

14.03/003 Micro Theory & Public Policy, Fall 2025

Lecture 6. The Carte Blanche principle and consumers' willingness to pay for health insurance

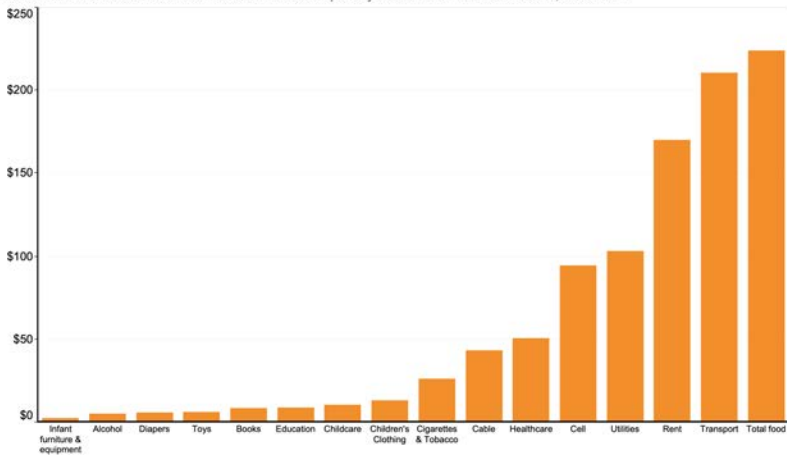
David Autor (Prof), MIT Economics and NBER

Revised September 24, 2025

Families living at/near poverty spend about 75% of income on food, transportation, rent, utilities, cellphone service

AVERAGE MONTHLY EXPENDITURES

Across all households at less than 200% of the federal poverty line and with at least one child, 2015-2019



Source: Consumer Expenditure Survey, U.S. Census Bureau

EconoFact econofact.org

The demand for subsidized health insurance—

Finkelstein, Hendren, and Shepard, 2019

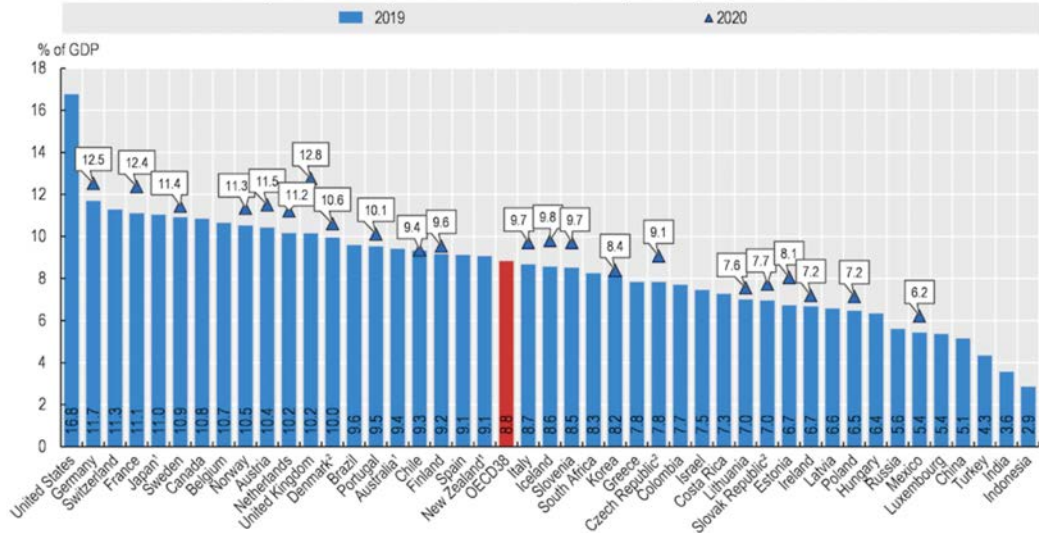
Health insurance provision in the United States

Relative to other industrialized countries, U.S. has unique institutional arrangements for providing healthcare and health insurance

1. Spends a far larger share of Gross Domestic Product on healthcare than any other country
2. Health insurance for working-age adults is primarily provided through employers as a 'fringe benefit' rather than through either a public insurance system or a direct-to-household system
3. A substantial fraction of U.S. adults lacks health insurance

Annual health care expenditure as a share of GDP across OECD countries

Figure 7.1. Health expenditure as a share of GDP, 2019 (or nearest year) and 2020

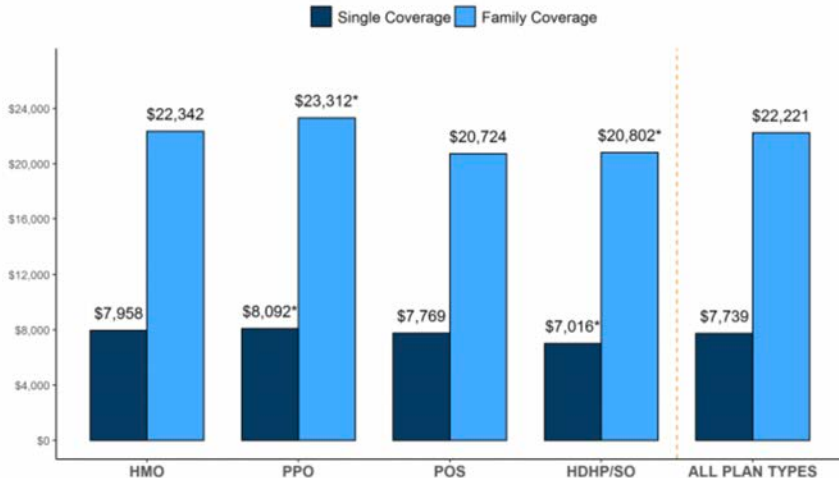


1. OECD estimates for 2019. 2. OECD estimates for 2020.

Source: OECD Health Statistics 2021, WHO Global Health Expenditure Database.

Consistent with high U.S. per capita healthcare expenditures, health insurance is quite expensive

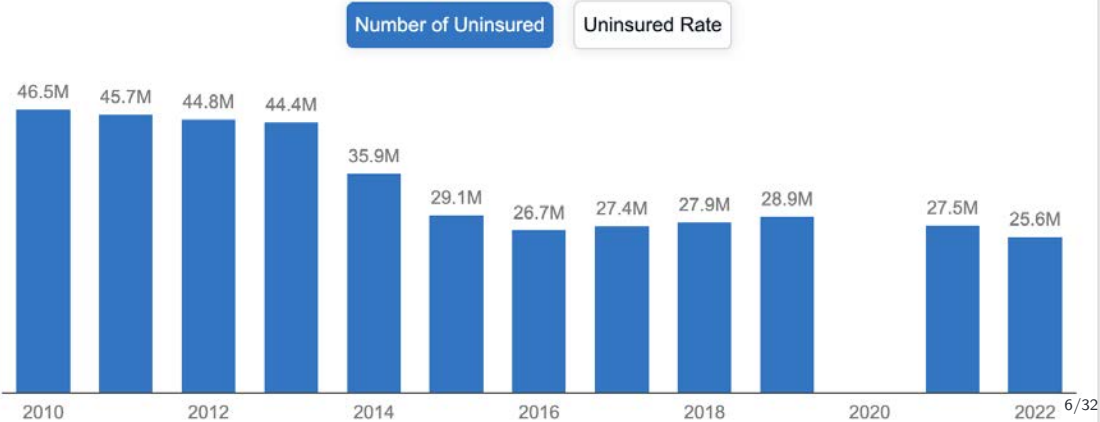
Average Annual Premiums for Covered Workers, Single and Family Coverage, by Plan Type, 2021



Estimated number of U.S. nonelderly adults without health insurance

Figure 1

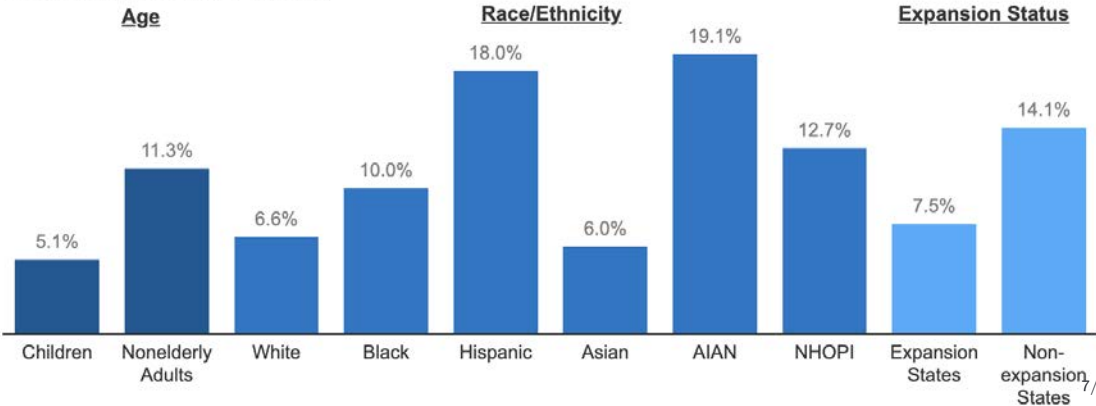
Number of Nonelderly Uninsured, 2010-2022



Uninsured rates in the nonelderly U.S. population

Figure 5

Uninsured Rates among the Nonelderly Population by Selected Characteristics, 2022



Who are the non-elderly U.S. uninsured?

Figure 4

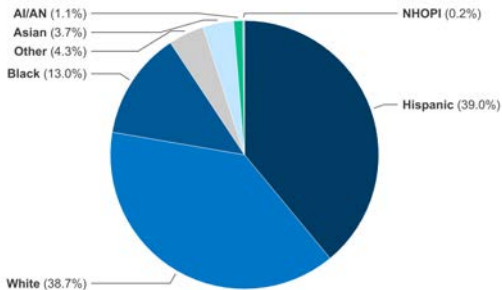
Characteristics of the Nonelderly Uninsured, 2021

Race and Ethnicity

Family Work Status

Family Income

Race/Ethnicity



NOTE: Includes nonelderly individuals ages 0 to 64. AI/AN refers to American Indian/Alaska Native. NHOPi refers to Native Hawaiians and Other Pacific Islanders. Hispanic people may be of any race but are categorized as Hispanic; other groups are all non-Hispanic.

SOURCE: KFF analysis of 2021 American Community Survey 1-Year Estimates

Figure 4

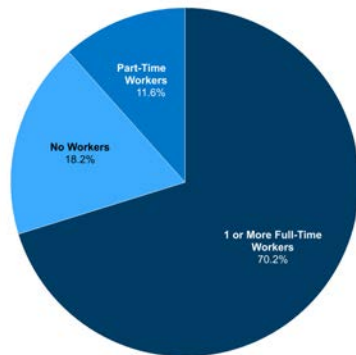
Characteristics of the Nonelderly Uninsured, 2021

Family Work Status

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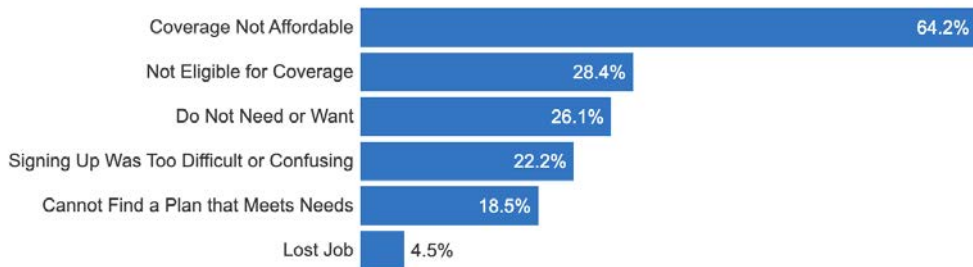
NOTE: Includes nonelderly individuals ages 0 to 64.
SOURCE: KFF analysis of 2021 American Community Survey, 1-Year Estimates.

KFF

Stated reasons for being uninsured among U.S. nonelderly adults, 2022

Figure 7

Reasons for Being Uninsured Among Uninsured Nonelderly Adults, 2022



NOTE: Includes nonelderly individuals ages 18 to 64. Respondents can select multiple options.

SOURCE: KFF analysis of 2022 National Health Interview Survey. • [PNG](#)

KFF

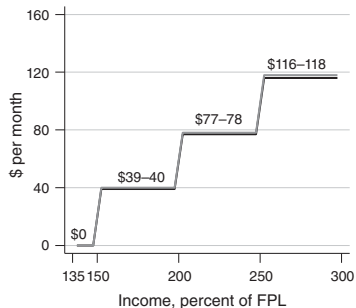
Massachusetts CommCare:

Generous health insurance subsidy for low-income households

The subsidy schedule for Massachusetts Commonwealth Care

The government's cost for Mass Comm Care is \$400/month per enrollee

Panel A. Premiums for cheapest plan, 2009–2013



Panel B. Prices, subsidies, and premiums in 2011

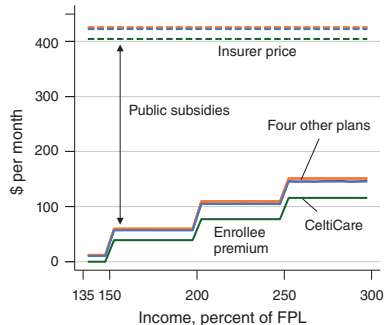


FIGURE 2. INSURER PRICES AND ENROLLEE PREMIUMS IN COMM-CARE MARKET

Notes: Panel A plots enrollee premiums for the cheapest plan by income as a percent of FPL, noting the thresholds (150 percent, 200 percent, and 250 percent of FPL) where the amount increases discretely. The black lines show the values that applied in 2009–2012; the gray lines show the (slightly higher) values for 2013. Panel B shows insurer prices (dotted lines) and enrollee premiums (solid lines) for the five plans in 2011. In this year, four insurers set prices within \$3 of a \$426/month price cap, while CeliCare set a lower price (\$405) and therefore had lower enrollee premiums.

Subsidizing health insurance premiums: Questions for discussion

1. Why should (or why do) governments subsidize health insurance premiums?

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3. Would 'cashing out' the subsidy be a better policy?

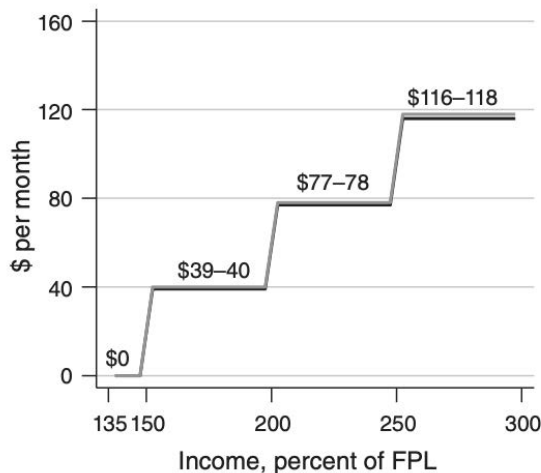
Subsidizing health insurance premiums: Questions for discussion

1. Why should (or why do) governments subsidize health insurance premiums?
2. Is this an in-kind transfer (like food stamps, AKA snap)?
3. Would 'cashing out' the subsidy be a better policy?
4. What information would aid your thinking/policy about (q3)?

Back to Massachusetts CommCare

Why is the jumpy subsidy schedule useful for learning about WTP for healthcare?

Panel A. Premiums for cheapest plan, 2009–2013



Sharp drops in health insurance enrollment at subsidy discontinuities

Panel A. Average monthly enrollment by income

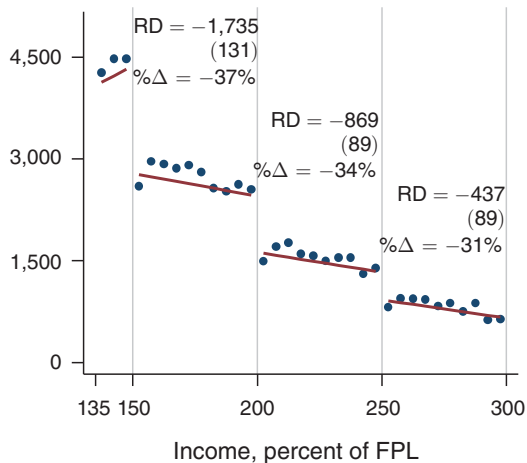


FIGURE 5. COMM-CARE ENROLLMENT AND AVERAGE INSURER COSTS, 2009–2013

Enrollment in MA Commonwealth Care among the eligible population

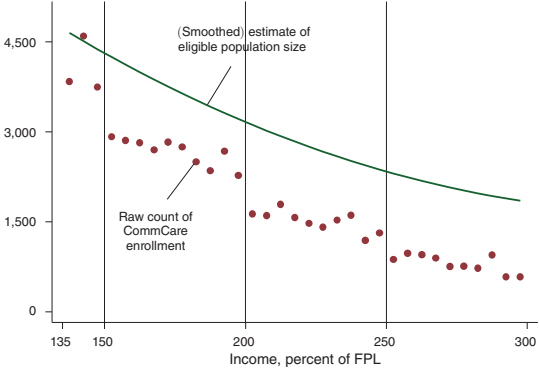


FIGURE 4. ELIGIBLE AND ENROLLED POPULATION, 2011

Notes: Figure shows our (smoothed) estimate of the CommCare-eligible population in 2011 (based on ACS data), and raw enrollment counts in CommCare in 2011 by bins of 5 percent of the FPL.

Estimated H.I. demand curve: Commcare-eligible adults

Panel A. W_L (based on $1 - D_U$)

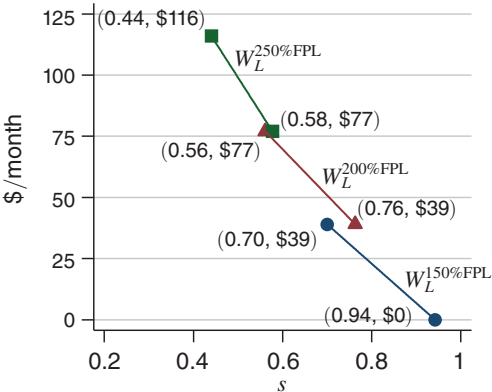


FIGURE 10. WILLINGNESS TO PAY CURVES: EMPIRICAL

Takeaways

1. How much do potential CommCare beneficiaries value subsidized insurance?

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1. How much do potential CommCare beneficiaries value subsidized insurance?
2. Why don't beneficiaries value it more?
3. Would beneficiaries be better off instead with a cash transfer equal to cost of CommCare instead?
4. **Why do governments (and voters) insist on giving in-kind transfers rather than cash transfers?**

Why do governments—and voters—appear
to favor in-kind over cash transfers?

Why Is So Much Redistribution In-Kind and Not in Cash? Evidence from a Survey Experiment

Zachary Liscow and Abigail Pershing



PDF



PDF PLUS



Abstract



Full Text



Supplemental Material



Abstract

Economists often point to the superiority of cash over in-kind transfers as a means of redistribution because recipients can choose how to use these resources. However, among the trillions of dollars of annual US transfers, redistribution is mostly in-kind. We conducted a survey experiment to help explain why.



National Tax Journal
Volume 75, Number 2
June 2022

Liscow and Pershing survey sample

Table A1. Survey Demographics: Survey Percentages and Test of Difference with US Population

	US Population	Treatment				
		Control	Economics	Rights	Poor Spending	Yale Sample
Age						
18-34	30	30 (0.98)	30 (0.81)	30 (0.95)	29 (0.63)	98 (0.00)
35-44	16	17 (0.55)	17 (0.84)	16 (0.85)	16 (0.82)	2 (0.00)
45-54	16	17 (0.92)	16 (0.98)	16 (0.80)	17 (0.95)	0 (0.00)
55-64	17	17 (0.88)	17 (0.97)	16 (0.84)	18 (0.43)	0 (0.00)
65+	21	20 (0.59)	21 (0.92)	22 (0.52)	20 (0.95)	0 (0.00)
Race						
White	60	58 (0.31)	61 (0.65)	61 (0.64)	62 (0.45)	63 (0.48)
Hispanic/Latino	18	20 (0.05)	18 (0.92)	18 (0.80)	17 (0.76)	16 (0.19)
Black	12	12 (0.98)	12 (0.85)	12 (0.88)	11 (0.99)	5 (0.01)
Asian/Pacific Islander	6	6 (0.42)	6 (0.90)	6 (0.61)	6 (0.94)	11 (0.00)
Other	4	3 (0.00)	3 (0.09)	4 (0.23)	4 (0.12)	5 (0.11)
Gender						
Female	51	50 (0.72)	51 (0.83)	51 (0.84)	49 (0.31)	57 (0.00)
Income						
Under \$25,000	19	19 (0.72)	19 (0.95)	19 (0.84)	19 (0.77)	6 (0.00)
\$25,000-\$50,000	21	21 (0.94)	21 (0.91)	21 (1.00)	21 (0.72)	4 (0.00)
\$50,000-\$75,000	17	17 (0.93)	17 (0.92)	17 (0.88)	17 (0.85)	8 (0.00)
\$75,000-\$100,000	13	13 (0.68)	13 (0.80)	13 (0.88)	12 (0.91)	9 (0.07)
\$100,000+	30	30 (0.90)	30 (0.96)	30 (0.87)	31 (0.87)	72 (0.00)
Political affiliation						
Republican	28	28 (0.99)	28 (0.99)	27 (0.74)	29 (0.70)	5 (0.00)
Democrat	29	30 (0.70)	29 (0.91)	30 (0.48)	28 (0.61)	80 (0.00)
Independent	41	40 (0.49)	41 (0.97)	40 (0.67)	40 (0.58)	9 (0.00)
Education						
HS graduate or less	40	36 (0.00)	37 (0.10)	36 (0.07)	40 (0.87)	1 (0.00)
Some college+	60	64 (0.00)	63 (0.10)	63 (0.07)	60 (0.87)	99 (0.00)
Sample Size		1029	505	519	527	184

Preference question: Cash versus in-kind transfers?

Please consider the following program that the federal government is considering permanently adopting to help low-income Americans. The program would be funded by an across-the-board income-tax rate increase.

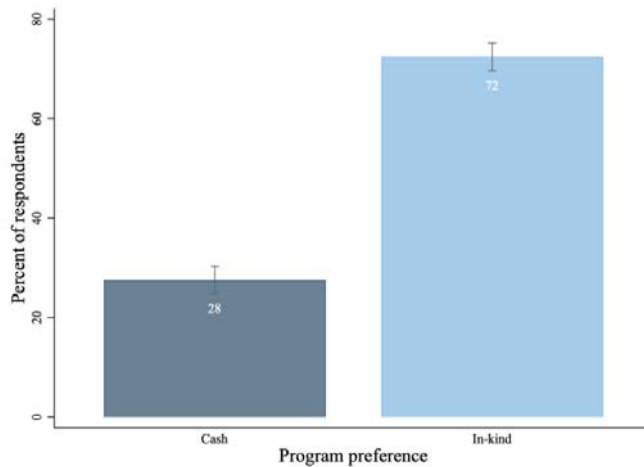
Figure A-1

Benefit Offered	Every year, each American below the poverty line receives \$2,000, in a separate account, that can be used to pay for healthcare, housing, and food costs only.
Total Cost	\$2,000 per year per American below the poverty line.

Figure A-2

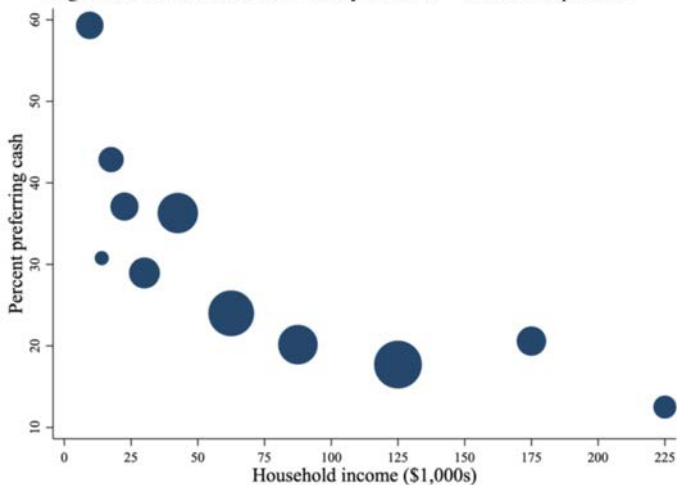
Benefit Offered	Every year, each American below the poverty line receives \$2,000 in cash to spend on whatever they choose.
Total Cost	\$2,000 per year per American below the poverty line.

Figure 1. Preference Between Cash and In-Kind Programs – General Population



Notes: The figure shows the percent of respondents preferring each of the cash and in-kind programs, when respondents are asked to choose between them. The thin bars mark 95 percent confidence intervals. Data are from control survey.

Figure A3. Preference for Cash by Income – General Population



Notes: This figure illustrates the percent preferring cash in each income bracket. Marker size is proportional to the number of observations in the income bracket, and markers are located at the midpoint of each income bracket. The coefficient of this regression is -0.16 with standard error = 0.02 (-12.53 and 1.71 respectively when using $\log(\text{income})$). Data are from the control survey.

Subjective beliefs question: How do the poor spend their money?

How Respondents Think the Poor Spend Money [asked in all but the below-poverty survey]

41. What percent of a cash benefit from the government do you think Americans below the poverty line would spend on necessities? Please assume that “necessities” means housing, transportation, food at home, clothing, utilities, healthcare, and education.

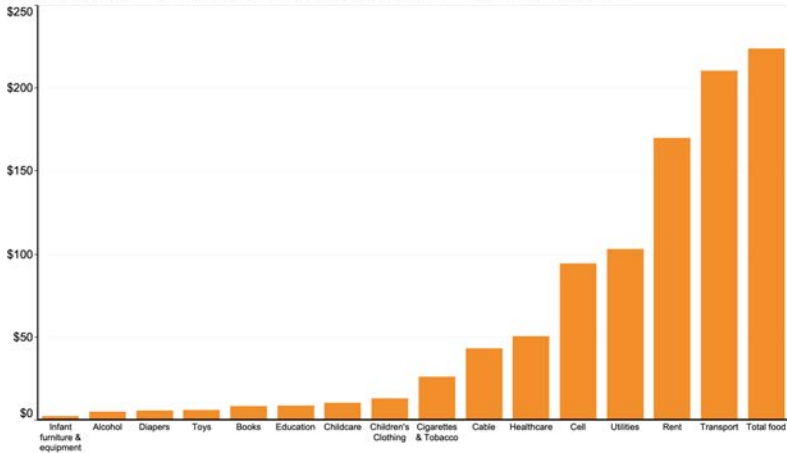
Slider from 0 to 100

Liscow & Pershing, 2022

Recall: Families living at/near poverty spend about 75% of income on food, transportation, rent, utilities, cellphone service

AVERAGE MONTHLY EXPENDITURES

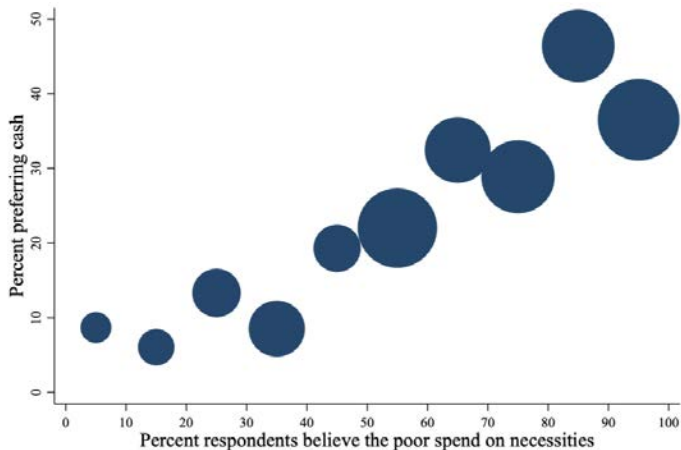
Across all households at less than 200% of the federal poverty line and with at least one child, 2015-2019



Source: Consumer Expenditure Survey, U.S. Census Bureau

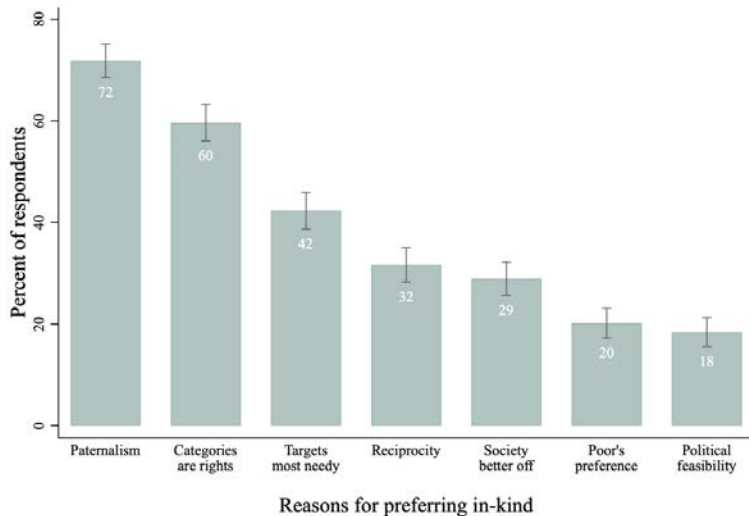
EconoFact econofact.org

Figure 2. Relationship Between Program Preference and Perception of the Poor's Spending Habits – General Population



Notes: This graph shows the preference for the cash program, by respondents' perception of how much out of a cash transfer the poor would spend on necessities. Marker size is proportional to the number of observations in each decile of perceived spending on necessities. The coefficient from the regression of preferring cash on perceived spending is 0.42 (SE = 0.05). Data are from control survey.

Figure 3.a. Reasons Given for Preferring In-Kind – General Population



Notes: This figure shows the percentage of respondents who selected each reason for preferring in-kind, by order of popularity. “Other (please specify)” was also displayed as an option; it was chosen by 3 percent of respondents. The thin bars mark 95 percent confidence intervals. Observations are respondents preferring in-kind in the control survey.

pa·ter·nal·ism | pə'tərn(ə)l,izəm |

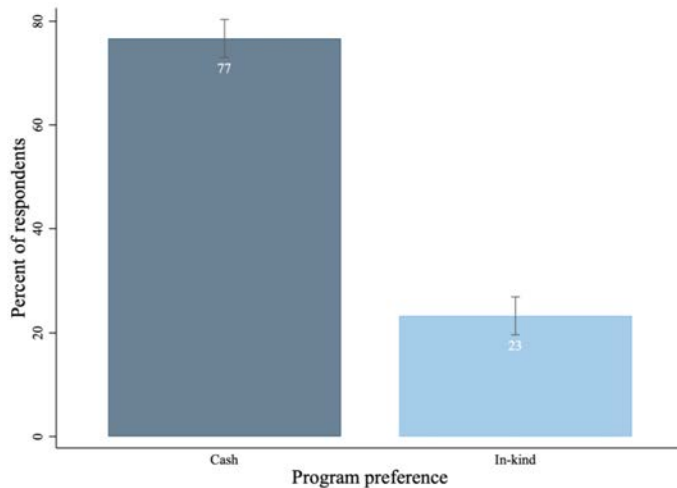
noun

the policy or practice on the part of people in positions of authority of restricting the freedom and responsibilities of those subordinate to them in the subordinates' supposed best interest: *the arrogance and paternalism that underlies cradle-to-grave employment contracts.*

DERIVATIVES

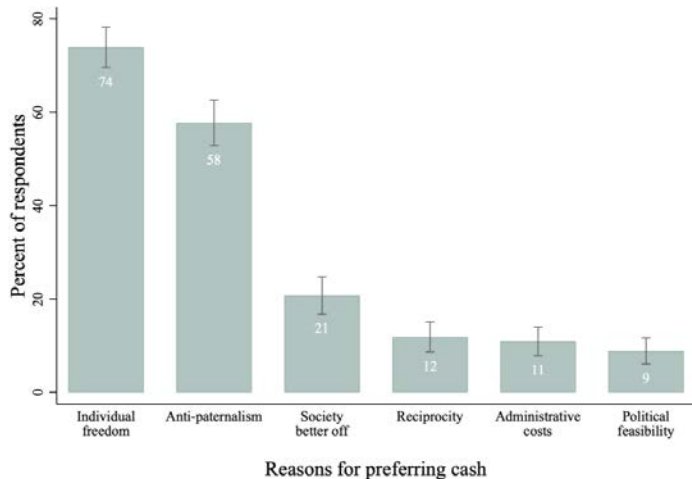
paternalist | pə'tərn(ə)ləst | noun, adjective

Figure 5. Preference Between Cash and In-Kind Programs – Below-Poverty Survey



Notes: The figure shows the percent preferring each of the cash program and the in-kind program, when respondents in the below-poverty survey are asked to choose between them. The thin bars mark 95 percent confidence intervals.

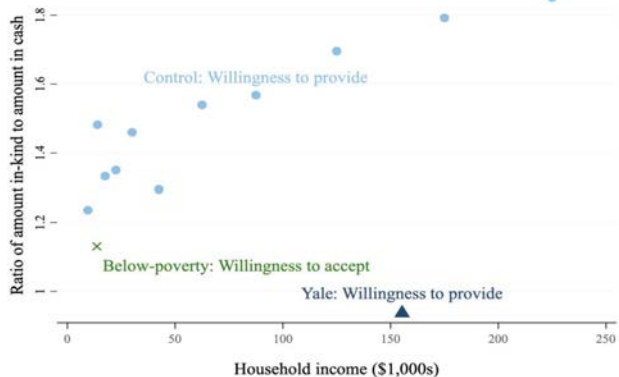
Figure 6.b. Reasons Given for Preferring Cash as Recipient – Below-Poverty Survey



Notes: The figure shows the support for each of the reasonings offered in the below-poverty survey for preferring cash, in order of popularity. “Other (please specify)” was also displayed as an option; it was selected by 4 percent of respondents. The thin bars mark 95 percent confidence intervals.

Solving for the political equilibrium

Figure 7. Willingness to Provide or Accept In-Kind vs. Cash Transfers



- Poor value in-kind transfers at approx \$0.80 per dollar
- Takes about \$1.25 of in-kind transfer to *psychically* equal \$1.00 in cash
- Affluent households willing to provide \$1.20 – \$1.80 in in-kind transfers per dollar of cash

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