billion in 1970, an increase of \$4.2 billion or 12 percent more than the total in the previous year (table 2).

The remaining private expenditures include private philanthropy, amounts spent by industry for maintenance of in-plant health services (classified under "other health services"), expenditures made from capital funds for expansion, renovation, or new construction of medical facilities, and outlays for research by private foundations. These expenditures amounted to \$3.9 billion in fiscal year 1970—almost \$1 billion higher than the previous year's total. Much of this rise was registered in the area of construction. Private construction outlays went up from \$1.6 billion to \$2.4 billion, an increase of 56 percent. The expansion in construction of nursing homes contributed largely to this jump in a single year in private construction outlays.

The type of service purchased differs with the source of funds (chart 3). Of the \$42.3 billion spent in 1970 from private sources, about three-tenths was for hospital care; of the \$25.0 billion from public funds, half was for hospital care. Similarly, nursing-home care comprised less than 3 percent of private expenditures but represented 7 percent of the public outlays. The proportion spent for medical research was also smaller in

the private sector: less than 0.5 percent, compared with 7 percent in the nonprivate sector.

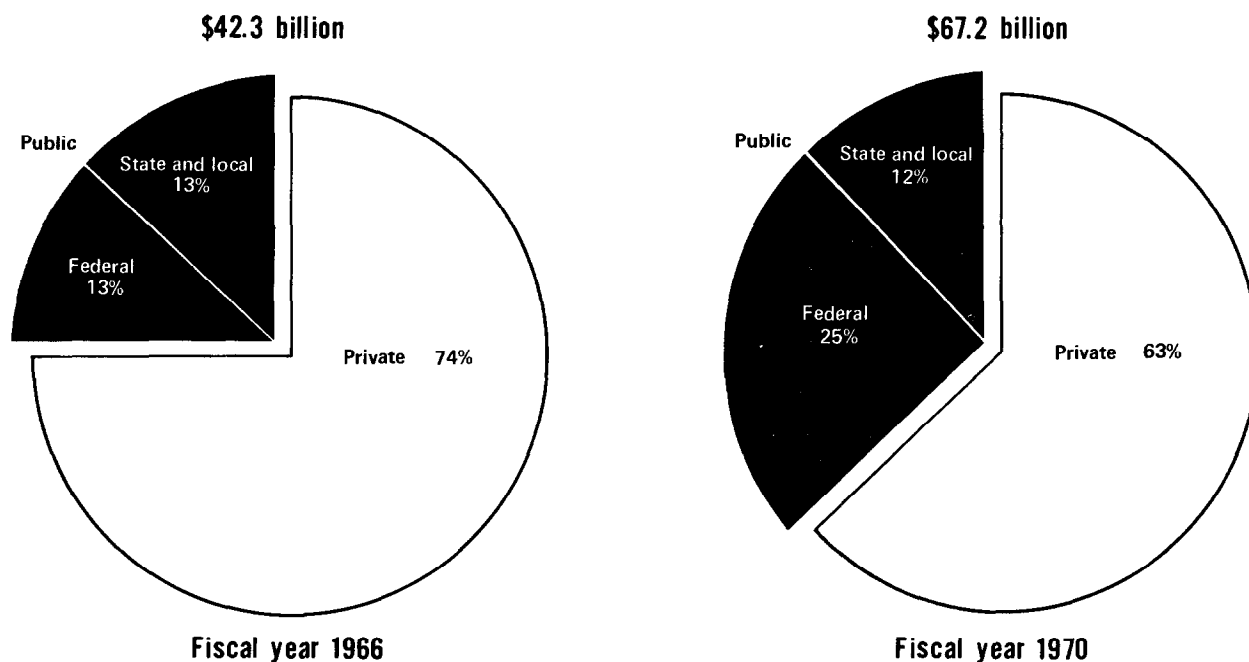
For drugs, however, 15 percent of the private medical care dollar was spent but only 2 percent of the public dollar. Thirty-five percent of the private health dollar purchased services of health professionals—doctors, dentists, nurses, and other medical professional personnel; only 15 percent of public funds were spent for these services.

#### TYPE OF EXPENDITURE

The largest single item of expenditure—representing 38 percent of total outlays—was for hospital care, including both inpatient and outpatient services. Of the \$25.6 billion used for this purpose in 1970, consumers contributed 50 percent, the Federal Government 31 percent, and State and local governments 17 percent; philanthropy and industry provided the remainder.

Expenditures for hospital care continue to be one of the fastest-growing categories of expenditures. In fiscal year 1970, outlays for this purpose increased 15 percent. The annual growth in the previous 3 years was 16.4 percent. The continuing rapid rise in hospital costs, together with an increase in hospital use by the population under age

CHART 2.—Distribution of national health expenditures by source of funds, fiscal years 1966 and 1970



65, contributed to the continuing large increase in outlays for this purpose. The following tabulation summarizes data for the past 2 years on use and costs of community hospital care (nongovernmental short-term hospitals) published by the American Hospital Association.

Item	Fiscal year		Percentage change
	1969	1970	
Number of admissions (in thousands).....	28,027	29,247	+4.4
Under age 65.....	22,122	23,103	+4.4
Aged 65 and over.....	5,904	6,145	+4.1
Number of patient days (in thousands)....	227,633	231,601	+1.7
Under age 65.....	149,585	153,120	+2.4
Aged 65 and over.....	78,048	78,481	+6
Average length of stay, total.....	8.1	7.9	-2.5
Under age 65.....	6.8	6.6	-2.9
Aged 65 and over.....	13.2	12.8	-3.0
Total expenses (in millions) <sup>1</sup> .....	\$15,965	\$18,693	+17.1
Expenses per patient day.....	70.13	80.71	+15.1

<sup>1</sup> Excludes expenditures for Federal and long-stay hospitals.

The second largest category of expenditure was for physicians' services, which amounted to \$12.9 billion in fiscal year 1970, or 19 percent of the total. Almost three-fourths of these expenditures came from private sources and, for the most part, were paid by or in behalf of consumers. Total outlays for this purpose increased 10 percent from the previous year. A significant part of

this rise results from the increase in physicians' fees. This component of the Consumer Price Index of the Bureau of Labor Statistics registered a 7.2-percent increase during the same period.

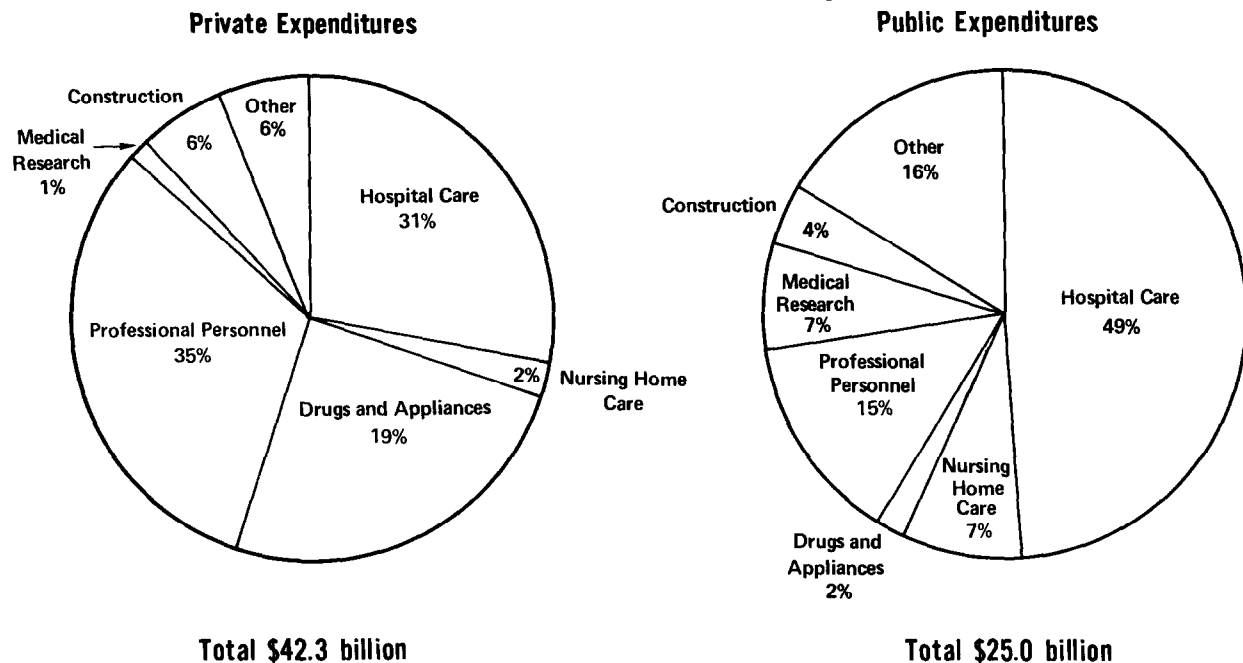
Dentists' services (\$4.1 billion), other professional services (\$1.4 billion), drugs and drug sundries (\$6.7 billion), and eyeglasses and appliances (\$1.8 billion) were almost entirely financed by private funds, chiefly by the consumer. The increases in fiscal year 1970 in these categories of expenditures ranged from 3.9 percent for eyeglasses and appliances to 8.7 percent for dentists' services.

As indicated above, the rise in medical care prices have contributed substantially to the increased outlays. The following figures compare, for fiscal year 1970, the percentage increases in consumer spending for the three major types of services with the increase in the medical care price index.

Item	Percentage increase in	
	Consumer expenditures	CPI medical care component
Hospital care.....	21.6	<sup>1</sup> 12.4
Physicians' services.....	8.2	7.2
Dentists' services.....	9.1	6.9

<sup>1</sup> Represents increase in index for hospital daily service charge.

CHART 3.—Distribution of private and public health expenditures by type of expenditure, fiscal year 1970



The financing of nursing-home care is significantly different from the other types of expenditures. Additional outlays under Medicaid for this purpose, 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 government. In 1970, \$1.8 billion or 62 percent of the \$2.8 billion spent for nursing-home care was provided by government, chiefly through Federal funds.

The category "expenses for prepayment and administration," which amounted to \$2.0 billion in 1970, 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, often referred to as the net cost of insurance, increased 5.4 percent in fiscal year 1970.

Administrative expenses are the expenses of federally financed health programs for which the cost of administration can be identified. The larger administrative expenses (\$366 million out of the total \$383 million) are those under Medicare. The other expenses represent those of the Veterans Administration.

Medical research expenditures, amounting to about \$1.9 billion in 1970, increased 5.5 percent or \$98 million since the previous year. Nine-tenths of the outlays for medical research came from government (chiefly through Federal funds), and one-tenth came from philanthropy. These figures do not include research expenditures of \$740 million made by pharmaceutical, medical-supply, and medical electronic industries, since they are considered a business expense attached to the cost of the products and already accounted for.

As a result of the huge increase in private medical facility construction outlays in 1970, total expenditures for construction reached \$3.4 billion—up 37 percent from 1969. Much of this increase resulted from the construction of nursing homes. About seven-tenths of the construction financing came from private sources.

## HEALTH EXPENDITURES UNDER PUBLIC PROGRAMS

Expenditures for health services and supplies

under government programs amounted to \$22.3 billion in 1970. Federal funds amounting to \$14.5 billion supplied 65 percent of this total. The remainder came from State and local government funds.

Table 3 lists each of the government programs with health expenditures and distributes these amounts for fiscal years 1968–70 by type of expenditure. These government programs and their outlays are the same as those currently reported in the health expenditure table in the annual BULLETIN article on social welfare expenditures.<sup>3</sup>

Public expenditures for health in 1970 did not grow as rapidly as in recent years, rising only 9.7 percent. Medicare, which accounted for nearly one-third (\$7.1 billion) of all public outlays, rose only 8.4 percent and was thus largely responsible for this decline in the rate of increase in government health spending. Included in the expenditures under Medicare are hospital and medical benefit payments and the administrative program costs. Premium payments under the supplementary medical insurance part of the program are considered expenditures under a public program even though consumers pay the premiums and matching contributions come from general revenues.

Vendor payments under public assistance (primarily Medicaid) constitute the second largest government health program. Fiscal year 1970 outlays, totaling \$5.0 billion, increased 14 percent and raised expenditures under this program to 23 percent of total public outlays. Expansion of the Medicaid program was, as previously noted, responsible for this growth in expenditures.

In the State and local government sector, the program with the largest 1970 outlay (\$2.9 billion) was general hospital and medical care (primarily in mental hospitals). State and local governments spent \$2.5 billion under their public assistance programs, mainly Medicaid. These two programs furnished seven-tenths of all State and local government expenditures for health.

The type of expenditure receiving the largest public support was hospital care, which received 55 percent of all public outlays for health services and supplies. The proportion going to hospitals varies, however, among the public programs. In

<sup>3</sup> Alfred M. Skolnik and Sophie R. Dales, "Social Welfare Expenditures, 1969–70," *Social Security Bulletin*, December 1970.

TABLE 3.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, fiscal years, 1966-67 through 1969-70

[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	Other health services	Administration
<b>Total</b> .....	\$22,274.6	\$12,333.2	\$3,275.1	\$240.9	\$247.5	\$443.8	\$59.7	\$1,775.5	\$1,429.0	\$2,086.8	\$383.1
Health insurance for the aged <sup>1</sup> .....	7,149.2	4,527.0	1,776.0	-----	118.0	-----	-----	295.0	-----	67.5	365.7
Temporary disability insurance (medical benefits) <sup>2</sup> .....	60.0	44.0	14.3	-----	.7	.5	.5	-----	-----	-----	-----
Workmen's compensation (medical benefits) <sup>2</sup> .....	970.0	339.5	582.6	-----	29.1	19.4	19.4	-----	-----	-----	-----
Public assistance (vendor medical payments).....	5,042.4	1,936.3	615.2	206.7	35.3	398.4	-----	1,432.1	-----	418.5	-----
General hospital and medical care.....	3,132.1	3,104.6	5.2	.9	1.3	1.3	-----	-----	-----	18.8	-----
Defense Department hospital and medical care (including military dependents).....	1,900.2	961.3	98.8	-----	-----	-----	-----	-----	-----	840.1	-----
Maternal and child health services.....	428.6	64.6	39.7	9.9	31.8	9.5	12.4	-----	-----	260.7	-----
School health.....	263.0	-----	-----	-----	-----	-----	-----	-----	-----	263.0	-----
Other public health activities.....	1,429.0	-----	-----	-----	-----	-----	-----	-----	1,429.0	-----	-----
Veterans' hospital and medical care.....	1,599.2	1,297.5	12.0	16.0	-----	2.8	12.2	48.4	-----	192.9	17.4
Medical vocational rehabilitation.....	152.0	58.4	78.3	-----	-----	-----	15.2	-----	-----	-----	-----
Office of Economic Opportunity.....	148.9	-----	73.0	7.4	31.3	11.9	-----	-----	-----	25.3	-----
<b>Federal</b> .....	14,502.5	8,029.1	2,363.6	134.2	193.7	222.3	31.8	1,057.7	626.6	1,460.4	383.1
Health insurance for the aged <sup>1</sup> .....	7,149.2	4,527.0	1,776.0	-----	118.0	-----	-----	295.0	-----	67.5	365.7
Workmen's compensation (medical benefits) <sup>2</sup> .....	19.0	12.4	4.8	-----	1.1	.4	.4	-----	-----	-----	-----
Public assistance (vendor medical payments).....	2,515.0	965.8	306.8	103.1	17.6	198.7	-----	714.3	-----	208.7	-----
General hospital and medical care.....	216.4	188.9	5.2	.9	1.3	1.3	-----	-----	-----	18.8	-----
Defense Department hospital and medical care (including military dependents).....	1,900.2	961.3	98.8	-----	-----	-----	-----	-----	-----	840.1	-----
Maternal and child health services.....	214.0	32.4	28.3	6.8	24.4	7.2	7.8	-----	-----	107.1	-----
Other public health activities.....	626.6	-----	-----	-----	-----	-----	-----	-----	626.6	-----	-----
Veterans' hospital and medical care.....	1,599.2	1,297.5	12.0	16.0	-----	2.8	12.2	48.4	-----	192.9	17.4
Medical vocational rehabilitation.....	114.0	43.8	58.7	-----	-----	-----	11.4	-----	-----	-----	-----
Office of Economic Opportunity.....	148.9	-----	73.0	7.4	31.3	11.9	-----	-----	-----	25.3	-----
<b>State and local</b> .....	7,772.1	4,304.1	911.4	106.7	53.8	221.5	27.9	717.8	802.4	626.4	-----
Temporary disability insurance (medical benefits) <sup>2</sup> .....	60.0	44.0	14.3	-----	.7	.5	.5	-----	-----	-----	-----
Workmen's compensation (medical benefits).....	951.0	327.1	557.8	-----	28.0	19.0	19.0	-----	-----	-----	-----
Public assistance (vendor medical payments).....	2,527.4	970.5	308.3	103.6	17.7	199.7	-----	717.8	-----	209.8	-----
General hospital and medical care.....	2,915.7	2,915.7	-----	-----	-----	-----	-----	-----	-----	-----	-----
Maternal and child health services.....	214.6	32.2	11.4	3.1	7.4	2.3	4.6	-----	-----	153.6	-----
School health.....	263.0	-----	-----	-----	-----	-----	-----	-----	-----	263.0	-----
Other public health activities.....	802.4	-----	-----	-----	-----	-----	-----	-----	802.4	-----	-----
Medical vocational rehabilitation.....	38.0	14.6	19.6	-----	-----	-----	3.8	-----	-----	-----	-----

See footnotes at end of table.

1970, hospital expenditures accounted for nearly all expenditures under general hospital and medical care, 63 percent of expenditures under Medicare, and 81 percent of those under the Veterans Administration programs. Hospital care expenditures represented only 15 percent of outlays for maternal and child health, however.

For physicians' services, the second largest public outlay for health, the distribution also varies among the programs. Workmen's compensation devoted 58 percent of its health outlay to physicians' services. Medicare spent 25 percent for these services and the Veterans Administration less than 1 percent. It should be noted that part of the expenditures for this purpose by the Veterans Administration, as well as those of the Department of Defense, are included with hospital care expenditures (see Definitions, page 13).

Eyeglasses and appliances represented 10 percent of vocational rehabilitation outlays. Expenditures for these items did not even appear as an identifiable category in expenditures under public assistance.

### TRENDS IN HEALTH EXPENDITURES

Data on a fiscal-year basis are available by type of service for the 4-year period 1966-70. From fiscal year 1966—the year before Medicare operations began—to fiscal year 1970, health expenditures rose \$25 billion or 59 percent (table 4). On an annual basis, the increase averaged 12.3 percent. The annual rate of increase varied considerably among the various categories of expenditures for this 4-year period, as shown below:



Type of expenditure	Annual rate of increase
Total.....	12.3
Hospital care.....	16.0
Physicians' services.....	9.9
Dentists' services.....	9.7
Other professional services.....	5.9
Drugs and drug sundries.....	7.6
Eyeglasses and appliances.....	8.3
Nursing-home care.....	19.2
Expenses for prepayment and administration.....	9.4
Government public health activities.....	18.2
Other health services.....	11.3
Research.....	5.2
Construction.....	15.9

The recent sizable rise in national health expenditures 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,

new drugs, and improved treatment procedures.

By examining expenditures in terms of per capita amounts, one can eliminate population growth as a factor (table 4). With this factor eliminated, health expenditures still show a substantial increase from fiscal year 1966 to fiscal year 1970. During this period, per capita expenditures rose from \$213 to \$324, averaging an increase of 11.1 percent each year.

By eliminating price as well as population growth, one can determine the increase in expenditures that results from more utilization and a higher level of care. When per capita expenditures are converted to constant fiscal year 1970 dollars by means of the medical care component of the BLS consumer price index, health expenditures still maintain considerable growth: per capita constant dollars increased 18.8 percent—an average annual rate of 4.4 percent.

TABLE 3.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, fiscal years, 1966-67 through 1969-70—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	Other health services	Administration
Total.....	\$20,231.4	\$11,325.5	\$2,879.0	\$233.7	\$199.4	\$350.3	\$52.5	\$1,725.9	\$1,194.7	\$1,957.5	\$313.1
Health insurance for the aged <sup>1</sup> .....	6,597.7	4,233.0	1,561.0	.....	80.0	.....	.....	367.0	.....	57.9	298.8
Temporary disability insurance (medical benefits) <sup>2</sup> .....	57.7	42.7	13.4	.....	.7	.5	.5	.....	.....	.....	.....
Workmen's compensation (medical benefits) <sup>2</sup> .....	875.0	306.2	507.5	.....	26.2	17.5	17.5	.....	.....	.....	.....
Public assistance (vendor medical payments).....	4,423.2	1,663.1	530.8	212.3	35.4	309.6	.....	1,318.1	.....	353.9	.....
General hospital and medical care.....	3,009.6	2,985.1	4.6	.7	1.2	1.2	.....	.....	.....	16.9	.....
Defense Department hospital and medical care (including military dependents).....	1,749.5	823.2	85.4	.....	.....	.....	.....	.....	.....	840.9	.....
Maternal and child health services.....	408.6	62.3	37.1	9.4	29.4	8.8	11.6	.....	.....	250.0	.....
School health.....	231.0	.....	.....	.....	.....	.....	.....	.....	.....	231.0	.....
Other public health activities.....	1,194.7	.....	.....	.....	.....	.....	.....	.....	1,194.7	.....	.....
Veterans' hospital and medical care.....	1,433.9	1,162.0	13.3	5.0	.....	2.6	10.4	40.8	.....	185.5	14.3
Medical vocational rehabilitation.....	124.6	47.9	64.2	.....	.....	.....	12.5	.....	.....	.....	.....
Office of Economic Opportunity.....	126.0	.....	61.7	6.3	26.5	10.1	.....	.....	.....	21.4	.....
Federal.....	13,132.7	7,293.2	2,068.8	124.2	148.3	175.2	27.0	1,065.8	524.7	1,392.6	313.1
Health insurance for the aged <sup>1</sup> .....	6,597.7	4,233.0	1,561.0	.....	80.0	.....	.....	367.0	.....	57.9	298.8
Workmen's compensation (medical benefits) <sup>2</sup> .....	16.7	10.9	4.2	.....	1.0	.3	.3	.....	.....	.....	.....
Public assistance (vendor medical payments).....	2,208.0	830.2	265.0	106.0	17.7	154.0	.....	658.0	.....	176.6	.....
General hospital and medical care.....	193.2	168.7	4.6	.7	1.2	1.2	.....	.....	.....	16.9	.....
Defense Department hospital and medical care (including military dependents).....	1,749.5	823.2	85.4	.....	.....	.....	.....	.....	.....	840.9	.....
Maternal and child health services.....	189.6	29.3	25.5	6.2	21.9	6.4	6.9	.....	.....	93.4	.....
Other public health activities.....	524.7	.....	.....	.....	.....	.....	.....	.....	524.7	.....	.....
Veterans' hospital and medical care.....	1,433.9	1,162.0	13.3	5.0	.....	2.6	10.4	40.8	.....	185.5	14.3
Medical vocational rehabilitation.....	93.4	35.9	48.1	.....	.....	.....	9.4	.....	.....	.....	.....
Office of Economic Opportunity.....	126.0	.....	61.7	6.3	26.5	10.1	.....	.....	.....	21.4	.....
State and local.....	7,098.7	4,032.3	810.1	109.5	51.1	175.2	25.5	660.1	670.0	564.8	.....
Temporary disability insurance (medical benefits) <sup>2</sup> .....	57.7	42.7	13.4	.....	.7	.5	.5	.....	.....	.....	.....
Workmen's compensation (medical benefits) <sup>2</sup> .....	858.3	295.3	503.3	.....	25.2	17.2	17.2	.....	.....	.....	.....
Public assistance (vendor medical payments).....	2,215.2	832.9	265.8	106.3	17.7	155.1	.....	660.1	.....	177.2	.....
General hospital and medical care.....	2,816.4	2,816.4	.....	.....	.....	.....	.....	.....	.....	.....	.....
Maternal and child health services.....	219.0	33.0	11.6	3.2	7.5	2.4	4.7	.....	.....	156.6	.....
School health.....	231.0	.....	.....	.....	.....	.....	.....	.....	.....	231.0	.....
Other public health activities.....	670.0	.....	.....	.....	.....	.....	.....	670.0	.....	.....	.....
Medical vocational rehabilitation.....	31.1	12.0	16.0	.....	.....	.....	3.1	.....	.....	.....	.....

See footnotes at end of table.

The above discussion indicates the effect of various factors on health expenditures but does not show the proportion of the increase each of the factors produce. Calculating these proportions is most meaningful in terms of the aggregate increases in fiscal years 1966 through 1970 for specific categories of expenditures for which measures of price change are available. The three major categories of expenditures (hospital care, physicians' services, and dental services) were examined separately and appropriate measures of price increases applied to each category. The results indicate that price change was responsible for most of the rise in expenditures for each of the three categories but was greatest for hospital care. For this category, more than three-fourths of the \$11.5 billion increase in expenditures was the direct result of rising prices. Price rises

caused almost seven-tenths of the 4-year increase in expenditures for physicians' services and nearly three-fifths of the growth in outlays for dental services. Population growth played a small role in rising expenditures of all the categories. Increasing use and improvement played their largest role in the area of dental care.

The following tabulation compares the relative contribution of price, population, and all other factors (per capita use and improvement in quality) in the increase in selected expenditures for fiscal years 1966-70.<sup>4</sup>

<sup>4</sup> For a description of the methodology, see Herbert E. Klarman, Dorothy P. Rice, Barbara S. Cooper, and H. Louis Stettler, *Sources of Increase in Expenditures for Selected Health Services, 1929-69* (Staff Paper No. 4), Office of Research and Statistics, Social Security Administration, April 1970.

TABLE 3.—Expenditures for health services and supplies under public programs, by program, type of expenditure, and source of funds, fiscal years, 1966-67 through 1969-70—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	1967-68											
												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	
Total.....	\$17,468.5	\$9,912.6	\$2,327.6	\$203.4	\$136.9	\$270.1	\$43.8	\$1,465.7	\$1,000.6	\$1,873.1	\$234.8												
Health insurance for the aged <sup>1</sup> .....	5,347.2	3,375.0	1,311.0	.....	58.0	.....	.....	344.0	.....	37.9	221.3												
Temporary disability insurance (medical benefits) <sup>2</sup> .....	54.6	40.6	12.5	.....	.7	.4	.4	.....	.....	.....	.....												
Workmen's compensation (medical benefits) <sup>2</sup> .....	790.0	276.5	458.2	.....	23.7	15.8	15.8	.....	.....	.....	.....												
Public assistance (vendor medical payments).....	3,580.8	1,425.2	393.9	193.4	32.2	243.5	.....	1,088.6	.....	204.1	.....												
General hospital and medical care.....	2,927.7	2,904.0	4.1	.7	.7	.7	.....	.....	.....	17.6	.....												
Defense Department hospital and medical care (including military dependents).....	1,648.3	698.5	58.2	.....	.....	.....	.....	.....	.....	891.6	.....												
Maternal and child health services.....	336.8	48.5	28.0	7.1	21.6	6.9	8.6	.....	.....	214.1	2.0												
School health.....	204.6	.....	.....	.....	.....	.....	.....	.....	.....	204.6	.....												
Other public health activities.....	1,000.6	.....	.....	.....	.....	.....	.....	.....	1,000.6	.....	.....												
Veterans' hospital and medical care.....	1,372.3	1,105.1	9.1	2.2	.....	2.8	8.8	33.1	.....	199.7	11.5												
Medical vocational rehabilitation.....	102.0	39.2	52.6	.....	.....	.....	10.2	.....	.....	.....	.....												
Office of Economic Opportunity.....	103.5	.....	.....	.....	.....	.....	.....	.....	.....	103.5	.....												
Federal.....	11,097.1	6,106.0	1,639.7	102.8	92.1	128.8	22.3	912.1	426.8	1,431.6	234.8												
Health insurance for the aged <sup>1</sup> .....	5,347.2	3,375.0	1,311.0	.....	58.0	.....	.....	344.0	.....	37.9	221.3												
Workmen's compensation (medical benefits) <sup>2</sup> .....	15.3	9.9	3.8	.....	.9	.3	.3	.....	.....	.....	.....												
Public assistance (vendor medical payments).....	1,760.0	700.5	193.6	95.0	15.8	119.7	.....	535.0	.....	100.3	.....												
General hospital and medical care.....	186.6	162.9	4.1	.7	.7	.7	.....	.....	.....	17.6	.....												
Defense Department hospital and medical care (including military dependents).....	1,648.3	698.5	58.2	.....	.....	.....	.....	.....	.....	891.6	.....												
Maternal and child health services.....	160.6	24.7	20.5	4.9	16.7	5.3	5.5	.....	.....	81.0	2.0												
Other public health activities.....	426.8	.....	.....	.....	.....	.....	.....	.....	426.8	.....	.....												
Veterans' hospital and medical care.....	1,372.3	1,105.1	9.1	2.2	.....	2.8	8.8	33.1	.....	199.7	11.5												
Medical vocational rehabilitation.....	76.5	29.4	39.4	.....	.....	.....	7.7	.....	.....	.....	.....												
Office of Economic Opportunity.....	103.5	.....	.....	.....	.....	.....	.....	.....	.....	103.5	.....												
State and local.....	6,371.3	3,806.6	687.8	100.6	44.8	141.4	21.6	553.5	573.8	441.3	.....												
Temporary disability insurance (medical benefits) <sup>2</sup> .....	54.6	40.6	12.5	.....	.7	.4	.4	.....	.....	.....	.....												
Workmen's compensation (medical benefits).....	774.7	266.6	454.4	.....	22.8	15.5	15.5	.....	.....	.....	.....												
Public assistance (vendor medical payments).....	1,820.8	724.7	200.3	98.3	16.4	123.8	.....	553.5	.....	103.8	.....												
General hospital and medical care.....	2,741.1	2,741.1	7.5	2.3	4.9	1.7	3.1	.....	.....	.....	.....												
Maternal and child health services.....	176.2	23.8	7.5	2.3	4.9	1.7	3.1	.....	.....	132.9	204.6												
School health.....	204.6	.....	.....	.....	.....	.....	.....	.....	.....	204.6	.....												
Other public health activities.....	573.8	.....	.....	.....	.....	.....	.....	.....	573.8	.....	.....												
Medical vocational rehabilitation.....	25.5	9.8	13.1	.....	.....	.....	2.6	.....	.....	.....	.....												

<sup>1</sup> Includes premium payments for supplementary medical insurance by or in behalf of enrollees.

<sup>2</sup> Includes medical benefits paid under public law by private insurance carriers and self-insurers.

Factor	Hospital care	Physicians' services	Dental services
Aggregate increase (in billions)			
Total.....	\$11.5	\$4.1	\$1.3
Price.....	8.8	2.8	.8
Population.....	.8	.5	.1
All other.....	1.9	.8	.4
Percentage distribution			
Total.....	100.0	100.0	100.0
Price.....	76.3	69.1	58.9
Population.....	7.0	11.3	11.6
All other.....	16.7	19.6	29.5

## DIRECT PAYMENTS

Direct payments include personal health care outlays not covered by third-party payors—private health insurance, Government, philanthropy, and industry—through maintenance of in-plant health facilities. The consumer makes these payments directly out of pocket. Personal health care expenditures, as defined here, represent all expenditures for health services and supplies except expenses for prepayment and administration, government public health activities, and amounts spent by private voluntary agencies for fund-raising and general health services.

In aggregate terms, direct payments have been increasing annually. In relative terms, however, a different picture emerges. The portion of the personal health care bill the consumer must pay directly has dropped substantially in the past 19

years—from 67.7 percent in fiscal year 1950 to 38.9 percent in fiscal year 1969. Because of the deceleration in public spending in 1970, this proportion increased slightly to 39.5 percent of total personal health care expenditures (table 5 and chart 4).

In fiscal year 1970, \$22.9 billion out of the \$58.0 billion that was spent for personal health care represented direct payments. Third parties paid the remaining \$35.1 billion, or 60.5 percent: Private health insurance, with outlays of \$13.8 billion, covered 23.8 percent, philanthropy and industry covered 1.5 percent, and government financed 35.3 percent.

## DEFINITIONS, METHODOLOGY, AND SOURCES OF DATA

The national health expenditures estimates for fiscal and for calendar years are prepared together. The social welfare series presented in the December issues of the BULLETIN report data for fiscal years on health expenditures in the public sector by government program and those in the private sector by major category of expenditure (direct payments, insurance benefits, etc.). The national health expenditures shown here are reported by type of expenditure (hospital care, physicians' and dentists' services, etc.) and by source of funds.<sup>5</sup>

<sup>5</sup> Similar data on a calendar-year basis are shown in Research and Statistics Note No. 25, *op. cit.*

TABLE 4.—Aggregate and per capita national health expenditures, by type of expenditure, fiscal years 1965–66 through 1969–70

Type of expenditure	Amount (in millions)					Per capita <sup>1</sup>				
	1965–66	1966–67	1967–68	1968–69	1969–70	1965–66	1966–67	1967–68	1968–69	1969–70
Total.....	\$42,286	\$47,903	\$53,652	\$59,905	\$67,240	\$212.74	\$238.23	\$263.97	\$291.78	\$324.32
Health services and supplies.....	38,839	44,367	49,688	55,615	61,923	195.40	220.65	244.46	270.87	298.67
Hospital care.....	14,157	16,814	19,259	22,300	25,625	71.22	83.62	94.75	108.62	123.60
Physicians' services.....	8,865	9,738	10,734	11,804	12,930	44.60	48.43	52.81	57.49	62.37
Dentists' services.....	2,866	3,158	3,498	3,815	4,147	14.42	15.71	17.21	18.58	20.00
Other professional services.....	1,140	1,139	1,210	1,329	1,434	5.74	5.66	5.95	6.47	6.92
Drugs and drug sundries.....	5,032	5,480	5,864	6,338	6,741	25.32	27.25	28.55	30.87	32.51
Eyeglasses and appliances.....	1,309	1,514	1,665	1,735	1,802	6.59	7.53	8.19	8.45	8.69
Nursing-home care.....	1,407	1,692	2,070	2,461	2,844	7.08	8.41	10.18	11.99	13.72
Expenses for prepayment and administration.....	1,433	1,728	1,793	1,894	2,050	7.21	8.59	8.82	9.22	9.89
Government public health activities.....	731	884	1,001	1,195	1,429	3.68	4.40	4.92	5.82	6.89
Other health services.....	1,901	2,220	2,594	2,744	2,921	9.56	11.04	12.76	13.37	14.09
Research and medical-facilities construction.....	3,448	3,536	3,964	4,292	5,319	17.35	17.59	19.50	20.90	25.66
Research.....	1,545	1,606	1,800	1,792	1,890	7.77	7.99	8.86	8.73	9.12
Construction.....	1,903	1,930	2,164	2,500	3,429	9.57	9.60	10.65	12.18	16.54
Publicly owned facilities.....	508	534	709	708	872	2.56	2.66	3.49	3.45	4.21
Privately owned facilities.....	1,395	1,396	1,455	1,792	2,557	7.02	6.94	7.16	8.73	12.33
Total expenditures in 1970 prices <sup>2</sup> .....	54,261	57,752	60,734	63,739	67,240	272.98	287.21	298.81	310.45	324.32

<sup>1</sup> Based on January 1 data from the Bureau of the Census for total U.S. population (including Armed Forces and Federal civilian employees over-

seas and the civilian population of outlying areas), in thousands: 198,769 in 1966, 201,078 in 1967, 203,252 in 1968, 205,312 in 1969, and 207,326 in 1970.

<sup>2</sup> Based on the medical care component of the BLS Consumer Price Index.

A growing category of health expenditures—medical training and education—is not included in the above estimates of total health expenditures. Work is now in progress to develop a methodology for estimating the public and private health portions of the education expenditures. A compilation of Federal expenditures for medical training and education, made by the Bureau of the Budget, is shown below. This summary includes some amounts now included under health expenditures—mainly the sums reported by the Department of Defense and the Veterans Administration.

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>6</sup>

(In millions)

Agency	Fiscal year		
	1968	1969	1970
Total Federal expenditures for medical training and education .....	\$686.6	\$805.5	\$951.0
Department of Health, Education, and Welfare .....	464.1	560.3	679.4
Department of Defense .....	108.2	119.9	130.5
Veterans Administration .....	63.0	77.5	92.2
Department of State .....	4.9	2.8	3.0
Atomic Energy Commission .....	.7	.7	.6
Department of Labor .....	29.3	28.1	28.1
Other agencies .....	16.4	16.1	17.2

Source: Special Analyses, *Budget of the United States, Fiscal Year 1970*, page 171, and *Budget of the United States, Fiscal Year 1971*, pages 169-170.

Data for several health programs—including those of the Department of Defense and the Public Health Service—are taken from the Bureau of the Budget special analysis of Federal health programs.<sup>7</sup>

In the private sector, the data are estimated first on a calendar-year basis by type of expenditure and then converted to fiscal year on the basis of price and utilization change during 6-month periods. The general method is to estimate the total outlays for each type of medical service or expenditure and to deduct the amounts paid to

<sup>6</sup> For a complete description of these public programs, see 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.

<sup>7</sup> See "Special Analysis L, Federal Health Programs," Special Analyses, *Budget of the United States, Fiscal Year 1971*.

public and private hospitals, physicians in private practice, etc., under the public programs reported in the social welfare expenditure series. The fiscal-year figures for each public program are 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 philanthropic and government expenditures from the total expenditures for each type of service.

## Hospital Care

The estimates of expenditures for hospital care are based on the data on hospital finances published by the American Hospital Association, and increased slightly to allow for nonreporting and for 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 costs 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 physicians' 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 these 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 and partnerships. The total also

includes the estimated gross income of offices that are organized as corporations, 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 facili-

TABLE 5.—Distribution of personal health care expenditures, by source of funds, selected years, fiscal 1928–29 through 1968–70<sup>1</sup>

Fiscal year	Total	Source of funds						
		Private			Public			
		Total	Direct payments	Insurance benefits	Other	Total	Federal	State and local
Amount (in millions)								
1928-29.....	\$3,272.2	\$2,990.0	<sup>2</sup> \$2,900.0	-----	\$90.0	\$282.2	\$84.8	\$197.4
1934-35.....	2,585.0	2,203.5	<sup>2</sup> 2,135.5	-----	70.0	381.5	88.7	292.8
1939-40.....	3,501.7	2,979.0	<sup>2</sup> 2,900.0	-----	79.0	522.7	133.3	389.4
1944-45.....	7,505.6	5,220.0	<sup>2</sup> 4,875.0	-----	345.0	2,285.6	1,802.6	483.0
1949-50.....	10,549.4	8,447.0	7,146.0	\$879.0	422.0	2,102.4	978.8	1,123.6
1954-55.....	15,865.0	12,396.0	9,448.0	2,344.0	604.0	3,469.0	1,582.9	1,886.1
1959-60.....	23,236.2	18,306.5	13,087.0	4,697.5	522.0	4,929.7	2,102.1	2,827.6
1960-61.....	24,551.8	19,101.0	13,068.0	5,480.5	552.5	5,460.8	2,280.1	3,170.7
1961-62.....	26,132.5	20,392.0	13,638.5	6,154.5	599.0	5,740.5	2,530.5	3,210.0
1962-63.....	28,081.8	21,916.0	14,630.0	6,661.5	624.5	6,165.8	2,694.8	3,471.0
1963-64.....	30,777.0	24,089.5	16,027.0	7,405.5	657.0	6,637.5	2,837.4	3,801.1
1964-65.....	33,505.4	26,551.0	17,590.5	8,280.5	680.0	6,954.4	2,836.0	4,118.4
1965-66.....	36,397.7	28,511.5	18,856.0	8,935.0	720.5	7,886.2	3,353.4	4,532.8
1966-67.....	41,456.9	29,000.0	18,904.0	9,343.0	753.0	12,456.9	7,466.4	4,990.5
1967-68.....	46,552.0	30,319.0	19,100.0	10,444.0	775.0	16,233.0	10,435.5	5,797.5
1968-69.....	52,148.7	33,425.0	20,278.0	12,333.0	814.0	18,723.7	12,294.9	6,428.8
1969-70.....	58,048.5	37,586.0	22,909.0	13,813.0	864.0	20,462.5	13,492.8	6,969.7
Percentage distribution								
1928-29.....	100.0	91.4	88.6	-----	2.8	8.6	2.6	6.0
1934-35.....	100.0	85.2	82.5	-----	2.7	14.8	3.4	11.3
1939-40.....	100.0	85.1	82.8	-----	2.3	14.9	3.8	11.1
1944-45.....	100.0	69.5	65.0	-----	4.6	30.5	24.0	6.4
1949-50.....	100.0	80.1	67.7	8.3	4.0	19.9	9.3	10.7
1954-55.....	100.0	78.1	59.6	14.8	3.8	21.9	10.0	11.9
1959-60.....	100.0	78.8	56.3	20.2	2.2	21.2	9.0	12.2
1960-61.....	100.0	77.8	53.2	22.3	2.3	22.2	9.3	12.9
1961-62.....	100.0	78.0	52.2	23.6	2.3	22.0	9.7	12.3
1962-63.....	100.0	78.0	52.1	23.7	2.2	22.0	9.6	12.4
1963-64.....	100.0	78.3	52.1	24.1	2.1	21.7	9.2	12.5
1964-65.....	100.0	79.2	52.5	24.7	2.0	20.8	8.5	12.3
1965-66.....	100.0	78.3	61.8	24.5	2.0	21.7	9.2	12.5
1966-67.....	100.0	70.0	45.6	22.5	1.8	30.0	18.0	12.0
1967-68.....	100.0	65.1	41.0	22.4	1.7	34.9	22.4	12.5
1968-69.....	100.0	64.1	38.9	23.6	1.6	35.9	23.6	12.3
1969-70.....	100.0	64.7	39.5	23.8	1.5	35.3	23.2	12.0

<sup>1</sup> Personal health care expenditures include all expenditures for health services and supplies other than (a) expenses for prepayment and administration, (b) government public health activities, and (c) expenditures of

private voluntary agencies for other health services.

<sup>2</sup> Includes any insurance benefits and expenses for prepayment (insurance premiums less insurance benefits).

ties 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 are 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, and Appliances

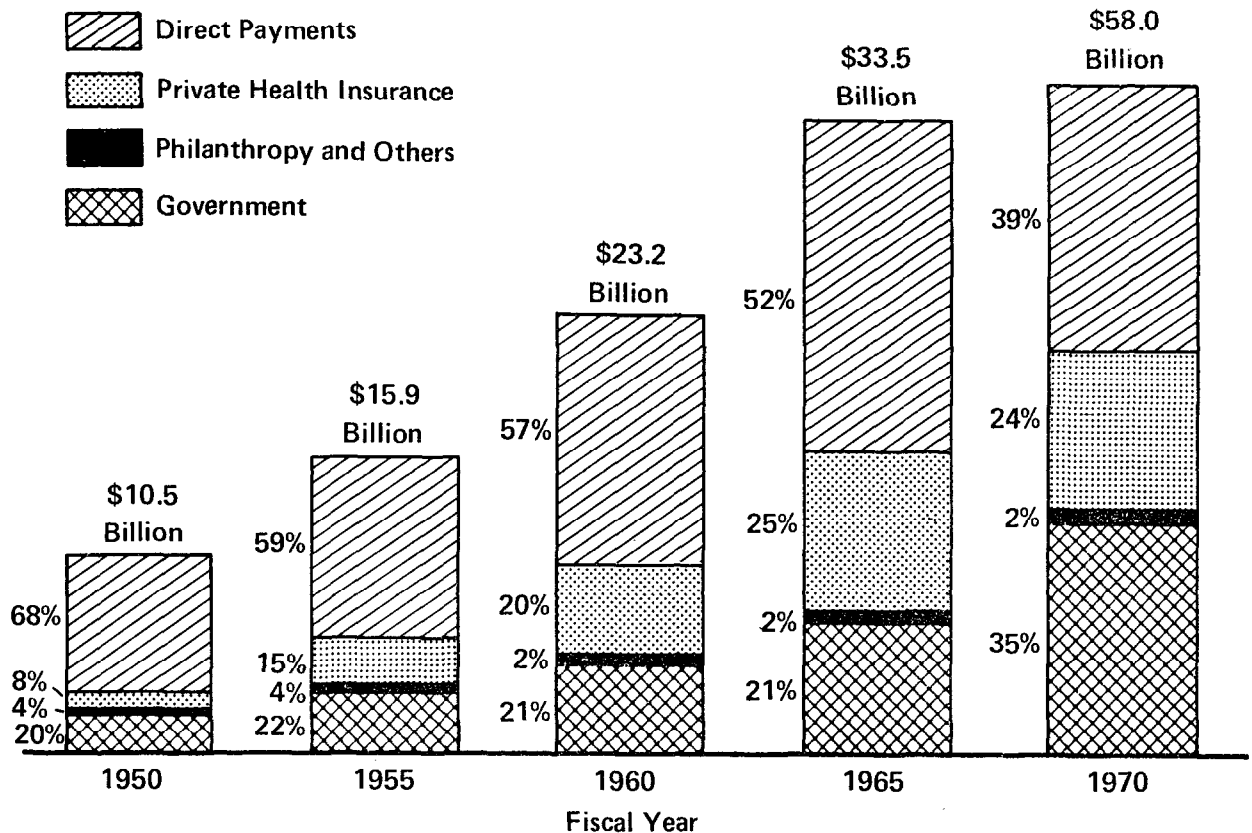
The basic source of the estimates for drugs

and drug sundries and for eyeglasses and appliances is the report of personal consumption expenditures 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

Expenditures for nursing-home care are derived by applying an estimated cost per patient day to the total days of care. Total days of care are estimated by applying an average occupancy rate,

CHART 4.—Distribution of personal health care expenditures by source of funds, selected fiscal years 1950–70



as reported by the Federal Housing Administration, to the number of nursing-home beds, as reported by the Division of Hospital and Medical Facilities of the Public Health Service in their annual report, *Hill-Burton State Plan Data*.

The cost per patient day was based on unpublished data from a current survey of nursing homes financed by the Social Security Administration.

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 by the Office of Research and Statistics annually in a BULLETIN article on private health insurance.

The administration component represents the administrative expenses (where they are reported) of federally financed health programs. Such data were available for Medicare and for 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 of the Office of Research and Statistics. The Federal portion consists of outlays for the organization and delivery of health services and prevention and control of health problems by the Health Services and Mental Health Administra-

tion, the National Institutes of Health, and the Environmental Health Service of the Public Health Service. Also included are outlays by other Federal agencies for similar health activities. 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 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).

### **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 Bureau of Occupational Safety and Health of the Environmental Health Service. This item is classified as a private expenditure in the "other" category.

School health services are readily identified as they are the only State and local expenditures 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.

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, included in the "other" private outlays,

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 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 that have been 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 are subtracted from the total. The residual represents the amount coming from private funds.