

National Health Expenditures, 1950-64

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In 1964 the Bulletin introduced a new series on total national health expenditures, with data for calendar year 1962, by object of expenditure and source of funds.¹ This article brings the series up to date and presents comparable data for selected years starting with 1950, to serve as benchmarks in analyzing trends in the amount and distribution of health expenditures. The data on private consumer expenditures for medical care and the extent to which insurance benefits meet these expenditures, formerly presented each year in the December Bulletin, are now absorbed in this new series.²

The new series, together with the data on health expenditures under public programs presented in the annual article on social welfare expenditures,³ is designed to present a comprehensive account of the Nation's expenditures for personal health services and supplies, community and public health activities, medical research and medical-facilities construction, and the source of funds involved.

NATIONAL HEALTH expenditures in 1964 totaled \$36.8 billion or 5.8 percent of the gross national product. The per capita expenditures were \$191. Almost 91 percent (\$33.4 billion) of the total was spent for currently consumed health services and supplies. The balance of \$3.3 billion was spent for medical research and the construction of hospitals and related facilities. Private funds were the source of three-fourths of the expenditures, and the balance came from public funds. Within the private sector, almost 68 percent of all national health expenditures were made by consumers, either directly or through

insurance, 4 percent came from philanthropic contributions, and 3 percent from other sources.

Expenditures for health have almost trebled and per capita expenditures more than doubled since 1950, when the Nation as a whole spent \$12.9 billion, or \$84 per person, for health care and related purposes. Expenditures for health services and supplies have risen \$21.5 billion, and expenditures for research and construction have increased \$2.3 billion.

During this period there were also important changes in the distribution of expenditures by object of expenditure. The proportion of the health dollar expended for hospitals, nursing-home care, and research increased, and the proportion spent for the services of professional personnel in private practice and for medical supplies declined.

DEFINITIONS

National expenditures for health purposes include all amounts spent from private or public sources for personal health services (hospital care, services of physicians and dentists, drugs, etc.). Expenditures for the education and training of physicians, dentists, and other health personnel, except as they are part of the costs of hospital operations (and not separable from those costs) are considered as expenditures for education and are excluded. The spending of all Federal agencies, including the Department of Defense, that is considered to be for health purposes is included. In general, all expenditures of State and local health departments are included, as are expenditures for school health services by educational departments. Expenditures of other State and local government departments for air- and water-pollution control, sanitation, water supplies, and sewage treatment are excluded. Expenditures of voluntary health agencies, and of industry for in-plant health services, are included.

Expenditures for medical research include all such spending by agencies whose primary object is the advancement of human health. Also in-

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¹ Louis S. Reed and Dorothy P. Rice, "National Health Expenditures: Object of Expenditures and Source of Funds, 1962," *Social Security Bulletin*, August 1964.

² See Louis S. Reed, "Private Consumer Expenditures for Medical Care and Voluntary Health Insurance, 1948-63," *Social Security Bulletin*, December 1964. That series now deals only with private health insurance; see Louis S. Reed, "Private Health Insurance in the United States: An Overview," *Social Security Bulletin*, December 1965.

³ See Ida C. Merriam, "Social Welfare Expenditures, 1964-65," *Social Security Bulletin*, October 1965.

cluded are those research expenditures directly related to health that are made by other agencies, such as 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.

Expenditures for medical and health-related research training activities, primarily those of the National Institutes of Health, are considered to be for educational purposes. They are therefore excluded.

Expenditures for construction include those for hospitals, nursing homes, medical clinics, and medical-research facilities but not for private office buildings providing office space for private practitioners. They do not include spending for construction of water-treatment or sewage-treatment plants or Federal grants for these purposes.

In general, the process of compilation involves first the determination of total expenditures for a given purpose and then the distribution of this amount by source. A brief summary of methods and major sources used for each type of service or activity is given in the technical note at the end of the article. The data

presented are generally consistent with those shown in the social welfare expenditures series.

EXPENDITURES IN 1964

Source of Funds Expended

In 1964, private funds were the source of \$27.2 billion, or almost three-fourths of national health expenditures; public funds accounted for the balance of \$9.5 billion. Private funds paid for 77 percent of the expenditures for health services and supplies, 12 percent of the expenditures for research, and 64 percent of those for construction. Of the total private health dollar, about 95 cents was spent for health services and 5 cents for research and construction (table 1).

There are interesting differences between the private and public sectors in the purpose of expenditures (table 1 and chart 1). Almost 29 cents of the private dollar in 1964 was spent for hospital care, and nearly 51 cents of the public dollar. For the services of professional personnel in private practice, slightly less than

TABLE 1.—National health expenditures by object of expenditure and source of funds, 1964

(In millions)

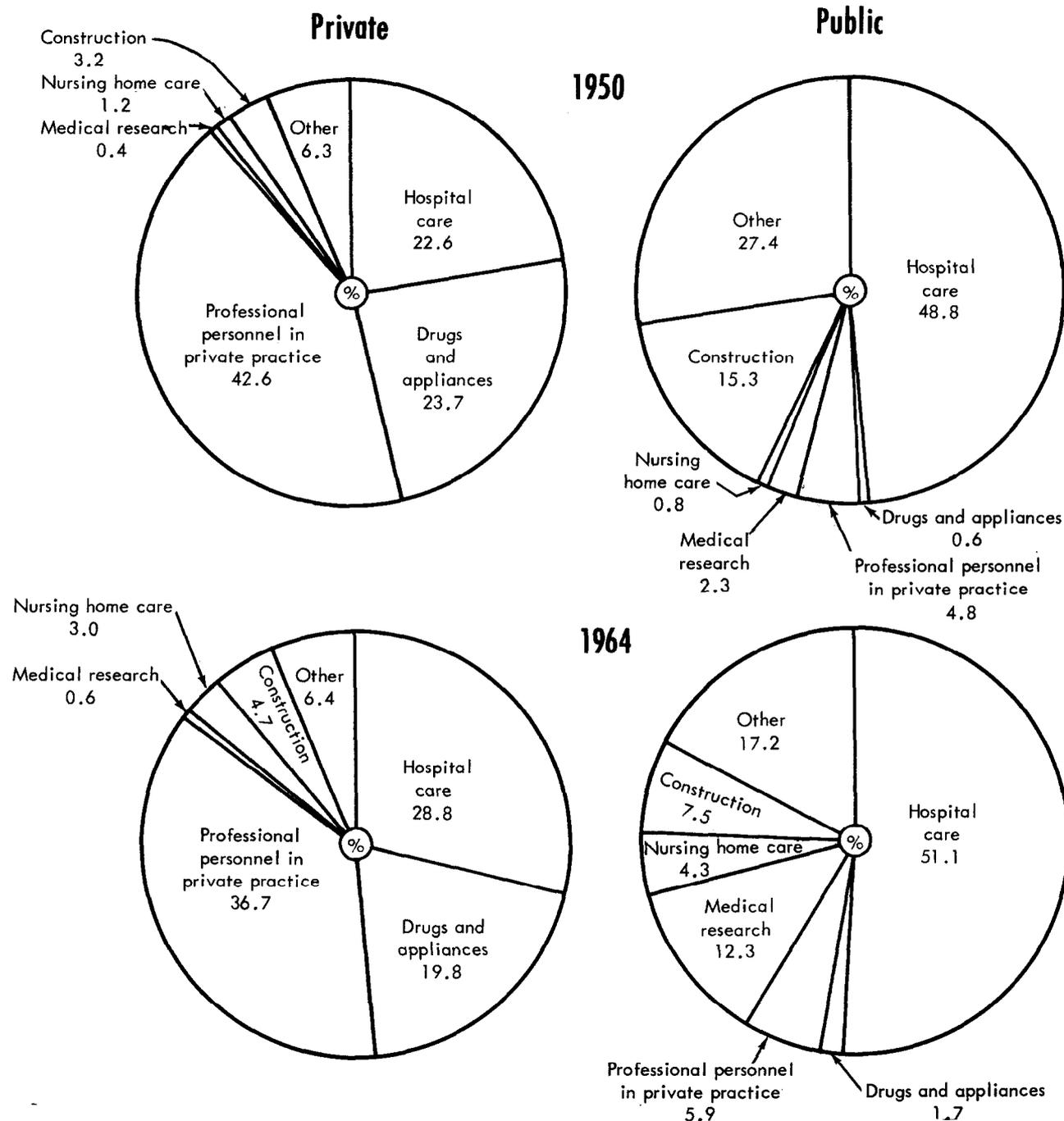
Object of expenditure	Total	Source of funds						
		Private				Public		
		Total	Consumers	Philanthropy	Other	Total	Federal	State and local
Total.....	\$36,763	\$27,232	\$24,842	\$1,421	\$969	\$9,531	\$4,756	\$4,775
Health services and supplies.....	33,431	25,784	24,842	617	325	7,647	3,279	4,368
Hospital care.....	12,713	7,842	7,552	290	.....	4,871	1,872	2,999
Federal facilities.....	1,526	15	15	.....	.....	1,511	1,492	19
State and local facilities.....	3,923	1,195	1,195	.....	.....	2,728	157	2,571
Nongovernmental facilities.....	7,264	6,632	6,342	290	.....	632	223	409
Physicians' services.....	7,293	6,735	6,775	10	.....	508	116	392
Dentists' services.....	2,368	2,341	2,341	.....	.....	27	15	12
Other professional services.....	903	873	850	23	.....	30	12	18
Drugs and drug sundries.....	4,463	4,341	4,341	.....	.....	122	60	62
Eyeglasses and appliances.....	1,082	1,043	1,043	.....	.....	39	18	21
Nursing-home care.....	1,214	808	789	19	.....	406	203	203
Net cost of insurance.....	1,151	1,151	1,151	.....	.....	.....	.....	.....
Medical activities in Federal units other than hospitals.....	707	.....	.....	.....	.....	707	707	.....
Government public health activities.....	804	.....	.....	.....	.....	804	276	528
Private voluntary health agencies.....	275	275	.....	275	.....	.....	.....	.....
School health services.....	133	.....	.....	.....	.....	133	.....	133
Industrial in-plant health services.....	325	325	.....	.....	325	.....	.....	.....
Research and medical-facilities construction.....	3,332	1,448	.....	804	644	1,884	1,477	407
Research.....	1,329	160	.....	160	.....	1,169	1,117	62
Medical-facilities construction.....	2,003	1,288	.....	644	644	715	360	355
Publicly owned.....	585	.....	.....	.....	.....	585	240	345
Privately owned.....	1,418	1,288	.....	644	644	130	120	10
Percentage distribution, by source of funds:								
Total.....	100.0	74.1	67.6	3.9	2.6	25.9	12.9	13.0
Health services.....	100.0	77.1	74.3	1.8	1.0	22.9	9.8	13.1
Research.....	100.0	12.0	.....	12.0	.....	88.0	84.0	4.0
Construction.....	100.0	64.3	.....	32.2	32.1	35.7	18.0	17.7

6 percent came from public funds, compared with almost 37 percent from private funds. Certain components of health expenditures exist only in one sector or the other. The net cost of

insurance, for example, is exclusively a consumer expenditure, and government public health activities are by definition public expenditures.

In 1964, 7.5 percent of the public funds

CHART 1.—Distribution of private and public expenditures, 1950 and 1964



¹“Other” private expenditures include those for the net cost of health insurance, private voluntary health agencies, and industrial in-plant health services. “Other”

public expenditures include those for government public health activities, medical activities in Federal units other than hospitals, and school health services.

was spent for construction, compared with 4.7 percent of the private funds. Government spent 12.2 percent of all its health funds for research; only slightly more than 1/2 of 1 percent of total private funds was directed to research.

Consumers.—Almost 68 percent of all health expenditures were made by private consumers or health insurance organizations on their behalf. In 1964 consumer expenditures reached \$24.8 billion. Consumer expenditures for personal health services (hospital care, services of physicians, dentists, drugs, etc.) were \$23.7 billion, and \$1.1 billion represented payments for insurance service (the amounts retained by health insurance organizations for operating expenses, additions to reserves, and profits). One-third of total consumer expenditures for personal health care, \$7.8 billion, was met by health insurance and the balance, \$15.9 billion, represented direct out-of-pocket payments for such care. Consumer expenditures include the contributions of employers, both public and private, for the purchase of health insurance for their employees.

Philanthropy.—Private philanthropy accounted for \$1.4 billion or 3.9 percent of total health expenditures. This source provided less than 2 percent of the payments (\$617 million) for health supplies and services but more than 32 percent (\$644 million) of expenditures for construction and 12 percent (\$160 million) of those for research.

Philanthropic expenditures in this series include payments made by united funds, community chests, and religious organizations to help support hospitals, clinics, visiting nurse organizations, etc., or to provide care for indigent and medically indigent patients. They also include income from hospital endowments, contributions and gifts to hospitals for current operations, contributions by individuals, corporations, and foundations for medical-facilities construction and research, and the expenditures of voluntary health agencies, such as the American Cancer Society. The value of the services of volunteers who contribute time and talent to hospitals and voluntary agencies and of the donated services of physicians is not included in these estimates. Nor is the care provided by hospitals for "free" or charity patients, which is made possible by charges to private patients above costs.

"Other" private sources.—The balance of the

TABLE 2.—Government expenditures for health purposes by object of expenditure and unit making outlay, 1964

(In millions)

Object of expenditure	Unit of government making outlay		
	Total	Federal	State and local
Total.....	\$9,531	\$3,825	\$5,706
Health services and supplies.....	7,647	2,439	5,208
Hospital care.....	4,871	1,559	3,312
Federal facilities.....	1,511	1,492	19
State and local facilities.....	2,728	9	2,719
Nongovernmental facilities.....	632	58	574
Physicians' services.....	508	46	462
Dentists' services.....	27	1	26
Other professional services.....	30	1	29
Drugs and drug sundries.....	122	4	118
Eyeglasses and appliances.....	39	7	32
Nursing-home care.....	406	-----	406
Medical activities in Federal units other than hospitals.....	707	707	-----
Government public health activities.....	804	114	690
School health services.....	133	-----	133
Medical research and medical-facilities construction.....	1,884	1,386	498
Research.....	1,169	1,117	52
Medical-facilities construction.....	715	269	446
Publicly owned.....	585	149	436
Privately owned.....	130	120	10

private expenditures for health purposes, amounting to almost \$1 billion, includes two items. One is the expenditures (\$0.3 billion) made by industry to maintain industrial in-plant health facilities. The other (\$0.6 billion) consists of expenditures for hospital construction, which come from the accumulated savings of hospitals out of past excess of income over expenses, funds loaned by banks or other lenders for medical-facilities construction, and funds advanced by prospective owners of nursing homes or proprietary hospitals.

Government.—Government expenditures for all health purposes totaled \$9.5 billion in 1964, almost equally divided in source between the Federal Government and State and local governments. Government funds go primarily for hospital care, nursing-home care, public health services, medical research, and hospital construction. Government was the source of more than one-third of the funds expended for hospital care, of almost nine-tenths of those for health research, and of more than one-third of all money spent for hospital and medical-facilities construction.

The distribution of government funds, shown in table 1, is based on the ultimate source of funds and shows as Federal expenditures those amounts actually paid out by State and local governments under Federal grant-in-aid programs for health purposes. These grant programs include maternal and child health services, vendor medical pay-

ments under public assistance, such public health programs as tuberculosis and venereal disease control, and hospital construction. In terms of the government unit making the actual outlay for the services, \$3.8 billion was spent by the Federal Government and \$5.7 billion by State and local governments (table 2). Slightly less than \$1 billion of the Federal funds was paid as grants-in-aid to State and local governments. The remaining Federal spending was in the form of direct payments for health services provided primarily for members of the Armed Forces and their dependents and for veterans, Indians, and seamen, and expenditures for research and construction.

Type of Service

Hospital care.—Expenditures for hospital care constitute the largest single item of national

TABLE 3.—Expenditures for hospital care by type of hospital and source of funds, 1964¹

Source of funds	[In millions]			
	All hospitals	Type of hospital		
		General	Tuber- culosis	Psychi- atric
All hospitals				
Total.....	\$12,712.9	\$10,487.0	\$177.2	\$2,048.6
Consumers.....	7,552.5	7,285.3	25.2	241.9
Government.....	4,870.4	2,911.7	152.0	1,836.7
Federal.....	1,872.1	1,523.8	11.0	337.3
State and local.....	2,998.3	1,387.9	141.0	1,469.4
Philanthropy.....	290.0	290.0	.....	.....
Federal hospitals				
Total.....	\$1,525.5	\$1,159.4	\$11.0	\$355.1
Consumers.....	15.4	15.4	.....	.....
Government.....	1,510.1	1,144.0	11.0	355.1
Federal.....	1,491.5	1,143.2	11.0	337.3
State and local.....	18.6	.8	.....	17.8
State and local government hospitals				
Total.....	\$3,922.7	\$2,182.9	\$156.7	\$1,583.0
Consumers.....	1,194.7	1,047.5	15.7	131.4
Government.....	2,728.0	1,135.4	141.0	1,451.6
Federal.....	157.3	157.3	.....	.....
State and local.....	2,570.7	978.1	141.0	1,451.6
Nongovernmental hospitals				
Total.....	\$7,261.7	\$7,144.7	\$9.5	\$110.5
Consumers.....	6,342.4	6,222.4	9.5	110.5
Government.....	632.3	632.3	.....	.....
Federal.....	223.3	223.3	.....	.....
State and local.....	409.0	409.0	.....	.....
Philanthropy.....	290.0	290.0	.....	.....

¹ Excludes expenditures from public funds for research in hospitals.

health expenditures and in 1964 accounted for almost 35 percent of the total. Of the \$12.7 billion expended for hospital care, 57 percent was for care in nongovernment hospitals of all types, 31 percent for care in State and local government hospitals, and the balance for care in Federal hospitals (table 3).

Consumer payments of \$7.6 billion accounted for 59 percent of all hospital care expenditures. Insurance benefits amounted to \$5.2 billion and met 69 percent of all consumer expenditures for hospital care and about 41 percent of the total hospital care expenditures. Government provided \$4.9 billion or 38 percent of the funds for hospital care, and philanthropy more than 2 percent. Third-party payments for hospital care therefore amounted to \$10.4 billion or 81.5 percent of all hospital care costs.

The sources of financing vary considerably with the ownership of the hospital. Federal facilities are almost totally financed by the Federal Government. These hospitals are maintained by the armed services, the Veterans Administration, and the Department of Health, Education, and Welfare. State and local government hospitals received almost 70 percent of their financing (\$2.7 billion) from government sources—Federal, State, and local. About 66 percent (\$2.6 billion) of the financing came from State and local government sources. A small amount (\$157 million) came from the Federal Government. Consumer payments of \$1.2 billion provided the balance. Voluntary and proprietary nongovernment hospitals received \$6.3 billion or 87 percent of their income from private consumers (from patients, directly or through insurance), \$0.6 billion or 9 percent from government, and 4 percent from philanthropy.

The sources of funds also vary widely with the type of hospital—general, psychiatric, or tuberculosis. Consumers met, directly or through insurance, \$7.3 billion or 69 percent of the expenses of general hospitals, government paid \$2.9 billion or 28 percent, and the balance came from philanthropic sources. In contrast, government funds paid most of the cost of care in psychiatric hospitals (88 percent) and in tuberculosis hospitals (86 percent). State and local governments met 80 percent of the cost of maintaining tuberculosis hospitals and 72 percent of expenses in psychiatric hospitals.

The amount spent by government for general hospital care included vendor payments for care of patients under various public medical care programs; maintenance expenses of Federal, State, and local government hospitals; and small amounts of maintenance grants to voluntary hospitals. The government programs under which vendor payments are made to hospitals and other suppliers of service and the amounts of such payments are shown in table 4.

Physicians' services.—Expenditures for the services of physicians in private practice (including osteopathic physicians), the next largest component of health expenditures, amounted to \$7.3 billion in 1964. Consumers directly or through insurance were the source of almost 93 percent (\$6.8 billion) of the expenditures for these services. Health insurance payments met about 38 percent of the amount spent by consumers for physicians' services.

The estimates of insurance benefits paid for physicians' services are somewhat high since these amounts include small payments (about \$200

million) for special nursing, drugs, applicances, and other items of care. The balance of the expenditures for physicians' services consisted mainly of government expenditures (\$0.5 billion), including payments by welfare agencies for care of public assistance recipients, workmen's compensation payments for care of injured workers, and small amounts from other public programs. Payments from philanthropic agencies, primarily for care of the medically indigent, amounted to \$10 million.

Dentists' services.—Expenditures for the services of dentists in private practice totaled \$2.4 billion in 1964, less than one-third the amount spent for the services of physicians. The Nation as a whole spent only slightly more than 6 percent of its health dollar for dental care. Almost all the expenditures for the services of dentists were consumer payments (\$2.3 billion); government funds paid for small amounts of care, mainly for public assistance recipients. Dental care insurance—through insurance companies, dental service corporations sponsored by dental

TABLE 4.—Government payments for health services under specified government programs, by source of funds, 1964

[In millions]

Program	Total	Hospital care	Physicians' services ¹	Dentists' services ¹	Other professional services	Drugs	Eye-glasses and appliances	Nursing-home care	Public health services
Total government payments									
Total.....	\$2,184.3	\$901.6	\$508.3	\$26.7	\$28.3	\$121.5	\$39.3	\$390.0	\$168.6
Temporary disability insurance.....	29.9	29.9							
Indian health.....	10.9	7.5	2.3	.4	.4		.3		
Maternal and child health ¹	221.3	38.4	9.4				4.9		168.6
Medical vocational rehabilitation.....	35.5	16.2	14.3				5.0		
Military dependents' medical care.....	76.9	45.2	31.7						
Public assistance vendor medical care.....	1,225.0	562.1	106.6	25.6	22.3	107.1	11.3	390.0	
Workmen's compensation medical benefits.....	557.5	195.1	334.5		5.6	11.1	11.2		
Veterans hometown medical care.....	27.3	7.2	9.5	.7		3.3	6.6		
Federal									
Total.....	\$848.7	\$380.7	\$116.5	\$14.4	\$12.3	\$59.3	\$18.3	\$222.8	\$44.4
Indian health.....	10.9	7.5	2.3	.4	.4		.3		
Maternal and child health ¹	63.9	11.5	6.0				2.0		44.4
Medical vocational rehabilitation.....	22.0	10.0	8.9				3.1		
Military dependents' medical care.....	76.9	45.2	31.7						
Public assistance vendor medical care.....	637.0	292.3	55.4	13.3	11.6	55.7	5.9	222.8	
Workmen's compensation medical benefits.....	10.7	7.0	2.7		.3	.3	.4		
Veterans hometown medical care.....	27.3	7.2	9.5	.7		3.3	6.6		
State and local									
Total.....	\$1,335.6	\$520.9	\$391.8	\$12.3	\$16.0	\$62.2	\$21.0	\$187.2	\$124.2
Temporary disability insurance.....	29.9	29.9							
Maternal and child health ¹	157.4	26.9	3.4				2.9		124.2
Medical vocational rehabilitation.....	13.5	6.2	5.4				1.9		
Public assistance vendor medical care.....	588.0	269.8	51.2	12.3	10.7	51.4	5.4	187.2	
Workmen's compensation medical benefits.....	546.8	188.1	331.8		5.3	10.8	10.8		

¹ Services for crippled children and maternal and child health services.

societies, and other organizations—is growing. Nevertheless such insurance probably met less than ½ of 1 percent of dental expenditures in 1964.

Other professional services.—Expenditures of \$903 million for other professional services represented a small part (2.5 percent) of the health dollar in 1964. Included in the estimates for other professional services are expenditures for the services of registered and practical nurses in private duty, podiatrists, chiropractors and naturopaths, physical therapists, clinical psychologists in private practice, and Christian Science practitioners and the total expense of private visiting nurse associations.

Drugs and drug sundries, eyeglasses, and appliances.—Total expenditures for drugs and drug sundries amounted to \$4.5 billion, with consumer payments amounting to \$4.3 billion. Approximately 85 percent of the expenditures for drugs and drug sundries was for drugs, 7 percent for feminine need products, and 8 percent for drug sundries.

Expenditures for eyeglasses (including charges for the services of optometrists) and appliances totaled an estimated \$1.1 billion. About 70 percent was for eyeglasses and accessories, 18 percent for hearing aids and batteries, and 7 percent for orthopedic appliances.

Nursing-home care.—Total estimated expenditures for nursing-home care were \$1.2 billion, of which government paid \$0.4 billion—primarily vendor payments under public assistance—and philanthropy \$19 million, leaving estimated consumer payments of a little less than \$0.8 billion. Consumer payments include amounts paid by welfare recipients from their cash payments.

Net cost of insurance.—The \$1.2 billion net cost of insurance is exclusively a consumer expenditure and represents the difference between the subscription charges or premiums of health insurance organizations (Blue Cross-Blue Shield plans, commercial insurance companies, and independent plans) and the claim or benefit expenditures. These are the retentions of the health insurance organizations for operating expenses, additions to reserves, and profits.⁴

Medical activities in Federal units other than

⁴ See Louis S. Reed, "Private Health Insurance in the United States: An Overview," *Social Security Bulletin*, December 1965.

hospitals.—Various agencies of the Federal Government maintain medical facilities, such as dispensaries and outpatient clinics separated from hospitals. In 1964 the Federal Government spent \$707 million to maintain these facilities. Included in such expenditures are the costs of maintaining military medical dispensaries, field stations, medical units on naval vessels, nonhospital outpatient facilities of the Veterans Administration, and field health units serving Indians, as well as the administrative expenses of the medical programs of the Department of Defense and Veterans Administration.

Government public health activities.—Federal, State, and local governments spent \$804 million in 1964 for public health activities. These activities include all health services provided by public health agencies other than hospital care, research, and facilities construction.

State and local governments were the source of \$528 million or almost 66 percent of public health expenditures; the Federal Government was the source of \$276 million. A substantial portion (\$162 million) of the Federal funds was in the form of grants-in-aid. In terms of the government unit actually making the outlay, State and local governments spent almost 86 percent of the funds (table 2).

Voluntary health agencies.—Philanthropic expenditures of voluntary health agencies listed under this heading were \$275 million in 1964. This total includes the amounts spent for community education, fund raising, and administration of such health agencies as the American Cancer Society, American Heart Association, National Foundation, and National Tuberculosis Association. It also includes the health expenditures of the American Red Cross. The amounts spent by these agencies for research are included under that heading, and expenditures for patient services are largely included under philanthropic contributions for hospital care, physicians' services, etc.

School health services and industrial in-plant health services.—Spending for school health services provided by public education agencies rather than public health agencies amounted to \$133 million in 1964 and came entirely from State and local funds. Expenditures for industrial in-plant health services were \$325 million in 1964.

Research.—Expenditures for medical research

amounted to \$1.3 billion. Eighty-eight percent was from government funds, and 84 percent of the total was provided by the Federal Government. The balance (\$160 million) came from foundations, voluntary health agencies, and other philanthropic sources. Expenditures for research made by pharmaceutical, medical supply, and medical electronics industries (estimated at \$415 million) are excluded here since they are considered a business expense that is reflected in the cost of the products.

Medical-facilities construction.—This item includes expenditures for construction of hospitals, nursing homes, clinics, and medical research facilities. Of the \$2.0 billion expended for construction of medical facilities, it is estimated that \$1.3 billion (64 percent) came from private sources. About \$360 million (18 percent) came from the Federal Government—mainly for construction of military and Veterans Administration hospitals and in the form of Hill-Burton grants for hospital construction. About \$355 million (18 percent) was from State and local governments, and almost all of it went for State and local government facilities; the balance consisted of grants to nonprofit projects.

Approximately 9 percent of the \$1.4 billion spent for construction of privately owned facilities in 1964 came from Hill-Burton grants and National Institutes of Health grants for medical research facilities.

The balance (\$1.3 billion or 91 percent of the

total) came from two sources—philanthropy and “other.” Philanthropic contributions include the gifts of corporations and individuals for the building of specific facilities. “Other” sources include funds accumulated by hospitals, borrowed funds, and funds advanced by prospective owners of proprietary hospitals and nursing homes. The accumulated funds of hospitals are funds that hospitals have been accumulating from a surplus of revenues over operating expenses, some of it by way of funded depreciation allowances. Borrowing, mainly through mortgage loans, appears to be an increasing source of funds for hospital construction.

There is an overlap or duplication in the estimated expenditures for hospital care and for hospital construction. In other words, part of the current receipts of hospitals for patient care is, in effect, saved by hospitals and used in subsequent years to finance expansion or renovation of plant or to pay interest on or meet debts previously incurred for hospital construction. It has not yet been determined how the overlap should be handled in these accounts. For the present the reader should bear in mind that the total estimate of national expenditures for health purposes here given is too high by several hundred million dollars.

Of the \$585 million in expenditures for the construction of publicly owned facilities, Federal funds provided 41 percent of the total or \$240 million, and the balance (\$345 million) was provided

TABLE 5.—National health expenditures by object of expenditures, selected years, 1950–64

(In millions)

Object of expenditure	1950	1955	1960	1961	1962	1963	1964
Total.....	\$12,867	\$18,036	\$26,892	\$28,811	\$31,263	\$33,703	\$36,763
Health services and supplies.....	11,910	17,099	25,155	26,770	28,916	30,951	33,431
Hospital care.....	3,845	5,929	9,044	9,869	10,598	11,642	12,713
Federal facilities.....	728	902	1,221	1,358	1,433	1,480	1,526
State and local facilities.....	1,175	1,911	2,827	3,066	3,252	3,541	3,923
Nongovernment facilities.....	1,942	3,116	4,996	5,445	5,913	6,621	7,264
Physicians' services.....	2,755	3,680	5,684	5,895	6,499	6,891	7,293
Dentists' services.....	975	1,525	1,977	2,068	2,234	2,277	2,368
Other professional services.....	395	559	830	848	867	884	903
Drugs and drug sundries.....	1,730	2,385	3,663	3,833	4,098	4,234	4,463
Eyeglasses and appliances.....	490	597	784	809	913	983	1,062
Nursing-home care.....	142	222	526	607	695	891	1,214
Net cost of insurance.....	300	614	845	978	1,067	1,074	1,151
Medical activities in Federal units other than hospitals.....	547	656	629	600	578	619	707
Government public health activities.....	401	473	565	617	689	745	804
Private voluntary health agencies.....	140	175	230	237	244	266	275
School health services.....	34	69	108	122	130	131	133
Industrial in-plant health services.....	156	215	270	287	304	314	325
Research and medical-facilities construction.....	957	937	1,737	2,041	2,347	2,752	3,332
Research.....	117	216	663	844	1,033	1,184	1,329
Construction.....	840	721	1,074	1,197	1,314	1,568	2,003
Publicly owned facilities.....	496	370	469	426	444	508	585
Privately owned facilities.....	344	351	605	771	870	1,060	1,418
Total expenditures as a percent of gross national product.....	4.5	4.5	5.3	5.5	5.6	5.7	5.8

from State and local funds. In terms of the government unit making the outlay, the Federal Government spent \$149 million or 25 percent and State and local governments, \$436 million.

HISTORICAL DATA

Estimates of national expenditures for health purposes have been developed for selected years to serve as benchmarks for analysis of changes in the distribution of these expenditures by type of service and source of funds. Substantial increases in health expenditures and marked changes in the purpose of these expenditures have occurred since 1950. National health expenditures increased from \$12.3 billion to \$36.8 billion in 1964 (table 5). Expenditures for health purposes in 1950 represented 4.5 percent of the gross national product, compared with 5.8 percent in 1964. Per capita expenditures for all health purposes increased in absolute terms from \$84.49 to \$191.32 or by 126 percent (table 6).

To determine the real increase in terms of utilization of services and the impact of scientific changes, the estimates have been adjusted to account for changes in the cost of living. When adjustments are made for the increase in living costs, it is found that per capita expenditures for health purposes have increased 75 percent since 1950, reflecting in part greater utilization of facilities and services, advances in technology, and changes in the content of services.

There were only slight changes in the distribution of source of funds for all health purposes

TABLE 6.—Per capita national health expenditures, selected years, 1950-64¹

Object of expenditure	1950	1955	1960	1961	1962	1963	1964
Total national health expenditures ²	\$84.49	\$108.67	\$148.81	\$156.76	\$167.46	\$177.90	\$191.32
Health services and supplies, total.....	78.20	103.03	139.20	145.66	154.89	163.37	173.98
Hospital care.....	25.25	35.72	50.05	53.70	56.77	61.45	66.16
Physicians' services.....	18.09	22.17	31.45	32.07	34.81	36.37	37.95
Dentists' services.....	6.40	9.19	10.94	11.25	11.97	12.02	12.32
Other professional services.....	2.59	3.37	4.59	4.61	4.64	4.67	4.70
Drugs and drug sundries.....	11.36	14.37	20.27	20.86	21.95	22.35	23.23
Eyeglasses and appliances.....	3.22	3.60	4.34	4.40	4.89	5.19	5.63
Nursing-home care.....	.93	1.34	2.91	3.30	3.72	4.70	6.32
Net cost of insurance.....	1.97	3.70	4.68	5.32	5.72	5.67	5.99
Medical activities in Federal units other than hospitals.....	3.59	3.95	3.48	3.26	3.10	3.27	3.68
Government public health activities.....	2.63	2.85	3.13	3.36	3.69	3.93	4.18
Private voluntary health agencies.....	.92	1.05	1.27	1.29	1.31	1.40	1.43
School health services.....	.22	.42	.60	.66	.70	.69	.69
Industrial in-plant health services.....	1.02	1.30	1.49	1.56	1.63	1.66	1.69
Per capita national health expenditures in 1964 prices ^{2,3}	109.02	125.93	155.99	162.62	171.76	180.24	191.32

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

² Includes all expenditures for health services and supplies, research, and

TABLE 7.—Percentage distribution of national health expenditures, by source of funds, selected years, 1950-64

Object of expenditure	1950	1955	1960	1961	1962	1963	1964
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private expenditures.....	72.2	74.3	75.5	75.0	74.9	74.5	74.1
Consumers.....	66.1	68.9	70.3	69.3	69.3	68.6	67.6
Philanthropy.....	4.0	3.5	3.3	3.5	3.4	3.6	3.9
Other.....	2.1	1.9	2.0	2.2	2.2	2.3	2.6
Public expenditures.....	27.8	25.7	24.5	25.0	25.1	25.5	25.9
Federal.....	13.3	11.4	11.4	12.0	12.5	12.8	12.9
State and local.....	14.5	14.3	13.1	13.0	12.7	12.7	13.0
Health services and supplies.....	92.6	94.8	93.5	92.9	92.5	91.8	90.9
Private expenditures.....	69.6	72.2	73.2	72.2	72.0	71.3	70.1
Consumers.....	66.1	68.9	70.3	69.3	69.3	68.6	67.6
Philanthropy.....	2.4	2.1	1.8	1.8	1.8	1.8	1.7
Other.....	1.2	1.2	1.0	1.0	1.0	0.9	0.9
Public expenditures.....	22.9	22.6	20.4	20.7	20.5	20.6	20.8
Federal.....	10.9	9.9	8.5	8.7	8.8	8.9	8.9
State and local.....	12.1	12.8	11.9	12.0	11.7	11.7	11.9
Research and construction.....	7.4	5.2	6.5	7.1	7.5	8.2	9.1
Private expenditures.....	2.5	2.1	2.4	2.8	2.9	3.2	3.9
Philanthropy.....	1.6	1.4	1.4	1.6	1.7	1.8	2.2
Other.....	0.9	0.7	.9	1.2	1.2	1.4	1.8
Public expenditures.....	4.9	3.1	4.1	4.3	4.6	4.9	5.1
Federal.....	2.4	1.6	2.9	3.3	3.6	3.9	4.0
State and local.....	2.5	1.5	1.2	1.0	1.0	1.1	1.1

from 1950 to 1964 (table 7). Private expenditures provided 72.2 percent of all financing in 1950, increased to 75.5 percent in 1960, and then gradually decreased to 74.1 percent in 1964. Public financing, of course, showed the reverse trend. Although there was little change in the overall percentage, there were considerable shifts between the categories of health services and supplies and capital expenditures. Table 7 and chart 1 show the changes in these expenditures by source of funds.

Type of Service

Some changes occurred from 1950 to 1964 in the distribution of expenditures by major purpose. Expenditures for health services and supplies de-

construction.

³ Adjusted for changes in purchasing power of the dollar, as shown by the BLS consumer price index for all items.

clined in relation to total health expenditures from 93 percent in 1954 to 91 percent in 1964, and expenditures for capital purposes—research and construction—rose from 7 percent to 9 percent of the total (table 8). There have also been substantial shifts in the distribution of health care expenditures by type of service.

Expenditures for hospital care, as a proportion of all national expenditures for health purposes, increased from 29.9 percent in 1950 to 34.6 percent in 1964 (chart 2). Part of the increase in hospital expenditures, apart from the growth in population, was caused by a rise in per patient-day expenses. The per patient-day expense in non-Federal short-term general hospitals rose from \$15.62 in 1950 to \$41.58 in 1964.⁵

The distribution of hospital expenditures by sponsorship of the hospital also changed considerably. In 1950, 19 percent of the hospital expenditures was for care in Federal facilities; this proportion declined to 12 percent in 1964. Expenditures for care in State and local government facilities remained at a constant 30 percent of the total, but expenditures for care in nongovernment facilities increased from approximately 51 percent in 1950 to 57 percent in 1964.

The relative importance of expenditures for the services of all private practitioners has declined. So, too, has the outlay for drugs and appliances.

Expenditures for physicians' services increased

⁵ American Hospital Association, *Hospitals*, Guide Issue, August 1965.

from \$2.8 billion in 1950 to \$7.3 billion in 1964 but represented 21.4 percent of all health expenditures in 1950 and 19.8 percent in 1964. Expenditures for dentists' services, other professional services, and drugs and appliances showed a similar trend, increasing substantially in terms of gross and per capita expenditures but declining in terms of the portion of the health dollar expended for these purposes.

The greatest percentage increase in gross and per capita expenditures for health supplies and services was for nursing-home care. In 1964 total expenditures were almost nine times what they had been in 1950; per capita expenditures increased almost sevenfold. In 1950 only 1.1 percent of the health dollar was spent for nursing-home care; in 1964, 3.3 percent of health expenditures went for this purpose. The increase in nursing-home care expenditures results from several factors, including a growing aged population, an increase in the number of nursing-home beds and in days of care, and increased costs.

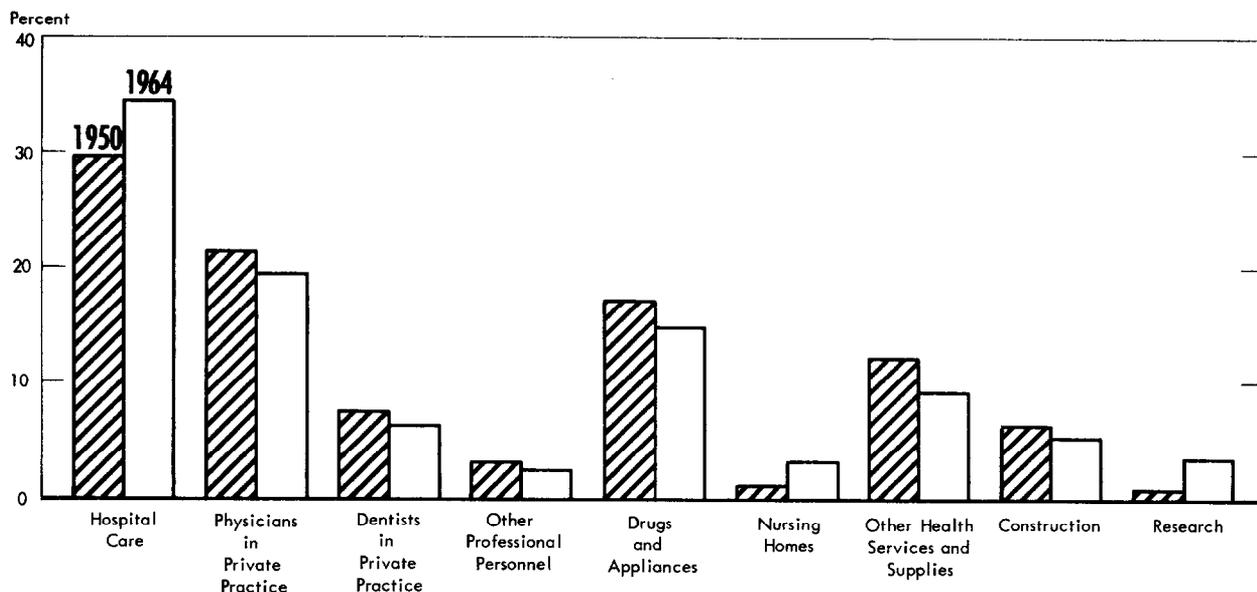
The shift in focus from the private practitioners' office to institutions as a center of care, reflected in the increased proportion of expenditures for hospital and nursing-home care, appears to be a long-range trend. The provision for hospital outpatient diagnostic services and the extended-care provisions of the Social Security Amendments of 1965 will further contribute to this trend.

The net cost of insurance increased from \$300 million in 1950 to \$1.2 billion in 1964. This rise reflects the growing role of insurance as a mechanism for the payment of medical care expenses.

TABLE 8.—Percentage distribution of national health expenditures by object of expenditure, selected years, 1950-64

Object of expenditure	1950	1955	1960	1961	1962	1963	1964
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Health services and supplies.....	92.6	94.8	93.5	92.9	92.5	91.8	90.9
Hospital care.....	29.9	32.9	33.6	34.2	33.9	34.5	34.6
Federal facilities.....	5.7	5.0	4.5	4.7	4.6	4.4	4.2
State and local facilities.....	9.1	10.6	10.5	10.6	10.4	10.5	10.7
Nongovernmental facilities.....	15.1	17.3	18.6	18.9	18.9	19.6	19.8
Physicians' services.....	21.4	20.4	21.1	20.5	20.8	20.4	19.8
Dentists' services.....	7.6	8.5	7.4	7.2	7.1	6.8	6.4
Other professional services.....	3.1	3.1	3.1	2.9	2.8	2.6	2.5
Drugs and drug sundries.....	13.4	13.2	13.6	13.3	13.1	12.6	12.1
Eyeglasses and appliances.....	3.8	3.3	2.9	2.8	2.9	2.9	2.9
Nursing-home care.....	1.1	1.2	2.0	2.1	2.2	2.6	3.3
Net cost of insurance.....	2.3	3.4	3.1	3.4	3.4	3.2	3.1
Medical activities in Federal units other than hospitals.....	4.3	3.6	2.3	2.1	1.8	1.8	1.9
Government public health activities.....	3.1	2.6	2.1	2.1	2.2	2.2	2.2
Private voluntary health agencies.....	1.1	1.0	.9	.8	.8	.8	.7
School health services.....	.3	.4	.4	.4	.4	.4	.4
Industrial in-plant health services.....	1.2	1.2	1.0	1.0	1.0	.9	.9
Research and medical-facilities construction.....	7.4	5.2	6.5	7.1	7.5	8.2	9.1
Research.....	.9	1.2	2.5	2.9	3.3	3.5	3.6
Medical-facilities construction.....	6.5	4.0	4.0	4.2	4.2	4.7	5.5
Publicly owned.....	3.9	2.1	1.7	1.5	1.4	1.5	1.6
Privately owned.....	2.7	1.9	2.3	2.7	2.8	3.1	3.9

CHART 2.—Percentage distribution of national health expenditures, 1950 and 1964



Except for school health services, all remaining components of the health services and supplies category declined in importance in relation to the total health dollar. Medical activities in Federal units other than hospitals accounted for more than 4 percent of total expenditures in 1950 and less than 2 percent in 1964. Government public health activities represented 3 percent of the health dollar in 1950 and 2 percent in 1964.

Research was the fastest-growing component of all national health expenditures, increasing from \$117 million in 1950 to \$1.3 billion in 1964. Although these expenditures accounted for less than 1 percent of the health expenditures in 1950, they constituted 3.6 percent in 1964. Federal Government outlays for health research increased from \$79 million to \$1.1 billion during these years.

Expenditures for medical-facilities construction more than doubled from 1950 to 1964. The greatest part of the increase was for construction of privately owned facilities. This trend is also reflected in the data on hospital care expenditures by sponsorship of hospitals and in the increase in the number of beds in proprietary nursing homes. Expenditures for the construction of privately owned facilities rose from \$344 million to \$1.4 billion; expenditures for publicly owned facilities increased by less than \$100 million, from \$496 million to \$585 million.

In terms of financing, government supplied

\$546 million for all construction in 1950 and \$715 million in 1964. Private sources provided \$294 million in 1950 and \$1.3 billion in the later year.

Personal Health Care and Third-Party Payments

A growing proportion of all expenditures for personal health services is paid for by third parties. In 1964 expenditures for personal health care were \$31.2 billion (table 9). Third-party payments, which reached \$15.3 billion, met 49 percent of all personal health care expenditures in 1964, compared with 35 percent in 1950. Direct out-of-pocket payments by consumers, which met about

TABLE 9.—Amount and percent of expenditures for personal health care met by third parties, selected years, 1950-64

Year	Total expenditures ¹	Third-party payments							
		Total		Health insurance		Government		Philanthropy and other	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1950...	\$11,069	\$3,860	34.9	\$992	9.0	\$2,548	23.0	\$320	2.9
1955...	15,837	6,566	41.5	2,536	16.0	3,609	22.8	421	2.7
1960...	23,515	10,445	44.4	4,998	21.2	4,912	20.9	537	2.3
1961...	24,938	11,634	46.6	5,698	22.8	5,361	21.5	577	2.3
1962...	26,916	12,670	47.1	6,344	23.6	5,718	21.2	608	2.3
1963...	28,866	13,811	47.8	6,979	24.2	6,191	21.4	641	2.2
1964...	31,201	15,318	49.1	7,808	25.0	6,843	22.0	667	2.1

¹ All expenditures for health services and supplies other than (1) net cost of insurance, (2) government public health activities, and (3) expenditures of private voluntary health agencies.

two-thirds of all personal health care in 1950, were only slightly more than half the total in 1964.

Personal health care expenditures as defined here include expenditures for hospital care, the services of professional personnel in private practice, drugs and appliances, nursing-home care, medical activities in Federal units other than hospitals, school health services, and industrial in-plant health services. Although the expenditures shown for government public health activities and voluntary health agencies include some personal health care, they primarily represent services for the community at large and are therefore excluded.

Third-party payments include health insurance benefit payments, government expenditures, philanthropic expenditures, and the expenditures of employers to maintain industrial in-plant facilities for their employees. The greatest impetus to the shift from direct payments to third-party payments has been the growth of voluntary health insurance. Voluntary insurance was the source of 9 percent of all personal health care expenditures in 1950 and 25 percent in 1964. When only consumer expenditures for personal health care are considered, it is found that insurance payments met one-third of the expenditures in 1964, compared with 12 percent in 1950 (table 10).

Government payments as a source of third-party payments declined from 23.0 percent of personal health care expenditures in 1950 to 20.9 percent in 1960 and increased to 22.0 percent in 1964. Philanthropy and "other" sources met 2.9 percent of personal health care expenditures in 1950 and 2.1 percent in 1964.

By type of service, the proportion of expenditures met by third-party payments varies considerably. Third-party payments for hospital care met 67 percent of hospital expenditures in 1950 and almost 82 percent in 1964. In the later year, insurance benefits of \$5.2 billion met 69 percent of the consumer expenditures and about 41 percent of all hospital care expenditures. Government funds of \$4.9 billion provided for 38 percent of hospital care, and philanthropy for slightly more than 2 percent.

Approximately 43 percent of the expenditures for the services of physicians in private practice were met by third-party payments. Health insurance met approximately 36 percent of the pay-

ments (38 percent of consumer expenditures); government, 7 percent; and philanthropy, less than 1 percent.

Estimates of insurance payments for both hospital care and physicians' services are somewhat overstated since payments for other services, such as nursing care, drugs, appliances, and nursing-home care, are included. Of the \$7.8 billion of total insurance benefits in 1964, it is estimated that about \$20 million allocated for hospital care and \$195 million allocated to physicians' services were, in effect, payments for other types of services.

A negligible portion of the expenditures for dentists' services, other professional services, drugs, eyeglasses, and appliances are paid for through third parties. The impact of insurance for dental care will probably not be significant for some time.

TABLE 10.—Amount and percent of personal health care expenditures and consumer expenditures for medical care met by private insurance, selected years, 1950-64¹

(Amounts in millions)						
Year	Personal health care expenditures	Consumer expenditures for personal health care		Insurance payments		
		Amount	Percent	Amount	As percent of—	
					Personal health care	Consumer expenditures
All types of services						
1950.....	\$11,069	\$8,201	74.1	\$992	9.0	12.1
1955.....	15,837	11,807	74.6	2,536	16.0	21.5
1960.....	23,515	18,066	76.8	4,996	21.2	27.7
1961.....	24,938	19,000	76.2	5,696	22.8	30.0
1962.....	26,916	20,690	76.5	6,344	23.6	30.8
1963.....	28,866	22,034	76.3	6,979	24.2	31.7
1964.....	31,201	23,691	75.9	7,808	25.0	33.0
Hospital care						
1950.....	\$3,845	\$1,965	51.1	\$680	17.7	34.6
1955.....	5,929	3,244	54.7	1,679	28.3	51.8
1960.....	9,044	5,281	58.4	3,357	37.1	63.6
1961.....	9,869	5,743	58.2	3,840	38.9	66.9
1962.....	10,598	6,231	58.8	4,288	40.5	68.8
1963.....	11,642	6,931	59.5	4,658	40.0	67.2
1964.....	12,713	7,552	59.4	5,205	40.9	68.9
Physicians' services ²						
1950.....	\$2,755	\$2,597	94.3	\$312	11.3	12.0
1955.....	3,680	3,433	93.3	857	23.3	25.0
1960.....	5,684	5,304	93.3	1,639	28.8	30.9
1961.....	5,895	5,472	92.8	1,856	31.5	33.9
1962.....	6,499	6,042	93.0	2,056	31.6	34.0
1963.....	6,891	6,408	93.0	2,321	33.7	36.2
1964.....	7,293	6,775	92.9	2,602	35.7	38.4

¹ Data for 1964 based on Louiss. Reed, "Private Health Insurance in the United States: An Overview," *Social Security Bulletin*, December 1965; data for other years from Louis S. Reed, "Private Consumer Expenditures for Medical Care and Voluntary Health Insurance, 1948-63," *Social Security Bulletin*, December 1964.

² Includes insurance payments of small amounts for other types of professional services.

Third-party payments paid for 35 percent of all nursing-home care in 1964 and 22 percent in 1950. Government payments, primarily for the indigent and medically indigent aged, met one-third of these expenditures in 1964.

The growth of third-party payments for health care will no doubt accelerate. Voluntary health insurance is expanding. With the development of dental prepayment plans and major medical and supplementary medical insurance policies, there will probably be a rise in insurance payments for dental care, "other professional services," and nursing-home care.

In the government sphere expenditures for personal health care will be increased by the provisions in the 1965 amendments to the Social Security Act (1) establishing hospital insurance and supplementary medical benefits for the aged

and (2) under public assistance, extending medical care to the needy, including the medically needy. The first impact of the new legislation will not be apparent until 1966.

Private Consumer Expenditures

Tables 11 and 12, showing total and per capita private consumer expenditures for health services and supplies, are similar to those presented in the BULLETIN each December in the former series on private consumer expenditures for medical care. The 1950 and 1955 data previously published have been revised on the basis of a new method of estimating hospital expenditures. Revisions have not been completed for the years between 1950, 1955, and 1960, and data for these years are not included

TABLE 11.—Amount and percentage distribution of private consumer expenditures for health services and supplies, by type of expenditure, selected years, 1950-64

Object of expenditure	1950	1955	1960	1961	1962	1963	1964
	Amount (in millions)						
Total.....	\$8,501	\$12,421	\$18,911	\$19,978	\$21,657	\$23,108	\$24,842
Hospital care.....	1,965	3,244	5,281	5,743	6,231	6,931	7,552
Physicians' services.....	2,597	3,433	5,304	5,472	6,042	6,408	6,775
Dentists' services.....	961	1,508	1,962	2,048	2,213	2,254	2,341
Other professional services.....	370	531	795	809	822	834	850
Drugs and drug sundries.....	1,716	2,355	3,598	3,750	4,002	4,127	4,341
Eyeglasses and appliances.....	482	586	760	783	885	951	1,043
Nursing-home care.....	110	150	366	395	395	529	789
Net cost of insurance.....	300	614	845	978	1,067	1,074	1,151
Total consumer expenditures as percent of national disposable personal income.....	4.1	4.5	5.4	5.5	5.6	5.7	5.7
	Percentage distribution						
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hospital care.....	23.1	26.1	27.9	28.7	28.8	30.0	30.4
Physicians' services.....	30.5	27.6	28.0	27.4	27.9	27.7	27.3
Dentists' services.....	11.3	12.1	10.4	10.3	10.2	9.8	9.4
Other professional services.....	4.4	4.3	4.2	4.0	3.8	3.6	3.4
Drugs and drug sundries.....	20.2	19.0	19.0	18.8	18.5	17.9	17.5
Eyeglasses and appliances.....	5.7	4.7	4.0	3.9	4.1	4.1	4.2
Nursing-home care.....	1.3	1.2	1.9	2.0	1.8	2.3	3.2
Net cost of insurance.....	3.5	4.9	4.5	4.9	4.9	4.6	4.6

TABLE 12.—Per capita consumer expenditures for health services and supplies, selected years, 1950-64¹

Object of expenditure	1950	1955	1960	1961	1962	1963	1964
Health services and supplies, total.....	\$56.38	\$76.22	\$106.15	\$110.25	\$117.83	\$123.79	\$131.18
Hospital care.....	13.03	19.91	29.64	31.69	33.90	37.13	39.88
Physicians' services.....	17.22	21.07	29.77	30.20	32.87	34.33	35.78
Dentists' services.....	6.37	9.25	11.01	11.30	12.04	12.07	12.36
Other professional services.....	2.45	3.26	4.46	4.46	4.47	4.47	4.49
Drugs and drug sundries.....	11.38	14.45	20.20	20.69	21.77	22.11	22.92
Eyeglasses and appliances.....	3.20	3.60	4.27	4.32	4.82	5.09	5.51
Nursing-home care.....	.73	.92	2.05	2.18	2.15	2.83	4.17
Net cost of insurance.....	1.99	3.77	4.74	5.40	5.81	5.75	6.80
Per capita consumer expenditures in 1964 prices ²	91.67	102.72	117.29	118.30	123.26	126.32	131.18

¹ Based on U.S. civilian resident population as of July 1 of each year.

² Based on the medical care component of the BLS consumer price index.

at this time. The expenditures data for drugs and drug sundries and eyeglasses and appliances have been revised to reflect changes in the Department of Commerce data. The 1960-63 estimates of expenditures for nursing-home care have been revised upwards. Other minor changes result mainly from changes in estimating techniques. Changes in the 1963 data largely reflect the substitution of final data for the previous preliminary estimates.

Consumer expenditures for health supplies and services accounted for 4.1 percent of national disposable personal income in 1950 and 5.7 percent in 1964 (table 11). Per capita expenditures increased 133 percent (table 12). With adjustments for the rise in medical care prices, the 1950-64 growth in real per capita expenditures is 43 percent.

Expenditures for hospital care made by consumers have almost quadrupled during the period 1950-64. The rate of increase was faster from 1950 to 1960 than in more recent years; it has fluctuated between 8.5 percent and 11.0 percent since 1960. Consumer payments for nursing-home care showed the greatest advance of all components of care, increasing to more than seven times the 1950 figure. Except for the rise from 1963 to 1964, however, consumer expenditures for nursing-home care increased at a slower rate than total expenditures for this type of care.

As in the case of total national health expenditures, the distribution of expenditures by type of service has changed considerably from 1950 to 1964. These changes are shown in table 11.

Data on the amount and proportion of consumer expenditures for health care met by health insurance are presented in table 10. One-third of all consumer expenditures for medical care were met through insurance in 1964, compared with 12 percent in 1950. The amount of expenditures for hospital care met by insurance almost doubled in this period. Except in 1963, there has been a steady increase in the proportion of consumer expenditures for hospital care covered by insurance, although the rate of growth has been declining. In 1950 the portion of consumer expenditures for physicians' services covered by insurance was 12 percent. By 1964, insurance payments had grown to 38.4 percent of these expenditures.

As mentioned earlier, the estimates of insurance benefits paid for hospital care and physicians' services are overstated to the extent that such

benefits cover other types of services. When the data in table 10 are adjusted for the overstatement, the proportion of physicians' services met by insurance becomes 35.5 percent (instead of 38.4 percent), but the change with respect to hospital benefits is negligible. The adjusted data by type of service are given in the tabulation that follows:

[Amounts in millions]

Type of service	Consumer expenditures, 1964		
	Total	Met by insurance	
		Amount	Percent
Hospital care.....	\$7,552	\$5,185	68.7
Physicians' services.....	6,775	2,407	35.5
All other types of service.....	9,364	216	2.3

Government Expenditures

Government expenditures for all health purposes grew from \$3.6 billion in 1950 to \$9.5 billion in 1964. Expenditures for health supplies and services in 1964 were two and one-half times the 1950 amount, and expenditures for research and construction combined were triple those in 1950 (table 13). A larger share of the government health dollar went for research in the later year.

Government payments for hospital care met 45.4 percent of all hospital care payments in 1950 and 38.3 percent in 1964. As insurance payments for hospital care increased, the proportion of public payments decreased, but at a slower rate. Federal funds for this purpose, though increasing in gross amount, have declined as a percentage of all Federal health expenditures; State and local expenditures have increased in relation to all State and local health expenditures.

Contrary to the trend taken by consumer expenditures, government expenditures for physicians' services, other professional services, and drugs and appliances have increased in terms of the proportion of all government expenditures for these services. However, the total expenditures and the percentage of all government funds expended for these health services are still small. Expenditures for nursing-home care, which were less than 1 percent of all public expenditures for health purposes in 1950, reached 4.3 percent of the total government outlay in 1964.

The proportion of all public funds expended

for medical activities in Federal units other than hospitals and government public health activities, which are exclusively expenditures of the public sector, has shown a steady decline.

The greatest change in the public sector has been the increasing emphasis on medical research. Government expenditures for research increased from \$83 million in 1950 to \$1.2 billion in 1964. The Federal Government provided the lion's share of all medical-research financing.

A declining portion of the public dollar is spent for medical-facilities construction. Public funds met 65 percent of construction expenditures in 1950 and less than 37 percent in 1964. Public expenditures for construction accounted for 15.3 percent of all public expenditures for health pur-

poses in 1950, 13.4 percent of the Federal expenditures, and 16.9 percent of the State and local expenditures. In 1964, these expenditures represented 7.5 percent, 7.6 percent, and 7.4 percent, respectively, of the total.

SUMMARY

National health expenditures reached \$36.8 billion in 1964, almost three times the expenditures for all health purposes in 1950 (\$12.9 billion). The largest part of the total health dollar was spent for hospital care. Of the health services and supplies categories, nursing-home care — although still a small expenditure in terms of the total—

TABLE 13.—Government expenditures for health purposes, selected years, 1950–64

(In millions)

Object of expenditure	1950	1955	1960	1961	1962	1963	1964
Total							
Total.....	\$3,578	\$4,638	\$6,579	\$7,217	\$7,856	\$8,598	\$9,531
Health services and supplies.....	2,949	4,082	5,477	5,978	6,407	6,936	7,647
Hospital care.....	1,745	2,510	3,533	3,876	4,107	4,431	4,871
Physicians' services.....	151	239	371	414	447	473	508
Dentists' services.....	14	17	15	20	21	23	27
Other professional services.....	5	8	15	18	22	27	30
Drugs and drug sundries.....	14	30	65	83	96	107	122
Eyeglasses and appliances.....	8	11	24	26	28	32	39
Nursing-home care.....	30	69	152	202	289	348	406
Medical activities in Federal units other than hospitals.....	547	656	629	600	573	619	707
Government public health activities.....	401	473	565	617	689	745	804
School health services.....	34	69	108	122	130	131	133
Research and construction.....	629	556	1,102	1,239	1,449	1,662	1,884
Research.....	83	159	538	712	892	1,033	1,169
Construction.....	546	397	564	527	557	629	715
Federal							
Total.....	\$1,706	\$2,061	\$3,067	\$3,463	\$3,894	\$4,307	\$4,756
Health services and supplies.....	1,398	1,777	2,275	2,508	2,757	3,001	3,279
Hospital care.....	732	941	1,349	1,535	1,693	1,785	1,872
Physicians' services.....	16	26	74	88	102	108	116
Dentists' services.....	11	13	7	10	11	12	15
Other professional services.....	2	2	4	6	8	11	12
Drugs and drug sundries.....	1	10	27	37	46	52	60
Eyeglasses and appliances.....	2	3	10	11	12	15	18
Nursing-home care.....	2	27	62	90	140	175	203
Medical activities in Federal units other than hospitals.....	547	656	629	600	573	619	707
Government public health activities.....	37	99	113	131	167	224	276
Research and construction.....	308	284	792	955	1,137	1,376	1,477
Research.....	79	151	511	678	851	986	1,117
Construction.....	229	133	281	277	286	320	360
State and local							
Total.....	\$1,872	\$2,577	\$3,512	\$3,754	\$3,962	\$4,291	\$4,775
Health services and supplies.....	1,551	2,305	3,202	3,470	3,650	3,935	4,368
Hospital care.....	1,013	1,569	2,184	2,341	2,414	2,646	2,999
Physicians' services.....	135	213	297	326	345	365	392
Dentists' services.....	3	4	8	10	10	11	12
Other professional services.....	5	6	11	12	14	16	18
Drugs and drug sundries.....	13	20	38	46	50	55	62
Eyeglasses and appliances.....	6	8	14	15	16	17	21
Nursing-home care.....	28	42	90	112	149	173	203
Government public health activities.....	314	374	452	486	522	521	528
School health services.....	34	69	108	122	137	131	133
Research and construction.....	321	272	310	284	312	356	407
Research.....	4	8	27	34	41	47	52
Construction.....	317	264	283	250	271	309	355

was the fastest-growing component. Expenditures for research grew more rapidly than any other segment of national health expenditures.

The most striking changes since 1950, aside from the tremendous growth in total health expenditures, have been in distribution of expenditures by type of service. In 1964, a larger share of the health dollar was spent for hospital care and nursing-home care and a smaller share for the services of professional personnel than in 1950.

There has been a shift in construction activities by sponsorship of the facility since 1950. Expenditures for the construction of public facilities have grown only slightly, and there have been great increases in private-facilities construction. Approximately 40 percent of all expenditures for construction of facilities in 1950 were for construction of private facilities, compared with 70 percent in 1964.

Third-party payments in 1964 met almost half of all expenditures for personal health care, compared with 35 percent in 1950. For the reasons previously cited, third-party payments will probably continue to meet a growing proportion of personal health care services.

NOTE ON METHODOLOGY AND SOURCES OF DATA

The general method followed in estimating national health expenditures is first to estimate the total expenditures for each type of service and then to break down these estimates by source of funds. For most of the items, the consumer figure is a residual amount, derived by subtracting from the total the amounts paid to hospitals, professional personnel, etc., under the various government programs and from philanthropic sources. The expenditures under public programs that are subtracted from the totals are reported separately each year in the October BULLETIN article on social welfare expenditures. These expenditures are allocated by type of service on the basis of published and unpublished reports for the specific programs.⁶

The estimates of expenditures for hospital care

are based on the data on hospital finances published by the American Hospital Association, projected to represent data for the calendar year in question and increased slightly to allow for non-reporting and osteopathic hospitals. Estimates of sources of funds are made for each type of hospital ownership separately. The Federal expenditures for Federal hospitals represent the total expenses of those 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 State and local government hospitals represent total expenses, less consumer payments for care in these hospitals (based on data from the *Census of Governmental Finances*) and less vendor payments from Federal funds. Consumer payments for care in nongovernment hospitals represent total revenues of the hospitals, less Federal and State and local vendor payments and less estimated receipts from philanthropy.

The estimates of expenditures for the services of physicians in private practice are based on the gross incomes from self-employment practice as reported by physicians to the Internal Revenue Service on Schedule C of the income-tax return.⁷

The total also includes the estimated gross receipts of osteopathic physicians, a share of 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 represent total expenditures for physicians' services. The deduction of vendor payments under government programs (table 4) and estimated payments to physicians from philanthropic agencies leaves estimated consumer payments.

The salaries of physicians on the staffs of hospitals and hospital outpatient facilities are considered a component of hospital care. The salaries of physicians serving in public health departments are included as government public

⁶ For a more complete description of these programs, the sources of data for the public programs, and philanthropic expenditures, see Louis S. Reed and Dorothy Rice, *op. cit.*

⁷ See Internal Revenue Service, *U.S. Business Tax Returns, Statistics of Income*. Data are totaled for physicians in sole proprietorships, partnerships, and offices organized as corporations.

health expenditures, and those of physicians serving in dispensaries and field services of the Armed Forces and the Indian Health Service are included as expenditures in "medical activities in Federal units other than hospitals." Estimates of expenditures for dentists in private practice are made in a similar manner.

Data on the expenses of visiting nurse associations are from surveys conducted by the National League for Nursing. Estimates of expenditures for the other professional services are based on estimates of the number in private practice and average gross receipts from patients.

The basic source of the estimates for drugs, drug sundries, and eyeglasses and appliances is the estimates on personal consumption expenditures made by the National Income Division of the Department of Commerce and reported in the *Survey of Current Business*. From these estimates are subtracted vendor payments under workmen's compensation programs (table 4), which the Department of Commerce counts as a consumer expenditure but which the Office of Research and Statistics counts as an expenditure of government. The resulting totals are the consumer expenditure estimates shown here.

Total expenditures for drugs and appliances are the sum of the adjusted Department of Commerce estimates and the expenditures under all public programs for these products.

Only rough estimates of national expenditures for nursing-home care can be made from available data. The estimates are based on the number of long-term general beds as reported annually by the State hospital planning agencies under the Hill-Burton program, with adjustments to exclude long-term beds in non-Federal general hospitals. A complete explanation of the method of estimating these expenditures was presented in the BULLETIN for December 1964. The estimates have been revised on the basis of later and more comprehensive data on per patient-day expense.

The estimates of expenditures for medical activities in Federal units other than hospitals are

residual figures. They are obtained by subtracting the expenses of the Veterans Administration and Department of Defense hospitals, and the payments made to private practitioners and for supplies under the Veterans Administration "hometown" program and the "medicare" program of the Department of Defense, from the total expenses of the medical programs of the two agencies. The remainder represents the cost of maintaining outpatient facilities (separately from hospitals), dispensaries, and field and shipboard medical stations, together with the administrative costs of the program. Small amounts are then added for the Indian health field services, medical care of foreign service officers, and government employee health units.

The *United States Budget and Budget Appendix* are the sources for the data on Federal expenditures for Government public health activities. The Bureau of the Census publication, *Government Finances*, is the source of the data on State and local government public health activities and intergovernmental payments to the States and localities for public health activities.

The estimates of school health services are obtained from the Office of Education, and the estimates of industrial in-plant health activities are made by the Division of Occupational Health of the Public Health Service.

All data on research expenditures are based on published and unpublished estimates prepared by the Resources Analysis Branch of the National Institutes of Health, primarily *Resources for Medical Research and Basic Data Relating to the National Institutes of Health*.

Estimates of total expenditures for medical-facilities construction, other than Federal facilities, are derived from the Department of Commerce report on construction, published in *Construction Review*, and from supplementary reports of the Division of Hospital and Medical Facilities of the Public Health Service. Data on the sources of funds for construction of non-government facilities, other than Federal grants, are fragmentary.