

STUDY PAPER NO. 5

TRENDS IN THE SUPPLY AND DEMAND OF MEDICAL CARE

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INTRODUCTION AND SUMMARY

Medical care is becoming wonderfully effective and appallingly expensive. Rising demand for medical care and shortages of medical personnel and medical facilities require sound public policy decisions to bring about a balance which is fair to those who need care and successful in providing a rising standard of medical services.

This study, suggestive rather than comprehensive in scope, is an effort to outline some of the problems which require attention and action. These are public policy problems because the adequacy of medical care vitally affects the general welfare. Improving health has been an important factor in the advance of American productivity, and continuing improvement of health standards will contribute to further economic growth. Also, public policy must recognize the primary public interest in an adequate supply of medical care and must assure that those needs that private agencies and individuals do not meet, and perhaps cannot be expected to meet, will be fulfilled.

The American people are increasingly conscious of health problems and eager to share in the advances of medical science. Total spending on health and medical care is approaching \$25 billion a year, or about 5 percent of gross national product. The price of this portion of the GNP has been rising rapidly, and thus has served to raise consumer prices, and no study of inflation would be complete without examination of this sector.

Private spending on medical care is rising, with the biggest increases in spending for hospitalization and for prepaid health insurance programs. The average family spends 5 percent of its income on medical care, but medical costs are not spread evenly. Spending on medical care rises with rising family income, but declines as a proportion of rising family income. Voluntary health insurance covers more than 70 percent of the population, and pays about 25 percent of the Nation's private medical care bill.

Federal, State, and local community spending make up about a quarter of total spending for health and medical care. A substantial part of this public spending comes from Federal funds to care for veterans and military personnel and their families. Federal support for medical research is growing and pays an increasing proportion of medical school operating expenses.

Hospitals are increasingly utilized in medical care because medical progress and medical services are hospital oriented, because of the prevalence of hospitalization insurance and because of long-term hospital care needs of older people with chronic and degenerative diseases. New drugs have made treatment possible for mental patients in general hospitals and outside hospitals.