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# Job Market Ideas Explained in Words: Neale Mahoney

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Before there was PPACA (“ObamaCare”) there was already government-provided health insurance. It’s called bankruptcy. [Neale Mahoney](#) studies the extent to which it crowds out demand for conventional health insurance.

Hospitals are required to provide emergency care and typically provide other health-care services without upfront payment. Patients who experience large unexpected health care costs have the option of avoiding some of these costs by declaring bankruptcy. Thus bankruptcy is essentially a form of high-deductible insurance where the deductible is the value of assets seizable by creditors. For many of the poorest households, “bankruptcy insurance” is an attractive substitute for health insurance.

Because states differ in the level of exempted assets, the effective deductible of bankruptcy insurance varies across states. This variation enables Mahoney to measure the extent to which changes in bankruptcy asset exemption affect households’ incentives to purchase conventional health insurance.

Ideally you would like to compare two identical households, one in Delaware (friendly to creditors) and one in Rhode Island (friendly to debtors) and see how the difference in seizable assets affects their health insurance coverage. Things are never so simple so he uses some statistical finesses to deal with a variety of confounds.

The results allow him to address a number of natural questions. If every state were to adopt Delaware’s (restrictive) bankruptcy regulations, 16.3% of uninsured households would purchase insurance. For a program involving government subsidies to achieve the same increase, 44% of health insurance premiums would have to be subsidized.

From a welfare point of view, bankruptcy insurance is inefficient because the uninsured do not internalize some of the costs they impose from using bankruptcy insurance. On the other hand, because they are uninsured their providers directly bear more of the costs of care, mitigating the moral hazard inefficiency of standard insurance. With this tradeoff in mind we can ask what penalty should be imposed on those who choose not acquire private health insurance. Mahoney finds that the PPACA penalty is two large by almost a factor of two.

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