

Political Adverse Selection

Based on BFI Working Paper 2022-87, “[Political Adverse Selection](#),” by Leonardo Bursztyn, University of Chicago; Jonathan Kolstad, UC Berkeley; Aakaash Rao, Harvard University; Pietro Tebaldi, Columbia University; and Noam Yuchtman, London School of Economics

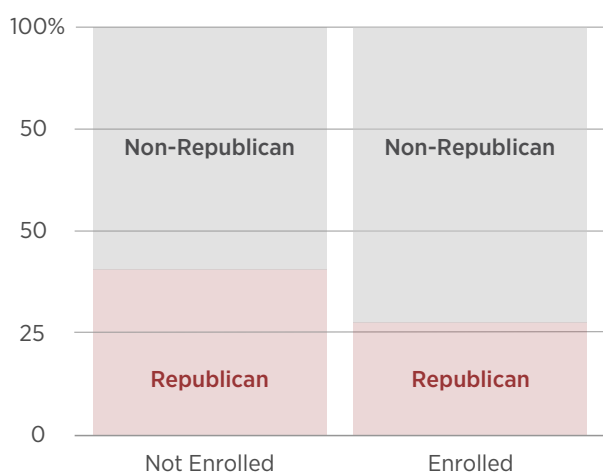
Political adverse selection reduced enrollment in the ACA (or “Obamacare”) by around three million people, increasing the level of public spending necessary to provide subsidies to low-income enrollees by around \$105 per enrollee per year; lower enrollments and higher costs are concentrated in more Republican areas, potentially contributing to polarized views of the ACA.

Governments often provide important services like health care, education, or retirement savings. In some settings, they do so directly, competing with private providers, while in other settings, they subsidize private providers. In either case, economists and policymakers typically assume that consumers care only about the characteristics of the service, not about whether the government is involved in its provision.

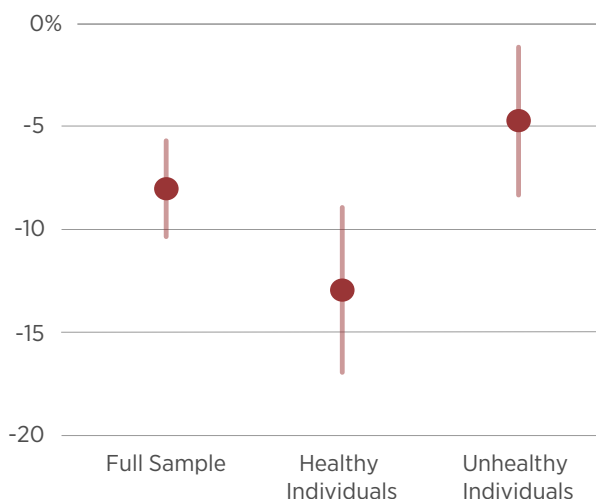
What changes if some consumers are ideologically opposed to government intervention, and thus select out of products with government involvement? These choices can have important consequences for market conditions: because government involvement typically occurs in markets with important externalities, consumer choices can ultimately affect the total cost of the program, prices, levels of government spending, and overall welfare.

Figure 1 • Republican vs. Non-Republican Enrollment in ACA Marketplaces

A) Share of Republicans and Non-Republicans Comprising the Non-Enrolled and Enrolled Population



B) Probability of Republicans Purchasing ACA Marketplace Coverage, Relative to Non-Republicans



Notes: Panel A shows how enrollment varies with political identity in the raw data. Republicans and Republican-leaning independents represent 39% of the authors' sample, but account for fewer than 30% of ACA enrollees. The difference in enrollment is even more stark if the authors split the sample by health status. Panel B shows OLS coefficients from regressing an indicator for ACA marketplace coverage on a Republican indicator for different samples. Considering the entire sample (that is, without conditioning on health status), Republicans are 8% less likely to purchase marketplace coverage. Yet among healthy survey respondents, Republicans are 12.9% less likely to purchase marketplace coverage than Democrats and independents. In contrast, unhealthy Republicans are only 4.7% less likely to purchase marketplace coverage than unhealthy Democrats and independents. Please see working paper for details.

To study this phenomenon, the authors analyze consumer response to the Patient Protection and Affordable Care Act of 2010 (ACA), popularly known as “Obamacare.” The ACA was one of the most significant and politically divisive expansions of the US federal government in decades. The law passed on party lines in 2010, and as late as 2019 the political divide remained among consumers: 80% of Democrats held a favorable view of the ACA, compared to only 20% of Republicans. If partisanship induces some of the intended beneficiaries (that is, uninsured, low-income Republicans) to opt out of the government-sponsored ACA marketplaces, then the political enrollment decisions pose an obstacle to the primary ACA goal of achieving near-universal insurance coverage. Further, if healthy consumers opt out, this “political adverse selection” implies an increase in insurers’ average costs, which then translates to higher premiums and larger per-enrollee subsidy outlays.

The authors examine enrollment data and develop a model of political adverse selection to find the following:

- Controlling for demographics, health status, and supply-side factors, the authors find that Republicans were significantly less likely to enroll in ACA marketplace insurance plans than independents and Democrats.
- This difference is driven by healthy Republicans: While unhealthy Republicans were 4 percentage points less likely to enroll than unhealthy independents and Democrats, healthy Republicans were 12 percentage points less likely to enroll than healthy independents and Democrats. Political enrollment decisions thus worsened risk selection into the marketplaces.

- Political adverse selection led to a 2.7% increase in average cost; these higher costs translate to higher premiums for high-income households and higher subsidies to low-income households.
- Finally, political adverse selection increased the level of public spending necessary to provide subsidies to low-income enrollees by around \$105 per enrollee per year.

Beyond the ACA, this work foreshadows a future in which the effectiveness of public policy is increasingly undermined by political behavior and political narratives, especially including settings where individuals’ engagement with government programs generates externalities, such as vaccination campaigns or public education.

READ THE WORKING PAPER

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