

## The Affordable Care Act: An Experiment in Federalism?

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### INTRODUCTION

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The Affordable Care Act is an experiment in federalism – or so it would appear at first glance. On October 1st, health insurance exchanges began enrollment across all 50 states and the District of Columbia. States can choose to manage the exchanges themselves, partner with the federal government or hand the task over entirely to the federal government. Thirty-four states will either partner with or delegate implementation entirely to the federal government, while 16 states (plus D.C.) will oversee their own health insurance exchanges, according to the Commonwealth Fund.<sup>1</sup> Amidst a decades-long debate about whether complicated policy reform should be implemented at the state or the federal level, the ACA seems to provide a test of which level is better able to execute a new policy.

But all is not as it seems. In order for the implementation of the ACA to constitute a true experiment, the decision of state versus federally run exchanges would need to be randomly assigned. Then, we could look at the success of health care reform in each category of states and draw conclusions about which form of implementation was most effective. Implementation of the ACA does not fit this criteria because each state can choose for itself whether implementation will be run by the state or the federal government. Because running the exchanges is costly, and public opinion concerning the health care overhaul breaks sharply along partisan lines, nearly all Republican states are opting for federally managed exchange programs and nearly all Democratic states are opting to run the exchanges themselves. Consequently, federally-run health insurance exchanges are likely to experience more struggles than are state-run exchanges, but not necessarily due to shortcomings of the federal

<sup>1</sup> "State Action to Establish Health Insurance Marketplaces The Commonwealth Fund." *The Commonwealth Project*, July 2013. <http://www.commonwealthfund.org/Maps-and-Data/State-Exchange-Map.aspx>.

government. Rather, the struggles of federally-run exchanges will emanate from partisan opposition to health care reform at the state level. Due to the confounding role of partisan obstructionism, we cannot directly compare states with federally-run programs to those with state-run programs to evaluate which level of government is more capable of executing this complicated policy reform.

Therefore, to evaluate the effect of nationally- versus state-run implementation on the ACA's public approval, and ultimately, on policy effectiveness, we conduct an *actual* experiment: On August 29th-31st, we ran a 1,989 person national survey (conducted by the Morning Consult) with a random sample of American registered voters. Respondents read a description of the health insurance exchanges and then, by random draw, were told that the exchange was to be administered by either the federal or the state government, a possible outcome for each state when the experiment was administered. We then asked respondents a battery of questions about health care reform, including their confidence that the health insurance exchanges would be implemented successfully. While this survey occurred prior to the ACA's launch date of October 1st, and therefore can only speak to public approval, we plan to run additional experiments now that the ACA has gone into effect to more directly assess policy effectiveness based on the level of implementation.

Overall, we find that once we account for the role of partisanship, federal versus state implementation of the exchanges has a negligible effect on respondents' confidence in the program. The real driver of public confidence of both the ACA and the federal government is party identification. Republicans hold much more negative views of the ACA and the federal government than Democrats. Moreover, when told that the federal government (rather than the state) will implement their exchange program, Republicans are far less confident the program will succeed. Democrats, on the other hand, were at least as confident in the federal government's capacity to manage the exchanges as they were in the states'. These differences in perceptions, together with the partisan makeup of states that have opted for state- versus federal-implementation of the health insurance exchanges, have the potential to lead to more overall distrust of the federal government and greater polarization across states and parties.

The paper proceeds as follows. Section 1 describes the sorting problem introduced by allowing each state to independently choose its own level of implementation. Section 2 provides predictions for how state- versus federally-run exchanges, partisanship, and their interaction, will affect public confidence in health care reform. In Section 3, we describe our survey, and present its results. Section 4 discusses the implications of these results for health care reform and proposes ways in which implementation of the health care overhaul may be improved upon.

## THE SORTING PROBLEM

As noted above, a fundamental feature of an experiment is that groups (or individuals) are randomly assigned to either receive treatment or to not receive treatment. In the case of the Affordable Care Act, each state could choose whether it will receive “treatment” (i.e., choose whether it will run the exchanges itself or allow the federal government to do so); therefore, it is unlikely that the assignment process is random. However, the fact that states chose their own treatment does not necessarily undermine our ability to draw meaningful conclusions, or in the parlance of experimentalists, causal inference. Suppose, for instance, that each state used the same rule to decide whether to run its own exchange or to delegate implementation to the federal government. Suppose further that each state was truly indifferent between whether to opt for state or federal implementation of the ACA. Under such circumstances, we could imagine that each state (independently) flipped a coin to decide its implementation strategy. In this case, then, “treatment” would be random, even though each state got to choose for itself.

The problem arises when each state has different preferences, and based on those preferences, the states “sort” into two groups: one group that wants to, and does, receive the treatment, and one group that does not want to, and therefore does not, receive the treatment. In such a case, we might incorrectly attribute different outcomes for the two groups to the presence or absence of the treatment, when the different outcomes should be attributed to the underlying different preferences that led the states to sort into two disparate groups in the first place.

Precisely such a problem has unfolded in the implementation of the ACA. It has developed in the following way: Each state has its own underlying preferences for health care reform; some would like for it to succeed, while others would like for it to fail. Based on these preferences, each state has chosen whether to implement the reform itself, which may be costly in terms of time, effort, resources, and political capital, or to delegate the task to the federal government. Republican governors, who generally are avowed critics of the ACA, have distanced themselves from the bill and handed the task of implementation over to the federal government. In these states, the Obama administration’s implementation will be undermined by the Republican state government, leading to increased policy struggles and lower public approval of health care reform and the federal government. For example, a recent article in the *New York Times* noted that Republican-led states including Florida, Missouri and Ohio “are complicating enrollment efforts and limiting information about the new program.”<sup>2</sup> In other words, some argue,

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2 Alvarez, Lizette, and Robert Pear. “Florida Among States Undercutting Health Care Enrollment.” *New York Times*, September 17, 2013. [http://www.nytimes.com/2013/09/18/us/florida-among-states-undercutting-health-care-enrollment.html?\\_r=0](http://www.nytimes.com/2013/09/18/us/florida-among-states-undercutting-health-care-enrollment.html?_r=0).

Republicans plan to undermine health care reform, and then complain that it does not work<sup>3</sup> – while attributing blame to the Obama administration.

Meanwhile, states with Democratic leadership want the reform to succeed, and so are more likely to cooperate with the federal government. In an effort to help the policy succeed, these states are taking a more hands-on approach and implementing the exchanges themselves. Moreover, in states where both the federal and state governments want the reform to succeed, the policy will be better implemented and public approval of health care reform, the state government, and also the federal government (since it enacted the policy) will rise.

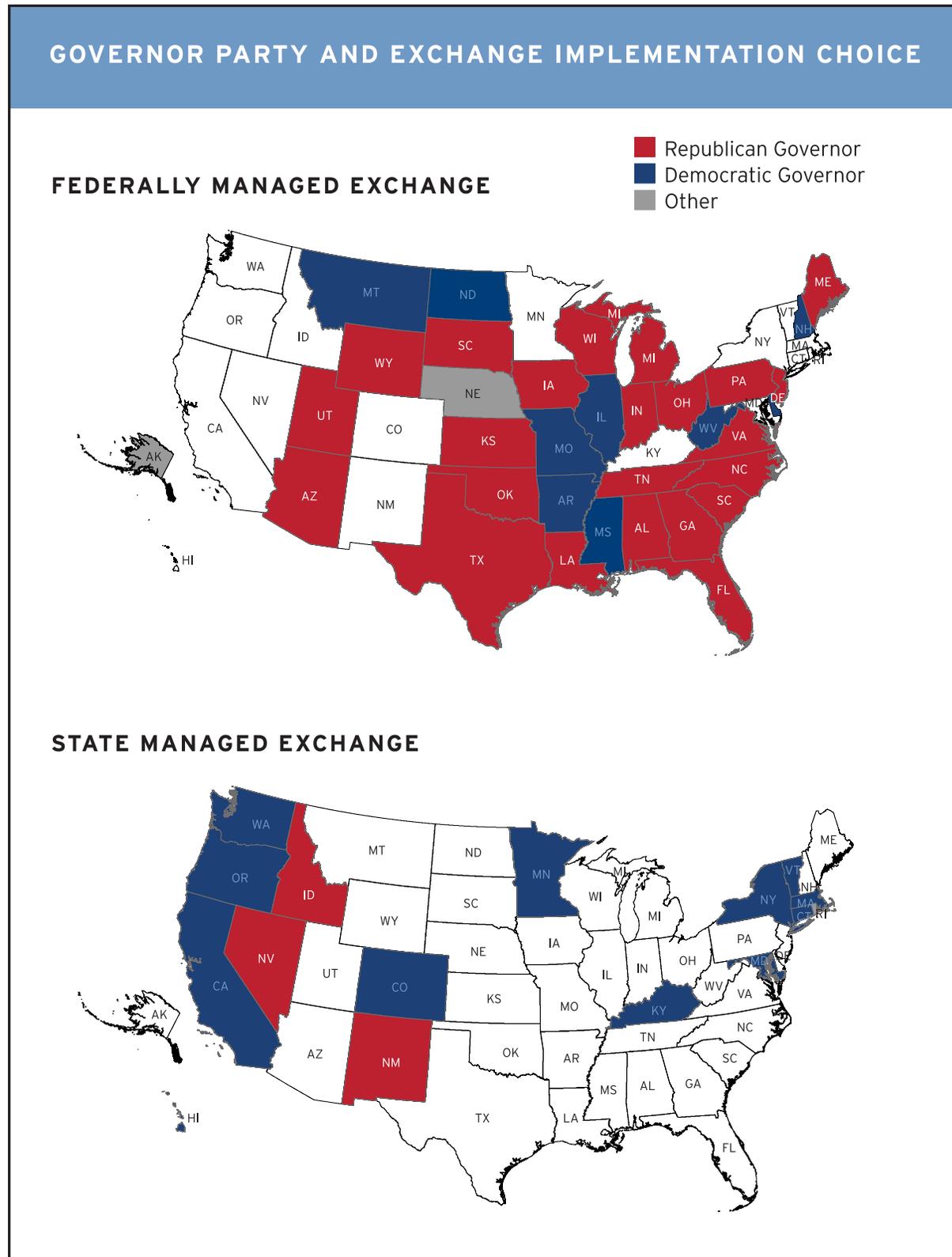
Figure 1 displays the partisan makeup of the states that have opted for state as opposed to federal implementation of the health insurance exchanges; the underlying differences are stark.<sup>4</sup> As noted earlier, 16 states (plus the District of Columbia) are running their own exchange programs, while seven states are partnering with the federal government, and 27 are delegating to the federal government entirely. Of the 16 states running their own exchanges, 13 have Democratic governors as compared to three with Republican governors.

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3 Bernstein, Jonathan. "1. Undermine health care reform 2. Complain it doesn't work." *Washington Post*, June 28, 2013. <http://www.washingtonpost.com/blogs/post-partisan/wp/2013/06/28/1-undermine-health-care-reform-2-complain-it-doesnt-work/>.

4 The United States shapefile was obtained through National Historic Geographic Information System - See Minnesota Population Center. *National Historical Geographic Information System: Version 2.0*. Minneapolis, MN: University of Minnesota 2011), <http://www.nhgis.org>. Information on the partisanship of Governors is from National Conference of State Legislators ("2012 State and Legislative Partisan Composition." *National Conference of State Legislatures*, June 6, 2012. [http://www.ncsl.org/documents/statevote/2012\\_legis\\_and\\_state.pdf](http://www.ncsl.org/documents/statevote/2012_legis_and_state.pdf).) Information on health care exchange implementation for each state is from the Commonwealth Fund ("State Action to Establish Health Insurance Marketplaces The Commonwealth Fund." *The Commonwealth Project*, July 2013. <http://www.commonwealth-fund.org/Maps-and-Data/State-Exchange-Map.aspx>.). On November 15, 2012, Governor Beverly Perdue (D) of North Carolina declared that the state would partner with the federal government to implement their exchange. Then, on February 12, 2013, the newly-elected Governor, Republican Pat McCrory, decided that the federal government would operate the exchange entirely. We thus code North Carolina as having a Republican Governor, since it was a member of the GOP who made the final decision about implementation. See "State Exchange Profiles: North Carolina." *The Henry J. Kaiser Foundation*, February 12, 2013. <http://kff.org/health-reform/state-profile/state-exchange-profiles-north-carolina/>.

**FIGURE 1**



A similar pattern emerges when looking at the state legislatures: 12 of the 16 states that are running their own exchanges have Democratically-controlled lower chambers, and 12 have Democratically-controlled Senates.<sup>5</sup> The picture becomes even clearer when looking at unified state governments. Out of the 12 states in which the governorship and both chambers of the legislature are controlled by Democrats, none are delegating implementation to the federal government.

Meanwhile, 24 of the 27 states opting for federally-run exchanges have Republican governors and only four have Democratic governors. Twenty-five of these states have Republican-controlled state lower chambers, and 22 have Republican-controlled state Senates. Of the 20 states in which Republicans control a unified state government, only one state (Idaho) has opted for a state-run health insurance exchange.

In short, in choosing between state- and federally-run exchanges, the states have clearly sorted into two categories: Republican-controlled states with elected officeholders that want the ACA to fail are systematically handing over implementation to the federal government, while Democrat-controlled states with officials who are strong ACA supporters are running their own exchanges. Consequently, if public confidence in the ACA is eventually higher in states administering their own exchanges, we cannot necessarily attribute this to different levels of effectiveness between the federal and state governments.

## PREDICTIONS

In order to overcome this sorting problem and draw causal inference regarding the determinants of public confidence in health care reform, we administer an experiment embedded in a survey to a large, nationally representative population. Based on the nature of ACA implementation and the design of our survey experiment, we have three predictions. First, when assessing the effect of state versus federal implementation on public confidence in the ACA without controlling for partisanship, we expect to find lower levels of confidence among those told that the ACA will be managed by the federal government. This stems from the general pattern apparent in decades of public opinion research that Americans trust the federal government less than they trust their state governments.<sup>6</sup>

Second, we expect that once we control for respondents' partisanship, the effect of state versus federal implementation on confidence in the ACA will disappear, while the respondent's party affiliation will emerge as a strong predictor of confidence. That is, when trying to predict

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5 The District of Columbia does not have a Governor, House or Senate (since it is not a state), but also identifies as strongly Democratic.

6 For a review, see Kincaid, John, and Richard L. Cole. "Public Opinion and American Federalism: Perspectives on Taxes, Spending, and Trust – An ACIR Update." (*The Journal of Federalism* 30: 189, 2000).

one's confidence in whether the exchanges will be effectively implemented, it is much more important to know that person's political party than it is to know which level of government is managing the health insurance exchanges.

Third, due to the partisan nature of the debate over health care reform, we expect Democrats and Republicans to respond differently to the news that the ACA will be federally or state run. Since Democrats overwhelmingly approve of President Obama and associate him with federal health care reform, their confidence in the ACA will increase when they are told that the exchanges will be managed by the federal government. Conversely, Republicans – who disapprove of Obama – will have lower levels of confidence in the ACA when told that the exchanges will be run at the federal level by the Obama administration.

## RESEARCH DESIGN, DATA AND RESULTS

We cannot yet observe the success or failure of Obamacare. We can, however, examine Americans' confidence levels in the ACA. More explicitly, we can test whether an individual's confidence in the successful implementation of the ACA is driven by his party identification or by whether he believes that the exchanges will be managed by the federal rather than the state government. In this section, we first outline our research design. We then provide a basic overview of our results, followed by a rigorous analysis of the relative effects of partisanship and state versus federal implementation on confidence in the likely effectiveness of the health insurance exchanges.

## DATA AND RESEARCH DESIGN

To test our claims, we conducted a controlled, randomized survey experiment of a nationally representative sample of 1,989 registered voters in late August 2013. The survey was administered by Survey Sampling International, Inc (SSI), of Shelton, CT, which recruits individuals via opt-in recruitment methods online. SSI samples are not as representative as the best national probability samples but significantly outperform convenience samples. Moreover, in the context of this specific study, we do not consider the sampling approach to be a serious concern for several reasons. First, though the selection method may influence the overall levels of variables, we are mainly interested in the associations between variables which are less likely affected by the nature of the sample.<sup>7</sup> Second, our results are robust to the application of post-stratification weights intended to enhance the representativeness of the sample.<sup>8</sup>

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7 Sanders, David, Harold D. Clarke, Marianne C. Stewart, and Paul Whiteley. "Does Mode Matter for Modeling Political Choice? Evidence from the 2005 British Election Study." (*Political Analysis* 15(3): 257-85, 2007).

8 The data were post-stratified to match a target sample of registered voters in the 2012 Current Population Survey (CPS) based on age, race, gender, education and region.

Survey respondents read a description of the health insurance exchanges and then, by random draw, were told the exchange was to be administered by either the state or federal government, a possible outcome for each state at the time that the experiment was administered. For instance, a survey respondent residing in California viewed the following prompt:

“In the coming months, more parts of the 2010 health care law will go into effect. As you may know, part of the law creates a health insurance exchange which offers a set of health insurance plans from which individuals can choose.

Recently, some have proposed that the [federal government / state of California] should run the health insurance exchange in your state.”

In summary, half of respondents saw a prompt noting their home state was managing the health insurance exchanges and half saw a prompt stating the exchanges would be managed by the federal government. Then, for the example respondent from California, we asked the following question:

“How confident are you that the health insurance exchange program can be implemented successfully by the [federal government / state of California]?”

Each respondent could say that they were either: “Extremely confident,” “Very confident,” “Somewhat confident,” “Not too confident,” or “Not at all confident.”

## **DESCRIPTIVE STATISTICS**

In total, 990 individuals were informed that the states would run their exchanges (i.e., the state treatment), and 999 that the federal government would manage them (i.e., the federal treatment). Of those respondents told that the state would manage their exchanges, there were 266 self-identified Republicans, 377 Democrats, and 347 Independents. There were 1,860 respondents (930 who saw the state treatment and 930 who saw the federal treatment) that responded to the question about their confidence in the successful implementation of the ACA.

**FIGURE 2**

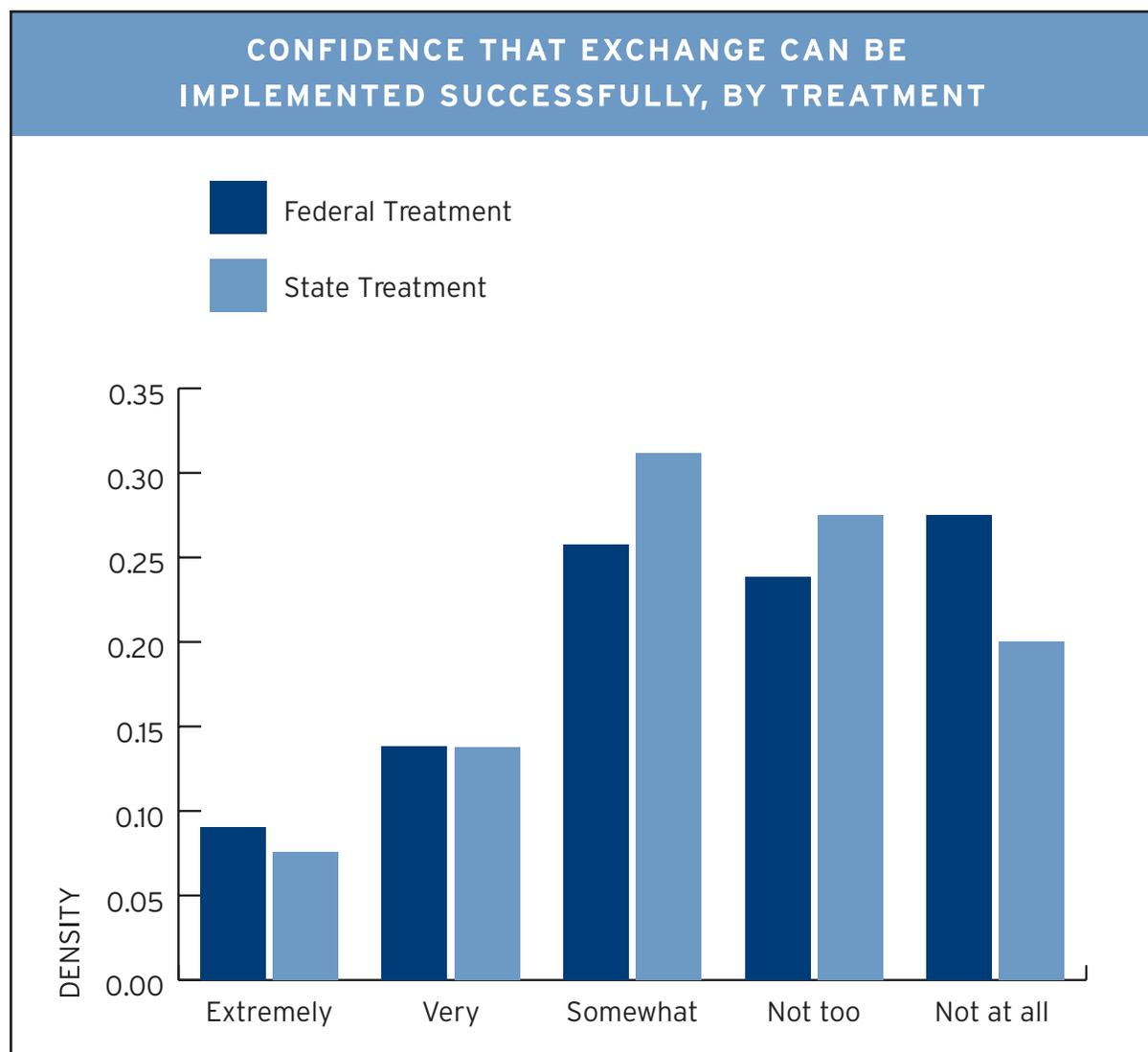
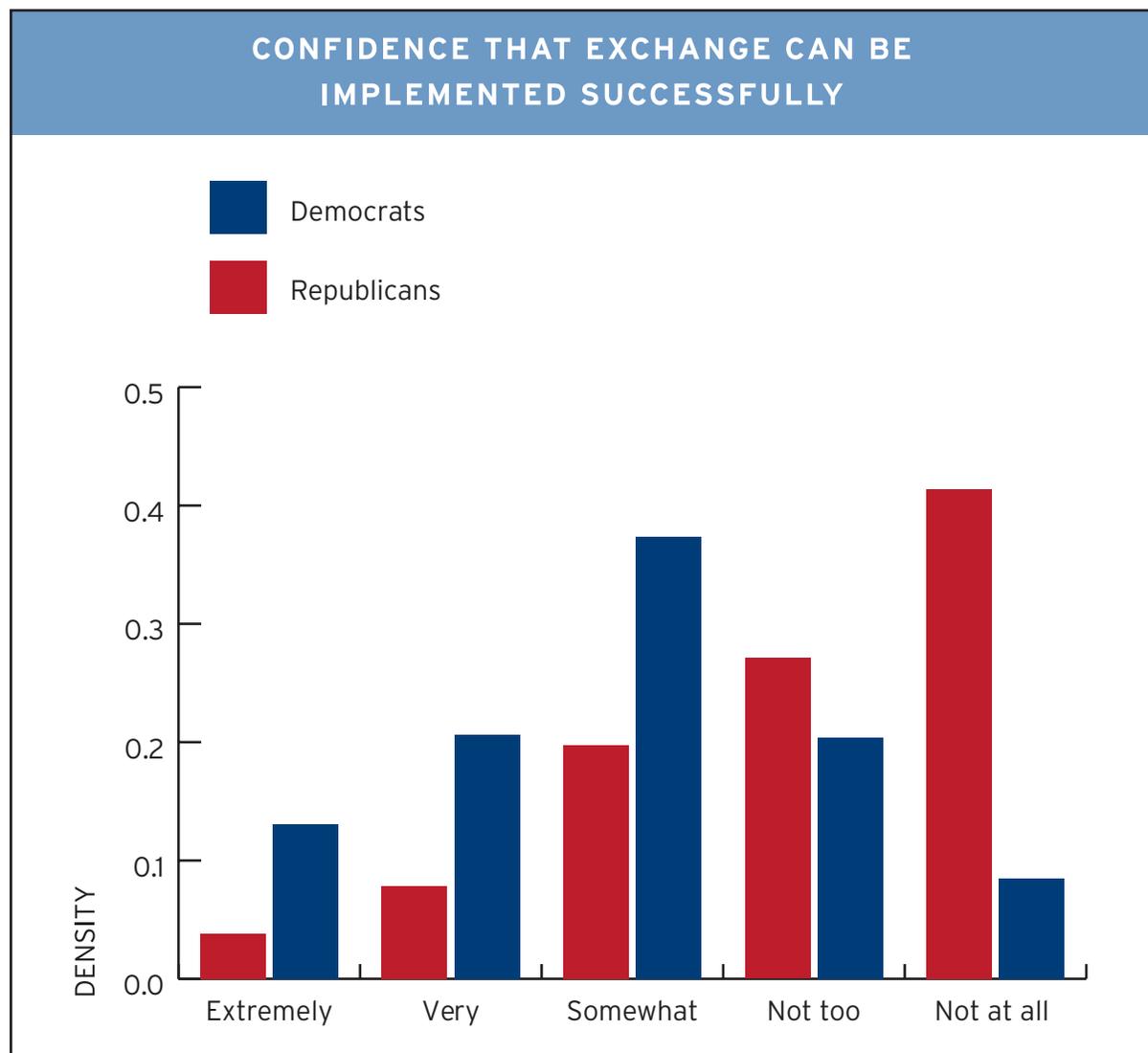


Figure 2 displays the distribution of responses for individuals in both the state-treatment and federal-treatment groups. Respondents in the federal-treatment group express more extreme opinions about the likely success of the exchanges – they are more likely than those in the state-treatment group to say that they are extremely confident or not at all confident that health care reform will succeed. The results suggest that, on average, respondents have slightly more confidence in the efficacy of state implementation than they do in federal implementation.

**FIGURE 3**



The relationship between partisanship and respondents' confidence in successful implementation is readily apparent. Figure 3 demonstrates that Democrats are more likely than Republicans to express confidence in the successful implementation of the exchanges. Republicans believe that successful implementation is unlikely; indeed 41% of Republicans said that they were “not at all confident” that the exchange would be implemented successfully, the most extreme, negative response available. So, this first look at the raw data shows that respondents are slightly less confident in federally-managed exchanges, but that partisanship is a much stronger predictor of confidence in health care reform.

## ANALYSIS

In this section, we move beyond the bivariate descriptive statistics shown above. To this end, we use a number of statistical techniques that allow us to test the relationship between the implementation treatment and confidence in health care reform, along with the interactive and potentially confounding influences of additional variables – most importantly, partisanship.

First, to simplify the analysis and interpretation, we created a binary variable that equals one if respondents expressed some confidence that the implementation of the exchanges would succeed (i.e., responded they were “Extremely,” “Very,” or “Somewhat” confident the exchanges would succeed). The variable is coded as zero if respondents were “Not too” or “Not at all” confident the exchanges could be implemented successfully.

**TABLE 1**

CONFIDENCE THAT EXCHANGE WILL BE IMPLEMENTED SUCCESSFULLY, BY TREATMENT AND PARTY		
	CONFIDENT	NOT CONFIDENT
<b>DEMOCRATS</b>		
Federal	76% (295)	24% (93)
State	66% (249)	34% (128)
<b>REPUBLICANS</b>		
Federal	21% (59)	79% (222)
State	43% (152)	57% (152)

*Note: Frequencies in parentheses.*

Table 1 explores the conditional effect of federal versus state implementation when we control for the respondent's party identification. Regardless of the treatment, Democrats are mostly confident that the exchanges will be successfully implemented. They are, however, 10 percentage points more confident the exchanges will succeed when told that the federal government will run them, a result consistent with our third prediction. A Fisher's exact test reveals that this difference across the federal and state treatment groups is statistically significant at the 1% level.

**TABLE 2**

PREDICTING CONFIDENCE IN THE SUCCESSFUL IMPLEMENTATION OF HEALTHCARE EXCHANGES					
	(1)	(2)	(3)	(4)	(5)
<b>FEDERAL TREATMENT</b>	-0.19* (0.09)	-0.19 (0.12)	-0.25 (0.13)	0.48** (0.17)	0.46** (0.17)
<b>REPUBLICAN</b>		-1.69** (0.13)	-1.65** (0.13)	-0.96** (0.17)	-0.87** (0.18)
<b>REPUBLICAN x FEDERAL TREATMENT</b>				-1.58** (0.26)	-1.71** (0.27)
<b>UNINSURED</b>			0.20 (0.18)		0.24 (0.19)
<b>FEDERAL IMPLEMENTATION</b>			-0.45** (0.14)		-0.43** (0.15)
<b>AGE</b>			-0.44** (0.08)		-0.45** (0.08)
<b>COLLEGE</b>			0.17 (0.15)		0.19 (0.15)
<b>CONSTANT</b>	0.11 (0.66)	1.00** (0.11)	2.41** (0.28)	0.68** (0.11)	2.06** (0.28)
<b>OBSERVATIONS</b>	1860	1229	1179	1229	1179
<b>LR<sub>χ</sub><sup>2</sup></b>	0.04*	198.25**	248.33**	236.18**	288.48**

The dependent variable is a dummy variable equal to one for respondents who expressed confidence that the healthcare exchanges could be implemented successfully and zero for those who were not confident that this could be accomplished. Logistic regression results with standard errors in parentheses. Two-tailed significance levels: \*p<0.05; \*\*p<0.01.

Conversely, only about one in three Republicans are confident the exchanges can be implemented successfully. Moreover, as expected, confidence in successful implementation is 22 percentage points lower among those who were told that the federal government would run the exchanges. Again, this difference is statistically significant at the 1% level.

Next, we estimate confidence in the successful implementation of health insurance exchanges as a function of the treatment using logistic regression. To test our first prediction, we examine whether the federal versus state treatment affected respondent's confidence in successful implementation. The results are presented in Column 1 of Table 2. We find that respondents who received the federal treatment expressed, on average, less confidence than those who received the state treatment. Overall, then, we find results that are supportive of our first prediction – respondents are less confident of the federal government's ability to successfully run the exchanges compared with their state's ability.

However, according to our second prediction, there should be no inherent bias against the federal government once we take partisanship into account. To evaluate this claim, in Column 2 we estimate a model that includes both the treatment and the respondent's party identification (a dummy variable equal to one for Republicans and zero for Democrats) as predictors.<sup>9</sup> Consistent with our expectations, we find that when controlling for party identification, there is no relationship between federal versus state management and confidence in the successful implementation of the exchanges. Meanwhile, the relationship between party identification and confidence is negative and highly significant at the 1% level: as we saw in the raw data, Republicans have far less trust that the exchanges will be implemented successfully than do Democrats.

There may be additional factors that confound the relationship between party identification and feelings about the implementation of the exchanges that are not captured in the model estimated in Column 2. To account for this possibility, Column 3 of Table 2 adds several control variables.<sup>10</sup>

First, because the uninsured tend to have a lower income, and are, therefore, more likely to be Democrats, we include an indicator variable that equals one if the respondent is uninsured, and zero if she already has health insurance. Second, we control for whether each respondents' state, at the time of the survey, had announced that implementation of the exchanges would be run at the state (coded zero) or the federal (coded 1) level (however, given the general confusion about Obamacare, we find it extremely unlikely that respondents were aware of this information). In a sense, this is akin to controlling for the "partisanship" of the state, since states opting for federal implementation are mostly led by Republicans, while states selecting state management of the exchanges are mostly led by Democrats. Third, since age and education levels might influence views on health care reform and have been shown to be correlated with partisanship<sup>11</sup>, we include variables for each. Age is measured as a factor

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9 In this model, the number of observations drops from 1860 to 1229. This is due to the fact that some respondents failed to report their party id and our exclusion of independents from the analysis.

10 We lose additional observations in this model, since there is some missing data for the control variables.

11 Wolfinger, Raymond E. and Steven J. Rosenstone, *Who Votes* (New Haven: Yale University Press, 1989).

variable, where those ages 18-29 are coded as one, 30-44 as two, 45-64 as three, and over 65 as four. Education is measured by an indicator variable that equals one if the respondent graduated from college, and zero otherwise.

In Column 3, we find that including these additional variables fails to substantially affect our main predictors, suggesting that omitted variable bias is not driving our results. Though the coefficient on the treatment variable increases slightly both in magnitude and statistical significance, it fails to reach significance at the 5% level. Once again, Republicans are significantly less confident ( $p < 0.01$ ) the ACA will be successfully implemented than are Democrats, a finding that is consistent with our second prediction.

Our third prediction asserts that Republicans will express more distrust when told the federal government (rather than the state) will run their exchanges, whereas Democrats will be more confident the federal government (as opposed to the state) can successfully manage the exchanges. To test this two-part prediction, we estimate a new model that includes the treatment, party identification, and their interaction as explanatory variables. The results are reported in Column 4 of Table 2.

It can be difficult to interpret logit coefficients directly, especially when dealing with more complicated models that include interaction terms. Therefore, we convert estimates from our model into predicted probabilities between zero and one.<sup>12</sup> In Table 3, we estimate the probability of expressing confidence in the implementation of the health insurance exchanges, based on whether that individual is (1) a Democrat or a Republican and (2) received the federal or the state treatment.

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<sup>12</sup> We use Clarify 2.0 – (see Tomz, Michael, Jason Wittenberg, and Gary King. “Clarify: Software for Interpreting and Presenting Statistical Results.” <http://www.stanford.edu/~tomz/software/clarify.pdf>.)

**TABLE 3**

<b>PREDICTED PROBABILITIES</b>		
<b>BASED ON RESULTS IN TABLE 2, COLUMN 4</b>		
	<b>CONFIDENT</b>	<b>NOT CONFIDENT</b>
<b>REPUBLICANS</b>		
Federal treatment	0.20 [0.15, .25]	0.80 [0.75, 0.85]
State treatment	0.43 [0.37, 0.49]	0.57 [0.51, 0.63]
<b>DEMOCRATS</b>		
Federal treatment	0.76 [0.72, 0.80]	0.24 [0.20, 0.28]
State treatment	0.66 [0.61, 0.71]	0.34 [0.29, 0.39]
<b>BASED ON RESULTS IN TABLE 2, COLUMN 5</b>		
	<b>CONFIDENT</b>	<b>NOT CONFIDENT</b>
<b>REPUBLICANS</b>		
Federal treatment	0.24 [0.16, 0.33]	0.76 [0.67, 0.84]
State treatment	0.52 [0.41, 0.63]	0.48 [0.37, 0.59]
<b>DEMOCRATS</b>		
Federal treatment	0.80 [0.72, 0.86]	0.20 [0.14, 0.28]
State treatment	0.72 [0.62, 0.79]	0.28 [0.21, 0.38]

*95% confidence intervals in brackets.*

Consistent with our expectations, Republicans have significantly less confidence in the successful implementation of the exchanges when told that they will be managed by the federal government. Republicans are more than twice as likely to exhibit confidence in state-run exchanges (43 percent) compared with federally-managed exchanges (20 percent). Fully eight in 10 Republicans lack confidence in exchanges administered by the federal government. Democrats, on the other hand, are 10 percentage points more confident that federally managed exchanges will succeed compared with state-run exchanges. For both Democrats and Republicans, these differences are statistically significant and also, clearly, substantively meaningful.

In Column 5 of Table 2, we estimate the same model while controlling for insurance status, each state's declared implementation strategy (federal or state), age, and education level. The coefficients largely do not change from those estimated in the previous model, and the predicted probabilities – which are shown in Table 3 – are again consistent with our expectations. That is, Democrats are significantly more confident in federally (versus state) run exchanges, and Republicans lack confidence in the federal government's ability to manage them.

## DISCUSSION

There has been considerable discussion concerning the Affordable Care Act's prospects for success or failure. The uninsured are hard to mobilize.<sup>13</sup> Americans are very confused about the health care overhaul.<sup>14</sup> And it is not even clear that Obamacare will take full effect.<sup>15</sup> We propose an altogether different challenge for the ACA: the inefficient sorting of states into those that will manage the program themselves, and those who will hand over implementation to the federal government. Ultimately, this sorting pattern has the potential to generate problems that extend beyond the ACA, biasing the public's views concerning the federal government's overall competence.

Because of the relationship between partisanship and views of the ACA, and because negative opinions can lead to increased obstruction of the reform, states opting for federal implementation of health insurance exchanges are likely to face greater difficulties. As a consequence of watching the federal government struggle to effectively implement reform, citizens in these states – which are generally Republican dominated – will have increasingly negative views of the federal government. Meanwhile, states that have opted to manage their own exchanges tend to have populations that are sympathetic to health care reform; these states are more likely to see the exchanges succeed, and that success will increase public support for the state government as well as the federal government.

We do not take a position on the issue of whether implementation – of the ACA, or policies more generally – should be managed at the state or federal level (and, due to sorting, we cannot systematically observe the success of health care reform at the state level to judge

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13 Sheer, Michael D. "Legacy on Line in Fierce Drive on Health care Reform." *New York Times*, July 23, 2013. <http://www.nytimes.com/2013/07/24/us/politics/as-clock-ticks-fierce-turnout-effort-for-health-law.html?pagewanted=all&r=0>.

14 Kliff, Sarah. "Two new polls tell us Americans are very, very confused about Obamacare." *Washington Post*, September 16, 2013. <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/09/16/two-new-polls-tell-us-americans-are-very-very-confused-about-obamacare/>.

15 Condon, Stephanie. "House Republicans will keep Obamacare defunding in budget bill." *CBS News*, September 18, 2013. [http://www.cbsnews.com/8301-250\\_162-57603457/house-republicans-will-keep-obamacare-defunding-in-budget-bill/](http://www.cbsnews.com/8301-250_162-57603457/house-republicans-will-keep-obamacare-defunding-in-budget-bill/).

which level of government can better implement policies). Indeed, there is a case to be made for each level of implementation. A nationally-run exchange allows for the creation of economies of scale – i.e., the cost per individual covered lowers as more people are covered by the same exchange program.<sup>16</sup> Conversely, a decentralized series of state-run exchanges allows for each state to cater to the needs of its constituents.<sup>17</sup> This is particularly beneficial when preferences vary from one state to another in a given policy area, which is certainly true of health care reform.

Regardless of whether policies are run at the state or federal level, one thing is clear: allowing each state to independently choose whether the Affordable Care Act health insurance exchanges will be managed by the state or delegated to the federal government introduces new problems that could be avoided by uniformly assigning implementation responsibilities to either the states or the federal government. Moreover, those problems – increased political polarization and distrust of the federal government – reach beyond health care reform itself and may further muddy the waters of political discourse in our nation.

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<sup>16</sup> Another general advantage of nationally-run programs is that they tend to do a better job of maximizing positive externalities. The logic behind this is as follows: If a given policy has the potential for large positive benefits to areas outside of a given state's jurisdiction, and the policy is left to each state to implement as it sees fit, then the externalities are not likely to be accounted for in the decision of how to implement the policy. Meanwhile, if the same policy is implemented by a larger governing body that includes multiple states' jurisdictions, then the larger governing body will have incentives to maximize benefits to all of the states, rather than to each state one at a time. That said, it is not immediately clear what positive externality would be generated by universal health care.

<sup>17</sup> For a review, see Oates, Wallace. "Toward a Second-Generation Theory of Fiscal Federalism." (*International Tax and Public Finance*, 12: 349-74, 2005).

**Governance Studies**

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