

## **In-Kind Versus Cash Benefits in Social Programs: Choices, Structures, and Delivery**

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## **Abstract**

In designing social programs, benefits can often be either in the form of unrestricted cash transfers or in-kind goods and services; and if in kind, the benefits can be structured and delivered in various ways. This paper assesses how these program design choices relate to policy objectives, characteristics of the good or service, individual autonomy, human rights and dignity, and social externalities. Also relevant are the characteristics and preferences of both beneficiaries and funders of programs. For many types of policy objectives and sets of values, unrestricted cash transfers cannot substitute for benefits provided in kind. The paper evaluates the issues in relation to specific types of “target” items for in-kind benefits and analyzes the use of alternative benefit structures. Relative advantages of alternative delivery modes—on the demand or supply side and through tax incentives, subsidies, vouchers, public agencies, or NGOs—are assessed. The preceding material presents a basis for comparing basic income versus basic services and for analysis and reform proposals relating to specific provisions in British Columbia’s income and social support system. The paper’s analysis and discussion will also have relevance for policies in other jurisdictions.

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## Introduction

Social programs can provide resources to assist beneficiary households through a variety of means. A primary design choice is whether support should be provided in the form of cash transfers or in-kind benefits. This study canvasses the considerations in choosing the form for particular benefits. While personal values and the weights assigned to various policy objectives will influence the ultimate choices, economic and practical factors can assist the process. The policy choice between cash and in kind is not a binary one, as the optimal provision will likely be a combination of the two forms of support. By an *in-kind benefit* (IKB) we mean any form of policy that is structured to influence the beneficiary's spending on or use of a target item (good or service) beyond what an equivalent cash transfer would evoke. That is, an in-kind benefit is a policy that alters the price of the target item relative to that of other goods and services. In contrast, a cash or income transfer is the provision of purchasing power through any of several policy forms that does not directly affect the relative prices of various goods and services.<sup>1</sup>

The amount of a cash transfer is typically tied to the beneficiary's earnings or a broader measure of their income but is not affected by their consumption or spending choices. In contrast, the amount of an IKB does hinge on the beneficiary's spending or usage in ways affected by the structure of the program. An in-kind benefit can be delivered via a public subsidy (either to the beneficiary or through a supplier entity), a tax provision (either directly or indirectly), direct provision of the target item by a public agency or a non-governmental entity, or through a voucher that can be used in the private market. A cash or income transfer can also be delivered in various ways: as a direct payment, via a tax provision, or (less commonly) through a non-governmental organization (NGO). The functional distinction between in-kind and cash benefits allows us to apply conventional economic analysis of their predicted behavioural impacts, but this ignores variations in program delivery modes that may have further effects on the responses. For example, these modes may affect perceptions, accessibility, and take-up of benefits. Ignoring those differences, a direct subsidy can be formally modelled as equivalent to a tax provision.

Allocating social benefits between cash and in-kind formats is a choice of the appropriate mix.<sup>2</sup> Which kinds of benefits are better provided in kind will depend on their attributes and those of beneficiaries as well as policy values and societal objectives. The choice will also hinge upon the preferences of taxpayers or more generally voters in addition to those of existing and prospective beneficiaries. Moreover, the time horizon for achieving various policy objectives will be relevant, since many in-kind benefits and public services entail forms of human-capital investments that have long-run returns in poverty reduction rather than short-term amelioration. How IKBs are measured and counted in the effective incomes of

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<sup>1</sup> Here we are ignoring the impacts on market prices resulting from the spending of benefits.

<sup>2</sup> Beyond the factors covered in this study, in-kind benefit choices will also be importantly affected by gender-related considerations. See the analyses in Bergmann (2008); Young (2009); and Cameron and Tedds (2020), which tilt toward relatively heavy reliance on IKBs.

beneficiaries alongside cash benefits is another essential aspect of policy evaluation.<sup>3</sup> Conventional measures of poverty incidence and inequality often ignore the receipt of many IKBs, such as subsidized or free provision of housing, child care, medical services, and education or training.<sup>4</sup> Thus, any strategies aimed at poverty reduction may be inherently biased in favour of cash-related policies and against IKBs unless the latter are properly evaluated.

Our study begins with a brief discussion of how in-kind benefits serve unique functions in social policy relative to cash transfers and relative to proposals for a basic income. We next distinguish between community-based and person-based IKBs; only the latter will be assessed in substance. We then enumerate considerations favouring the choice of cash benefits and the factors that favour the choice of in-kind benefits. The characteristics of beneficiaries, the target item, and associated markets are shown to be relevant to the policy choice. We detail the principal variations on design structures for IKBs and related policy goals, and we present a graphical microeconomic analysis of the predicted behavioural responses to each benefit structure (readers without the interest or expertise can skip to a section of summary results). For benefits that are best structured as in kind, the pros and cons of alternative delivery modes as well as related policy issues are discussed. The study then reviews practical considerations in reforming IKBs with application to selected areas of British Columbia policy. We consider both the potential for reforms of IKBs within the context of B.C.'s social assistance (SA) program and requisite conditions for their reform or abolition if a basic income were to be implemented.

### In-Kind Benefits Relative to Basic Income

Diverse in-kind benefits play an essential role in any social support system and anti-poverty policy, but they also raise important issues in dialogue over basic income proposals. These issues are covered substantively in the course of our study, but a brief preview of them will help to illuminate what follows. Rarely have the proponents of a basic income investigated the specific role and design of IKB provisions that should accompany their promoted shift toward greater reliance on cash benefits. Despite the large incremental costs of a basic income, proponents also tend to eschew the need for trade-offs with existing IKB programs. A basic income is often advanced as a way to replace complex, penurious, and stigmatizing programs of Income Assistance (IA). However, despite those programs' shortcomings, they are more than vehicles for dispensing generic cash benefits. Eligibility for existing cash programs also serves as the scaffolding on which many social services and special benefits have been built, and how a basic income would replicate that role is neglected territory.

Many IKB programs and provisions serve functions that could not readily be replaced by unrestricted cash benefits. In fact, the very rationales for many IKBs differ from those

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<sup>3</sup> Conceptual and technical issues attend the valuation of in-kind benefits, ranging from the cost of their provision to how they are actually valued by recipients. See Schmundt, Smolenski, and Stiefel (1975); Smeeding (1984); Schwab (1985); Moffitt (1989); and Whitmore (2002).

<sup>4</sup> For studies that do address this issue, see Paulus, Sutherland, and Tsakoglou (2004); Garfinkel, Rainwater, and Smeeding (2006); and Verbist, Förster, and Vaalavuo (2012).

underpinning a basic income such as the autonomy of recipients to spend cash benefits as they see fit. In contrast, in-kind benefits are motivated by issues such as merit goods, social and economic externalities, healthy child development, and the requisites of a dignified life. If provided unconstrained cash transfers, many beneficiaries would spend in ways that fail to internalize those considerations. Moreover, a system that emphasizes cash transfers does not effectively address the existence of widely varying individual needs for particular goods and services. A cash-based benefit system also lacks devices such as benefit structures, vetting, and self-selection that can be used to target specific types of benefits to persons in greatest need of them. One of our later tasks will be to assess how some IKBs now linked to Income Assistance could be rendered more consistent with the principles and attributes of a basic income.

### Person-Based Versus Community-Based Benefits

In-kind benefits of social programs can be either community-based or person-based. A community-based benefit is one available to all residents of a particular region or locale rather than distributed to particular individuals or households. Community-based benefits have some attributes of a “pure public good,” which means that many people can simultaneously derive benefit without diminishing their use or enjoyment by others. Most actual community-based benefits have public-good attributes only up to the point where their usage becomes congested, beyond which use by more people reduces their access or value to others. Community-based benefits play an important role in social policy. They complement private or person-based benefits of both the cash and in-kind genres in many ways. For example, policies can provide free or subsidized housing, but its value to beneficiaries is enhanced by public provisions for adjacent parks, community centres, local policing, and the like. Community-based benefits that are more like pure public goods include improved public health and neighbourhood security.

A community-based benefit necessarily assumes the in-kind format since any specific cash amount cannot be distributed and simultaneously enjoyed by multiple persons. That is, cash or income-transfer benefits are always person-based. Community-based benefits almost always take the form of services or facilities rather than tangible goods, since most goods (like cash) are rival in the sense that one person’s use or enjoyment is necessarily to the exclusion of others. These public services and facilities also displace the need for private spending by individuals, such as home security, private yard space, or personal health services. Thus, for many individuals, community-based benefits substitute for personal spending and therefore reduce the need for income transfers to achieve a given level of well-being. For example, access to a quality public library can substitute for private spending on reading materials and internet access.

Our focus in this study is on person-based, in-kind benefits, which are inherently rival. One reason for limiting the scope in this way is that community-based benefits are less amenable to the kinds of analysis employed here. They are also more heterogeneous and context-specific, rendering them less capable of yielding generalizable conclusions.

Nevertheless, community-based benefits should not be discounted in formulating social policies and in assessing poverty reduction strategies. Many community-based benefits significantly complement the value of person-based benefits and their contribution to improved social outcomes. This point is poignantly illustrated by findings about the influence of neighbourhood on the development and later life achievements of young children—as measured by college attendance, earnings, and rates of single parenthood.<sup>5</sup> Thus, the social returns to person-based benefits such as housing subsidies will hinge on community-based provisions affecting the quality of public schools, degree of residential segregation, degree of inequality, and neighbourhood social capital.

### Considerations Favouring Cash Benefits

We first describe arguments that favour the formulation of social programs as cash benefits rather than in-kind benefits. The two strongest and most recurrent points are the following:

- Cash is more economically efficient for the beneficiary than in-kind benefits having the same cost.<sup>6</sup> A beneficiary would always prefer (or at least be indifferent about) a given amount of money vis-à-vis a specified bundle of goods and services that could be purchased for the same amount.<sup>7</sup> A bundle chosen by anyone else will be less valued than the bundle the beneficiary would choose—unless the two happened to coincide precisely.
- Cash transfers preserve the autonomy of the beneficiary to spend as they choose and are most like the unbiased choices that ordinary workers face in spending their own earnings. Cash benefits better preserve the beneficiary's dignity and independence than in-kind benefits of types and levels dictated by legislation, regulation, or administrators.

Even in situations that might otherwise favour the choice of a specific in-kind benefit, there are several conditions that could weaken or eliminate its advantage over a cash benefit:

- The quantity of the target item consumed by the beneficiary is unaffected by in-kind provision because the quantity offered either on a free or subsidized basis is below the amount that they would have purchased without the preferential terms. This situation is called an *infra-marginal* provision of the in-kind benefit, which the next section explores in detail.

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<sup>5</sup> See the significant findings and references on the determinants of intergenerational mobility in Chetty, Hendren, and Katz (2016) and Chetty et al. (2014). Also see Haveman and Wolfe (1995).

<sup>6</sup> Empirical studies estimating the efficiency costs of in-kind versus cash benefits are numerous. Some early examples are U.S. housing assistance (Aaron and von Furstenberg 1971), a Jamaican school meal program (Jacoby 1997), and a U.S. food stamp program (Whitmore 2002).

<sup>7</sup> This assumption is made based on purely logical grounds. However, it is not necessarily true in all circumstances and contexts. Khera (2014) cites survey data in India finding that two-thirds of respondents preferred food rations to an equivalent cash transfer, in part based on the smoothly functioning food program and perhaps a concern over self-control. A study by Ghatak, Kumar, and Mitra (2016) finds a preference for the in-kind benefit of bicycles over equivalent cash in India on account of market conditions and supply-side factors.

- Even if the target item is offered to beneficiaries in quantities that are not infra-marginal for most, the behavioural response to the preferential terms of the provision is minimal for any of a variety of reasons, including rigidities, indivisibilities, and highly price-inelastic demand for the item.
- The target item is a good or service of a kind that beneficiaries can trade or sell for cash in the market at relatively little cost in expense and time. Thus, a beneficiary who prefers more of other goods or services rather than the target item can readily circumvent the policy intention. In this case, the target item is said to be highly *fungible*, a situation discussed in the next section.
- Potential for administrative error, administrator discrimination, corruption, or other obstacles to equitable access may be greater for an in-kind benefit than for a counterpart transfer in the form of cash.
- The conditions needed for producing, distributing, regulating, monitoring, and/or enforcing an otherwise desirable in-kind benefit are excessively costly, burdensome, or intrusive to justify its use relative to a cash benefit.

Additional considerations might be cited to favour cash benefits, but they could in fact cut either way depending on the specifics of program formulation and delivery:

- Cash benefits *may be* less costly to deliver than in-kind benefits, since writing a cheque or direct deposit involves minimal resources. However, *some* in-kind benefits are delivered in a similarly low-cost manner via tax provisions and may be comparable in delivery cost to cash benefits.
- Cash benefits *may* entail less stigma or visibility to the beneficiary than in-kind benefits, although this clearly depends on the nature of the in-kind target item, its delivery, and where and how the beneficiary has to claim, collect, or consume it. In some cases, differences may be inconsequential.
- Cash benefits *may* have less adverse impact on the price of the market counterpart to the target item since cash spending will be dispersed over a wider range of goods and services. Thus, cash benefits are less likely to exert an adverse pecuniary effect, particularly within a local market area.

### Considerations Favouring In-Kind Benefits

Diverse arguments are commonly advanced to favour the formulation of social programs as IKBs (also see Box 1). These points begin by critiquing the narrow focus of the pro-cash advocacy on the utility of beneficiaries to the exclusion of taxpayers and society as well as its short-run and static view of the objectives of social policy:

- The economic efficiency of transfer programs needs to account for the well-being of taxpayers and society generally and not just the self-perceived utility of beneficiaries.<sup>8</sup>

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<sup>8</sup> Taxpayers and more generally voters may prefer in-kind over cash benefits for a variety of reasons. Political



Various considerations yield social externalities that may make the in-kind format for benefits preferable to cash, namely:

- Taxpayers are paternalistic and derive satisfaction from supporting beneficiaries' consumption of particular items deemed to be *merit* goods such as housing, health care, food, child care, and education; this may also be construed as altruistic concern for the immediate and long-run well-being of beneficiaries and their children.
  - Society at large benefits from beneficiaries' consumption of particular items such as housing, training, nutritious diet, and health care that make them more productive workers, less dependent on transfers, and less inclined to criminal activities. Taxpayers gain from inducing recipients' investments in their own and their children's human capital.
  - While beneficiaries might like to spend incremental cash on many of the items that yield long-run external benefits to society, their limited incomes constrain them to making less salutary choices such as foods that fill their tummies rather than nourish their bodies. As aptly stated long ago by a leading sociologist, "Cash favors quantity; kind favors quality" (Myrdal 1945, 144).
  - Taxpayers are concerned that some beneficiaries would spend cash benefits on items such as alcohol, drugs, gambling, and other items that would be self-destructive to the purchaser or neglectful of their families, leading to costs that would be borne by society in various ways.<sup>9</sup>
- Derivative of the last sub-points, voters and taxpayers may support greater total tax burdens and total spending on redistribution and anti-poverty programs if the transfers take the form of in-kind benefits that they prefer.
  - Particular in-kind benefits facilitate economically efficient self-selection by beneficiaries, which permits effective targeting of support with less use of the economically distorting income-testing needed to target cash transfers. For example, spartan utilitarian public housing units even at subsidized rents will not be attractive to those at higher incomes.
  - Some types of in-kind benefits such as health care, child care, and public transit are complementary with beneficiaries' working and thus yield incremental tax revenues and reduced public support payments, thereby offsetting their budgetary costs.
  - If application for and distribution of an IKB can be done in a relatively confidential fashion, any associated stigma or sense of shame can be minimized. This aspect can be facilitated by tax-based delivery or by wide or universal public provision of the benefit.

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economy explanations have been cited for median voter behaviour in poor countries based on low tax collection capacity (Bears, Glomm, and Janeba 2000) and based on voter concerns about corruption (Hessami and Uebelmesser 2016). In the U.S. context, a voter preference for in-kind benefits has been explained by racial prejudice given the disproportionate dependence of minorities on transfers (Alesina, Glaser, and Sacerdote 2001).

<sup>9</sup> Evans and Popova (2017) survey and assess the literature on household expenditures on "temptation goods" (mainly tobacco and alcohol) in developing countries. They find that cash benefits to households at low incomes are not spent disproportionately on such items.

- For some kinds of target items, use of the in-kind format permits government to exploit direct production or quantity purchasing of standardized items to achieve lower costs than would be available for beneficiaries purchasing comparable or more diverse items in the open market.
- As a large or sole purchaser of the benefit item or inputs to its production, the government may be able to exercise monopsony power over suppliers and thereby achieve lower costs than counterpart private market firms.<sup>10</sup>
- Wide or universal provision of IKBs can facilitate social cohesion, inclusion, and citizenship in a way that cash transfers cannot achieve, with examples in public education and health care services. The ethos of “we are all in this together” can also engender more empathetic social policy.
- Rationales for the formulation of some social benefits as in kind can also be supported by various philosophical views of justice or fairness. These include the following (Box 1 details the approaches and their sources):
  - In a rights-based view of the social compact, all individuals are entitled to key necessities of life, such as shelter, health care, nutrition, and legal counsel needed for dignified life and social citizenship. This view implies the guarantee of base levels of specified IKBs, not simply cash.
  - The capability approach stresses the ability of individuals to acquire the *functionings* needed to pursue a self-defined fulfilling life. This view supports the provision of specified resources as in kind rather than cash, such as providing a disabled person access to the requisite medical and technical resources and not simply the income needed to purchase them. The socially accepted requirements for a life with human dignity enter this approach.

#### Target Attributes, Preferences, and Program Structures

Integrating all the considerations for the formatting of benefits as cash or in kind requires an analytical framework. The framework adopted here draws on consumer choice theory with key elements based on characteristics of the target item, the program structure, the beneficiary population, and policy objectives. Box 2 canvasses an extensive body of microeconomic research on this topic. The central questions are whether an in-kind benefit program would be superior to a cash-transfer program under various conditions, and if so, what is the best way to structure the in-kind benefit program. To be effective, an in-kind benefit must increase the beneficiary’s consumption of a specified target item more than an equivalent cash transfer with acceptable operational and efficiency costs. The analysis needs to consider the heterogeneity of actual and potential beneficiaries’ situations, needs, and preferences. Moreover, to be the preferred format, an IKB must have sufficient impact on behaviour in aggregate to outweigh these costs and any sacrifice to individual respect and dignity. Using a parallel analysis, an in-kind format can be preferred if self-selection of the target item is an efficient targeting

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<sup>10</sup> This point is particularly apt in the context of the health care and pharmaceutical sectors.

mechanism for particular policy objectives. All of these considerations will be illustrated graphically and then consolidated in a fuller presentation of the choice criteria. Table 1 offers a summary of the terminology that will be used in our analysis.

Some limitations of the consumer choice analytical framework should be noted. First, it assumes that individuals behave both rationally and with foresight; it thus does not address behaviours based on extreme myopia and addictions. Furthermore, it takes the preferences of beneficiaries between the target item and cash (a composite of all other goods and services) to be fixed. That assumption is essential for analysis of the short-run behaviour of beneficiaries, but it ignores the important point that many in-kind benefits are selected for social programs explicitly to alter beneficiaries' longer-run preferences, habits, and abilities. Taking individuals with their existing preferences is needed to assess their immediate responses to alternative programs and benefit structures and thus the efficacy of those design choices. Ultimate policy choices will also hinge on issues of beneficiary autonomy and stigma, as well as how voters and taxpayers regard those factors. Various departures from the rational economic model are considered later in our discussion and review of empirical evidence. Nevertheless, the consumer-choice model constitutes a useful starting point for our analysis.

### **Policy Objectives and Target Attributes**

The choice between cash and in-kind format for structuring benefits hinges on the objectives of social policy. The policy objectives for a program are taken to be the result of legislation based on the preferences of voters/taxpayers<sup>11</sup> as intermediated by the political process. A general concern of social policy is to target transfers effectively and efficiently to where the need is greatest. This objective has to confront limits on budgets, information, and incentives. Which individuals have the greatest need, and how can resources be transferred with acceptable distortions to individual behaviour? If income were the only criterion used for targeting transfers in cash, this would evoke various disincentives and shortchange many individuals with greater needs not fully gauged by income. To what extent and in what ways can in-kind benefits be useful in better targeting to need with lesser disincentives than cash benefits? Identifying suitable target items for potential in-kind benefits can be aided by the preceding considerations. We next discuss the attributes of target items and how they will enter into the analysis.

Target items chosen for IKBs are services more often than tangible goods. One reason for this outcome is that many goods are *fungible*, meaning that beneficiaries who do not wish to consume the specified amount of free or subsidized goods can convert them into cash by sale or barter to others.<sup>12</sup> This process can undermine use of the in-kind format, thus rendering the cash format more economically efficient and preferable if fungibility is high. Publicly provided or subsidized services typically are more difficult for a beneficiary to resell or barter, particularly

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<sup>11</sup> Beneficiaries of the cash or in-kind benefit programs also act as voters and taxpayers, but we assume here for simplicity that the political process is dominated by net taxpayers.

<sup>12</sup> Jones and Cullis (1997) characterize durable consumption goods as types of target items more vulnerable to resale than in-kind services, and they assess the distributional implications in the context of privatized U.K. housing.

when taking the form of a direct personal service. Several prominent examples include medical services, family counselling, education and training, social housing, home care, and child-care services. For in-kind benefits that are tangible goods, the degree of fungibility will vary across beneficiaries, with those most preferring cash willing to accept a lower sum for the item.

Another attribute that can undermine IKBs' efficacy in raising beneficiaries' use or consumption is when they are provided at *infra-marginal* levels. That is, if the free or subsidized quantity (or quality) of the proffered target item is less than the beneficiary is already consuming, the in-kind transfer simply supplements their effective purchasing power. It then acts like a cash transfer, which will increase their consumption of the target item by no more than an equivalent cash transfer. Of course, an in-kind benefit may be offered at a level that is *infra-marginal* for some beneficiaries while being above the existing consumption levels (or *supra-marginal*) for others; the latter will be affected by incremental incentives of the subsidized or free provision and thus induced to increase consumption more than they would from an equivalent cash transfer. In short, the level of provision of an in-kind benefit should recognize the distribution of current consumption levels of the target item across the prospective eligible group.

When target items are in the form of tangible goods rather than services, they typically are for a broader class to afford the beneficiary some degree of choice with greater autonomy. Consider the following continuum from a highly restrictive to a much broader class of benefits in the form of tangible goods:

- Cuban-style ration card for specified weekly amounts of pork, rice, and sugar
- food stamp style of voucher of specified weekly dollar amount good for any of 50 listed "healthy food" items in the local supermarket
- food stamp of specified weekly dollar amount good for any comestible items available in a modern supermarket
- prepaid store debit card of specified weekly dollar amount good for any items sold in a Walmart store
- prepaid Visa debit card of specified monthly dollar amount good at any vendor accepting that card

Clearly, as one moves along this continuum, the benefit is less restrictive to beneficiary choices and becomes closer to a cash benefit. As a program's specification of the target items moves further toward cash, the less efficiency cost it imposes on the beneficiary, but the less it can impose any specific in-kind policy objective on beneficiaries, such as consumption of healthy food to ensure the benefits of a nutritious diet.

Most in-kind items provided by a public program have an identical or similar counterpart in the private market. If the beneficiary can supplement the public provision of the target item by the purchase of additional units in the market, we shall label it as "extensible." This circumstance would arise for target items that are provided free or subsidized in limited quantities for persons who would like to consume greater quantities; those individuals are by definition *infra-marginal* beneficiaries. Other target items have the character of an all-or-nothing

offer; a beneficiary accepting the publicly provided item is foreclosed from purchasing additional units in the private market. Such items are characterized by “exclusivity” in that a beneficiary who accepts them cannot increase their consumption by buying more in the market; the public offer is take-it-or-leave-it. By definition, an exclusive target item is not extensible. Some examples would be a specific surgical procedure or an apartment of a specified size and location.

### **Consumption Versus Investment Attributes**

The policy objectives and rationales for cash versus in-kind formats differ in ways that correspond partially to the distinction between consumption and investment. Cash transfers are more closely associated with immediate consumption needs, while in-kind benefits are associated more with longer-run investment purposes. These distinctions and the nebulous dividing line between them have been noted elsewhere:

[I]t is convenient to divide the analyses into “consumption” and “investment” outcomes. ... We have few firm opinions about the desirability of any consumption bundles chosen. ... On the other hand, investment-type activities are presumed good since they might lead to longer-run beneficial effects on the alleviation of poverty. These categories clearly have fuzzy boundaries. Consumption by children, for example, might in fact be viewed as an investment, since better nutrition or housing may lead to long-run improvement in their welfare. Indeed any expenditures on children are frequently lumped into the ‘investment’ category because they tend to facilitate the development and learning of the next generation. (Hanushek 1987, 107)

A key question in drawing inferences about the choice between cash and in-kind formats is the extent to which beneficiaries internalize the societal and external benefits in their spending decisions. For example, if all parents fully account for the long-run gains to their children of spending on better nutrition, housing, and health care, then the cash format may achieve some of the advantages of in-kind benefits. However, if pressing financial circumstances cause some to prioritize other needs, an in-kind format may be the preferred choice. Moreover, few parents are likely to factor into their cash spending decisions the long-run societal benefits of a better-educated, healthier workforce.

### **Presumptive IKBs and Labelled Cash Benefits**

Whereas many in-kind benefits are distributed in ways that affect a beneficiary’s incentives to use it for the target item, others are disbursed as cash amounts simply *intended* for spending on that item. That is, the recipient does not face any change in the cost of the target item relative to the prices of all other goods and services, unlike our definition of an IKB. We shall denote such programs as *presumptive* in-kind benefits. These benefits are approved only after the claimant has been vetted for a particular need, and typically the benefit is sufficiently small that it does not warrant monitoring or verification of how the money is actually spent. Given the vetting, one would expect that the funds are usually spent in fact on the intended purpose. Somewhat similarly, cash benefits may be labelled for a particular purpose but have

no actual linkage in amount or eligibility to the labelled purpose. Thus, labelled cash benefits are structurally the same as presumptive IKBs, but they lack the vetting for particular need that characterizes the latter. We later describe several programs of both types and their behavioural impacts.

### **Target Items with Self-Selection**

One important category of items often chosen as targets for IKBs have the attribute of *self-selection*. Eligibility requirements and income tests may be attached to these benefits, but their unique attribute is that the target item is designed either to have relatively low quality or to meet special needs. One purpose is to allow for the targeting of benefits to particular groups of persons while curtailing the need for income testing, thus reducing the associated disincentives and inefficiencies. These in-kind benefits may impose eligibility requirements, and they may be provided free or at subsidized rates. The target items are often lacking extensibility; they usually also do not have fungibility. Using these forms of in-kind benefits with self-selection obviates the need to provide cash benefits at a level that would enable all beneficiaries to purchase the target items regardless of whether they have need for them. It thus overcomes an aspect of the limited-information problem. Two distinct but overlapping varieties of target items fall under the self-selection approach.

The first variety is items specifically provided at a low quality, which can be labelled “quality-selective” or Q-selective. These items are specified with quality or other attributes that are viewed as inferior to what beneficiaries might be able to purchase without subsidy in the market.<sup>13 14</sup> Examples include dilapidated public housing, less experienced counsellors, and goods or services that require queuing time. The policy motivation for this in-kind benefit format is threefold: (a) it reduces the budgetary cost of producing, purchasing, and/or supplying the item; (b) by reducing take-up to those who prefer the lower-quality item to paying full cost for the market counterpart, this further reduces the budgetary cost; and (c) it provides effective targeting to persons most in need, thereby reducing reliance on income testing. Based on their innate characteristics, limited choices, or how or where they are provided or consumed, Q-selective items will often convey an element of stigma.<sup>15</sup> The degree of stigma may vary across beneficiaries hinging upon their accustomed living conditions.

The second variety of target items subject to self-selection can be labelled “need-selective” or N-selective. These items are characterized by having value only for persons with

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<sup>13</sup> Jacoby (1997) provides the example of a Jamaican school meal program that consciously provided inferior snack foods as a self-selection device to ration supply to poorer households.

<sup>14</sup> Goodin and LeGrand (1987, 206) offer a stark rendition of this approach: “One sure way—perhaps the only way—to guarantee that the non-poor will not partake of a service is to make it a bad service. If quality is low, or the conditions of use are disagreeable, or there is stigma attaching to usage, then the middle classes might be put off using the service.”

<sup>15</sup> A classic example is the U.K. National Health Service’s supply of free eyeglasses in its earlier years. “The limited number of design options for NHS glasses was part of the government’s strategic economic measures to keep costs down. A negative consequence of the limited range meant that NHS frames were easily recognisable and would later become a social stigma.” As a cabinet minister stated in 1976, “We must not force people to wear out-of-date frames like a badge of poverty across their faces.” Canales (2018).

specific needs; others would not choose these items even if available for free. Thus, they would be self-selected only by individuals having the need, possibly subject to vetting or approval by an authorized person such as a social worker, counsellor, program official, or health professional. Several examples are a specific type of surgery, a training program, child-care service, and in-home personal care. Like Q-selective target items, formulating in-kind benefits as N-selective may reduce or eliminate the need for income testing. Providing N-selective targets obviates the need to provide all persons who would be eligible with cash at such a high level that they could afford to purchase these in-kind benefits regardless of their actual need. That attribute is an important advantage of formulating many benefits as in kind rather than as cash. The high variability in the *level* of need, as well as the presence of a particular need, further strengthens the rationale for N-selective programs, such counselling, home care, and medical services.

### **Programs as Public Insurance**

Social programs can serve to compensate individuals for various misfortunes; it thus redistributes resources from the lucky to the unlucky. When serving this insurance-like function, a public program can have different objectives than private insurance and need not be financed with premiums tailored to individual risk or indeed by premiums at all.<sup>16</sup> Insured misfortunes can be sporadic, recurrent, intermittent, long-term, lifelong, or congenital, and they can relate to illness, injury, or disability or income loss from layoff, structural dislocation, or natural disaster. Whether cash or in-kind benefits are the more appropriate form of compensation will hinge upon the nature of the loss. Thus, the use of social programs as insurance is not inherently predisposed to choice of the cash or the in-kind format. But where the loss requires particular goods or services to remediate—such as a wheelchair or physiotherapy—making the benefit in kind reduces the risks of moral hazard and fraudulent claims that might arise if the benefit were rendered entirely in cash.

Unlike private insurance, public programs acting in an insurance capacity can cover adverse conditions that are known in advance. Private insurance would cover such conditions only by charging premiums at rates reflecting their relatively high cost. In contrast, publicly financed and operated programs can serve an explicit redistributive role, covering pre-existing conditions, disabilities, and other high-cost situations. Thus, calls by some right-libertarians for a cash transfer program to replace existing public insurance programs would eliminate this form of social redistribution.<sup>17</sup> By giving all eligible households a specified cash transfer while eliminating public programs for medical care, housing, food, and disability, they assume that everyone's needs are the same and that purchase of private insurance could fill the gaps. However, this approach ignores the sharp variations in individual needs and the deficiencies of

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<sup>16</sup> We are using the term “public insurance” here in a different sense than social insurance programs, which typically have benefits and financing geared to individual earnings. For analysis of the economics of social insurance and literature review, see Chetty and Finkelstein (2013).

<sup>17</sup> Proponents of this approach to a basic income are particularly affiliated with the conservative American Enterprise Institute. For examples, see Murray (2016) and Ensor et al. (2017).

private markets for insurance: adverse selection, exclusion of pre-existing conditions, high marketing costs, and simply that markets do not exist to insure against many risks.

### Graphical Presentation and Analysis

The concepts associated with the choice between cash and in-kind benefit formats can be illustrated graphically.<sup>18</sup> The roles of economic efficiency, fungibility, infra-marginality, extensibility (and its converse, exclusivity), and selectivity can be shown in graphical examples. It will be demonstrated that any benefit structured to affect the beneficiary's consumption differently than an equivalent cash transfer will entail an efficiency cost. The more restrictive the specification of the target item, the greater the efficiency cost will be, but fewer beneficiaries will then choose to accept that benefit. Any prospective beneficiaries for whom the proffered in-kind benefit is infra-marginal will treat it the same as cash, and thus they will not behave any differently than if offered an equivalent cash benefit. A similar result arises for beneficiaries who find an in-kind benefit perfectly fungible, as they can sell or exchange it for cash. Most of the following examples assume that the target item is extensible; that is, beyond the quantity provided free or subsidized, the beneficiary can purchase additional amounts at the market price.

#### Graphical Introduction

The trade-off between the in-kind target item ( $T$ ) and a composite of all other goods and services that a beneficiary might buy in the market ( $Z$ ) is depicted in Figure 1. The person is able to choose how to allocate their total income ( $Z^*$ ) between the two, so that the target item is assumed to be fully divisible and available for purchase. Both  $Z$  and  $T$  are scaled in units equal to dollars so that an extra unit of  $T$  can be afforded by forgoing a unit of  $Z$ . Therefore, the budget line has a slope of minus one and an incline of 45 degrees. Now consider an increase in the person's income to  $Z^{**}$  that arises either through some market event or through a cash transfer. Since the absolute and relative prices of  $Z$  and  $T$  are unchanged, the budget line shifts out in parallel fashion with unchanged slope. The individual can now afford more expansive choices, but the relative trade-off between the two categories is unchanged. Drawing the indifference curves for an illustrative beneficiary, we trace out the income-consumption curve (the dashed line between the two points of consumer choice). This shows the individual's choice to increase consumption of the target item from  $T_O$  to  $T_C$ , which is defined as a *pure income effect*.

Next consider a reduction in the price of target item  $T$ , which could be the result of market variation or the provision of a proportionate subsidy on the item. The consumer or beneficiary's total income is assumed to remain constant at  $Z^*$  and the absolute price of  $Z$  is also unchanged. Thus, the individual has unchanged purchasing power if all spending is on the

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<sup>18</sup> Note that readers not versed in this type of microeconomic analysis and seeking a summary of key results may wish to skip to the next major section. Those unfamiliar with consumer analysis and concepts of budget lines, indifference curves, and optimization but interested in following the analysis of this section should consult the relevant chapter of any intermediate-level microeconomics textbook or, for a more advanced treatment see Friedman (2002, chapt. 3–4).



aggregate of all other goods and services, but they are able to obtain more units of  $T$  for any given amount of  $Z$  forgone. That is to say, the relative price of  $T$  has decreased. Figure 2 depicts the resultant rotation of the budget line around the point where it intersects the vertical axis. For indifference curves of the illustrative individual, the dashed price-consumption curve shows their choice to raise consumption from  $T_O$  to  $T_S$ . Because of the reduced effective price of  $T$  due to the subsidy, the price-consumption curve is flatter than the income-consumption curve, reflecting a greater increase in  $T$ .

### Comparative Economic Efficiency

We next illustrate the comparative consumption and efficiency impacts of cash and in-kind benefits scaled to be equal in cost. The in-kind benefit is represented by a proportionate subsidy on  $T$  at rate  $s$ , which flattens the budget line's slope to negative  $1 - s$ . The cash transfer is shown as an increase in the individual's income equal to the cost of the subsidy evaluated at the point that she chooses in the presence of the subsidy. The cash transfer can thus be represented by the red budget line through that point and parallel to the original budget line. Figure 3 presents these conditions along with the indifference curves showing the individual's optimum in the original state ( $I_O$ ), the subsidy ( $I_S$ ), and the cash transfer ( $I_C$ ) along with the respective choices of the target  $T_O$ ,  $T_S$ , and  $T_C$ . Since  $I_C$  represents a higher level of utility than  $I_S$ , the in-kind benefit carries an efficiency cost relative to the equal-cost cash transfer.<sup>19</sup> However, the in-kind benefit achieves its intended objective of increasing consumption of the target by more than the cash transfer, since  $T_S > T_C$ .

The last exercise can be repeated for the case in which the in-kind benefit is structured as free provision of a specified amount ( $T_f$ ) of the target item. Figure 4 depicts this situation with the assumption that the individual's original consumption of  $T_O$  is less than  $T_f$ . Therefore, an individual placing any value on  $T$  will take up the full provided free quantity. The equal-cost cash transfer will raise the individual's income by  $T_f$  and its budget line will be simply an extension of the budget with the free provision and slope of  $-1$ . Drawing the indifference curves for the illustrative beneficiary, and using the subscript " $f$ " for the free provision magnitudes, we find the results:  $I_C > I_f$  and  $T_f > T_C$ . In general, an equivalent cash provision will be valued more than the free provision of a target item in excess of the beneficiary's original consumption, because the cash does not impose a distortion on the beneficiary's choices. Thus, the key comparative efficiency result arises for both subsidized and free provision of the in-kind benefit.

### Infra-Marginality

The next case portrays the situation for an in-kind benefit with a subsidized rate for a capped quantity of the target item for two beneficiaries with different tastes. Figure 5 shows a subsidy at rate  $s$  applying for quantities up to  $T_m$  per period for any eligible person. For individuals initially using more than  $T_m$ , this is like a cash transfer of  $sT_m$ . Individuals using

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<sup>19</sup> Alternatively, this ranking of formats on economic efficiency can be illustrated by showing that a cash transfer can achieve the same utility level as an in-kind benefit at lower cost.

more than  $T_m$  can obtain incremental units at the unsubsidized market price. Such individuals are called *infra-marginal* beneficiaries, since the subsidy operates only on units below the margin of their choices. The indifference curves for the infra-marginal beneficiary are shown in green, which also indicates a pure income effect on consumption level, rising from  $T_i$  to  $T_i'$ . Another individual with much weaker taste for the target item, depicted with orange indifference curves, has initial consumption  $T_o$  below  $T_m$ . That person is subject to the marginal incentives of the subsidy rate to expand use, which is depicted as up to the maximum subsidized level  $T_m$ . The comparative results are  $(T_m - T_o) > (T_i' - T_i)$ . Thus, beneficiaries for whom the cap on a subsidy places them in an infra-marginal position will not increase their use of the target item any more than they would with an equivalent cash transfer.

Another example of how the infra-marginal aspect may enter into responses to an in-kind benefit is presented with free provision of a capped amount of target item ( $T_f$ ). In this case, we consider two beneficiaries with different initial levels of income,  $Z^* > Z^{**}$ . Figure 6 shows their preferences by indifference curves in green for the higher-income person and in orange for the lower-income person. The lower-income beneficiary has initial use of the target item below  $T_f$  while the higher-income beneficiary is infra-marginal with initial use exceeding  $T_f$ . As expected, the infra-marginal beneficiary responds to the free target offer as if it were a pure cash transfer, manifesting the same consumption response as to an equivalent cash transfer. The beneficiary initially below the  $T_f$  offer is induced to increase consumption of the target item by more than the other beneficiary. More generally, an in-kind benefit with a cap is more likely to induce greater response than an equivalent cash transfer for persons with lower income and initially lower use of the target item quantity provided free.

This analysis provides some guidance for the practical design of in-kind benefit structures. Capping the amount of target item subject to subsidized or free provision for eligible beneficiaries can conserve on the cost of a program. The level of the cap will be influenced by the policy objective, such as the amount of a target item that is deemed to be the minimal level that all persons should be able to access.

## Fungibility

If a beneficiary does not wish to consume the entire target item provided free or subsidized, they may attempt to convert the excess into cash to purchase other things ( $Z$ ). The degree of fungibility will depend on the characteristics of the target item, as well as on the individual's access to venues for exchanging the excess and the associated costs in time and money. The present analysis depicts the case of perfectly costless fungibility, but it is easily adapted to the case of partial fungibility.<sup>20</sup> With costless fungibility the target item becomes equivalent to cash in its behavioural effects. Figure 7 depicts this situation with a free target

<sup>20</sup> The degree of fungibility can be indexed by  $0 < r \leq 1$ , where  $r$  is the dollar cash value per unit of  $T$ . With imperfect fungibility, the diagram is altered by the extension of the budget line above  $Z^*$  to  $Z^* + rT_f$  and a slope of  $-r$  for free provision. For subsidized provision, the budget line above  $Z^*$  extends to  $Z^* + rsT_m$  with a slope of  $-r(1-s)$ .

item capped at  $T_f$ , which extends the effective budget line beyond  $Z^*$  at the slope of  $-1$  (the red line). An individual who initially consumes  $T_O$  of the target (indifference curve  $I_O$ ) would choose the full  $T_f$  if provided free (indifference curve  $I_f$ ) but would prefer to consume only  $T_G$  and exchange amount  $T_f - T_G$  for cash to achieve a higher level of utility (indifference curve  $I_G$ ). With perfect fungibility, free provision is equivalent to raising the beneficiary's income by a cash transfer of  $T_f$ . With public provision via a subsidy at rate  $s < 1$  on a ceiling of  $T_m$  units, perfect fungibility is equivalent to raising the beneficiary's income by a transfer of  $sT_m$  as in Figure 5. (The diagram is similar to that of Figure 7 except that the budget line shifts up by  $sT_m$ .)

The degree of fungibility will hinge on attributes of the target item, the method of its distribution, the market for it, and the time and money costs for a beneficiary to resell it. Thus, the degree of fungibility will vary across beneficiaries with differing access to varying modes of reselling and differing values on their time needed to sell or barter any units of T excess to their needs. Moreover, apart from these personal costs related to resale, the market value of a unit of the target item for resale will hinge upon the demand for and supply of excess units that beneficiaries wish to trade. If more beneficiaries wish to dispose of unwanted units than the demand to buy those units, the market value will decline to some equilibrium value. And the beneficiary wishing to dispose of units will gain a cash value equal to the market value less their individual transaction costs. Policy measures to reduce the fungibility of in-kind benefits will focus on the way that target items are distributed and monitoring and penalties on resales.<sup>21</sup>

### **Benefit Structure With Floor or Purchase Requirement**

The provision of an in-kind benefit can be structured such that a beneficiary must purchase a specified floor amount of the target item at market prices to be eligible for the additional free or subsidized units.<sup>22</sup> This approach provides leverage to the provision, avoiding the public finance of what might otherwise be infra-marginal units for many beneficiaries. Any given amount of financing can then be focused on a higher subsidy rate or free provision to induce greater consumption of the target item. Figure 8 depicts this type of benefit structure, with personal purchase of  $\underline{T}$  the minimum threshold for eligibility. Free provision is shown as the blue budget line, while subsidized provision is shown as the red budget line. An illustrative indifference curve (green) is shown for an individual with such weak tastes for the target item as to decline the benefit. A challenge in the design of this type of benefit structure is learning the distribution of preferences and how they correlate with policy-relevant attributes of potential

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<sup>21</sup> For example, the switch from stamps to electronic debit cards in the U.S. program reduced the degree of fungibility. Nevertheless, various means of converting vouchers into cash remain, albeit illegal. Vendors can take vouchers and give the beneficiary cash for partial value instead of the target item; they redeem vouchers for full value. This practice has been observed for U.S. food stamps with related criminal convictions. (Google search for “food stamp fraud Baltimore”.) Also see the comment in Tullock (1971) regarding illegal trading of vouchers with vendors for cash.

<sup>22</sup> The U.S. food stamp program used this method until 1978, as described in Box 3. Also see Singh and Ravi (2000) for analysis of this benefit structure in the context of notches.

beneficiaries such as income; setting the floor level too high will deter too many persons from participating.

### **Costly Participation in Benefit**

Another interpretation of the benefit structure with a floor is that accessing a free or subsidized benefit entails ongoing costs for beneficiaries. Assume that the actual benefit structure has subsidized provision (as in Figure 5) or free provision (as in Figure 6) with a ceiling but no floor. However, to access the in-kind benefit an eligible person must bear a cost of  $C$  per period, which acts similarly to a floor and shifts the benefit structure by that amount as shown in Figure 8. These costs could include information, documentation, queuing or travel time, or stigma associated with accessing or using the target item. Statistics indicate that take-up rates for many program benefits among the eligible population are far from complete, and they are lowest for individuals with the lowest potential benefits.<sup>23</sup> These observations suggest that beneficiary costs associated with accessing benefits are a restraining factor. Just as setting  $I$  too high in the formal benefit structure will discourage eligible persons from participating, so will excessive formal and informal costs deter the take-up of in-kind benefits.

### **Exclusivity and Self-Selection**

Some target items for in-kind benefits have the character of exclusivity; that is, a beneficiary who accepts the free or subsidized item cannot supplement it by purchasing more in the market. The offer thus has an all-or-nothing character; a beneficiary declining the offer must satisfy their need for that kind of good or service entirely through private purchase without subsidy. In this context, the measure of the target item can have both quantitative and qualitative aspects. The design of an in-kind benefit program or the inherent properties of a target item will create this exclusivity attribute. In combination with self-selection by potential beneficiaries with different tastes, needs, situations, and incomes, self-selection can serve as a useful device to ration take-up of an in-kind benefit and thereby conserve on cost or reduce wait lists when funding is limited. In contrast to the situation with infra-marginality, with exclusivity an in-kind benefit program does not dispense cash-like funds on those beneficiaries who choose not to take up the benefit. This process can also reduce or eliminate the need for economically distorting income testing. Two examples are offered here to illustrate the application of these principles.

First, take the example of a specified type of surgery offered free at a public clinic at a given quality level in terms of surgeon and staff expertise and operating facilities. Figure 9 denotes this offer by point  $X$  and level  $T^*$ , which carries a monetary value of  $V$  relative to market purchase of  $T^*$ . Assume next that the market offers a continuous range of choices for higher quality surgeries for the same purpose, but these carry no subsidy. For example, market options may entail shorter wait times, faster recovery, fancier facilities, or less risk, discomfort, or

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<sup>23</sup> Currie (2006) cites evidence from a variety of U.S. programs and studies. Currie and Gahvari (2008) find that take-up rates are very sensitive to the costs of participation. For take-up of programs in OECD countries, see Hernanz, Malherbet, and Pellizzari (2004), and for analytical treatments of the determinants of take-up, see Duclos (1995) and Kleven and Kopczuk (2011).

scarring. The figure shows an indifference curve for person  $A$  ( $I_a$  in green), who would decline the free offer and choose instead to pay for a superior private surgery  $T_a$ . An indifference curve for person  $B$  ( $I_b$  in orange; likely an individual with less income than  $A$ ), shows the choice in the absence of any public free option as private surgery at level  $T_b$  but would increase to  $T^*$  if given that option.

Another example of exclusivity and self-selection draws on a common scheme for public housing programs. Beneficiaries need to meet various income and demographic tests to be eligible, and they are required to pay 30% of income toward cost of their rental unit, with the balance covered by public subsidy. However, the locale, floor space, quality, and upkeep of public housing may be inferior to what they would choose if restricted to the private market. Figure 10 depicts this situation for two families who meet the eligibility criteria for public housing but in the absence of that option each rents a private unit at the same level  $T_o$ .<sup>24</sup> Each is assumed to have the same income  $Z^*$ , and thus their subsidy for public housing is the cost above  $0.3Z^*$ . The blue dot labelled  $X$  in the figure represents the public housing unit offered to each family, which has an implicit subsidy of value  $V$  beyond the 30% of income they would be required to pay in rent. Family  $A$  with the green indifference curve  $I_a$  still prefers the private rental, since it has a high preference for better housing versus other goods and services. Family  $B$  with the orange flatter indifference curve  $I_b$  would opt for the subsidized but smaller public rental suite, since it has a much stronger preference for other goods and services relative to housing. That is, family  $B$  actually chooses to consume less of the target item than it would in the absence of the program. This example demonstrates how self-selection combined with exclusivity can induce some beneficiaries to reduce rather than increase their consumption of the target item.

### Cash Benefit With Labelling Effect

A benefit can be structured in the cash format and paid without any linkage to a nominal target item but labelled in a way that refers to the target item. Labelling could render the beneficiary's response more favourable to the target item even if the amount of benefit is unrelated to use of the target. This labelling effect runs counter to the assumed rational economic behaviour of individuals, but it may nevertheless exist. Figure 11 depicts such a situation, where the benefit is a pure cash transfer raising the beneficiary's income from an original level of  $Z^*$  to  $Z^{**}$ . Without any labelling effect, the individual chooses an increase in the nominal target item from  $T_o$  to  $T_c$  with a move from indifference curve  $I_o$  to  $I'$ . This outcome is identical to the situation depicted in Figure 1. However, if the beneficiary regards as meaningful the labelling of the target item on the cash transfer, the choice may be a *change* in their indifference curve to  $I''$ . Then utility will be maximized with a larger increase in consumption of the target item to  $T_l$ .

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<sup>24</sup> In this example  $T$  is a quality-adjusted index of the quantity of housing. While preferences may range over many dimensions of housing qualities, they are assumed convertible to a single index.

### Free Provision With Cash-Out Option

Yet another structure for an in-kind benefit is to permit the beneficiary an option to cash out their entitlement to the target item. Here we illustrate this case for the free provision of the target item, but the analysis is similar when the target item is provided on a subsidized basis. Figure 12 depicts the budget for free provision of a quantity up to  $T_f$  where the individual's original income is  $Z^*$ . If the option to cash out is for the full value of the free amount of the target item,  $T_f$ , then this is like an extension of the with-benefit budget line to point X (identical to the previously cited case of perfect fungibility). The figure depicts this situation by the dotted red line and an increase in the individual's effective income by  $T_f$  equal to the distance  $Z^*X$ . If the cash-out option is provided at a rate of less than  $T_f$ , this is shown by the dotted green line extension of the budget line to point Y and an increase in effective income of the distance  $Z^*Y$ .

### Merit Goods and Heterogeneous Preferences

Designating a particular type of good or service as a merit good—for reasons of human rights or economic and social externalities as described in Box 1—means that a base level of consumption is needed for all members of a program's target group. Differing tastes or priorities by members of that group will lead some not to purchase that level for any feasible increase in cash transfers. Moreover, some merit goods may be too costly for individuals in the low-income group to purchase at all or to prioritize over necessities of daily life. Typically they will also disregard the external benefits in their spending choices. These merit goods have been aptly described as follows:

The decision that all should have access to a good may be based on expected benefits to society, or humanitarian considerations, or on some combination of both. The worry that at least part of the population will not buy a sufficient quantity and quality of a high-priority good out of their own income will most often arise in the case of a good that is expensive relative to households' income, which may totally preclude some from buying it, or might force them to make inordinate sacrifices of even higher priority goods if they are to buy it. (Bergmann 2004, 109)

The role of heterogeneous preferences for merit goods and its implications for the cash versus in-kind choice for benefit format can be illustrated graphically. Assume that a target item is deemed to be an essential merit good, with  $T^*$  taken as the requisite minimum level based on externalities or a human rights perspective. For example, the item might be child care, inoculations, or legal counsel. Three individuals labelled A, B, and C are assumed to have very different tastes for the target item, as shown by their purchases at various incomes in Figure 13. At their low initial common income level  $I_0$ , their respective purchases are  $T_A$ ,  $T_B$ , and  $T_C$ —all falling short of the essential level  $T^*$ . To induce an increase in their purchase levels to  $T^*$  by cash transfers would require a much larger amount for person B ( $I_B - I_0$ ) than for person A ( $I_A - I_0$ ). Person C's tastes for the target item are so weak that no cash transfer would induce them to

purchase at level  $T^*$ . Only providing item  $T$  as an in-kind benefit at highly subsidized rate, or more likely free, would achieve all three persons raising their use to level  $T^*$ .

### Benefit Phase-Outs and Notches

An in-kind benefit can be provided to a designated population (such as children or people with disabilities) on a universal basis irrespective of household income, or it can be phased out with income so that it is eliminated above a break-even income. The type of phase-out is affected by the nature of the target item. If the item is divisible, the phase-out can consist of a reduced quantity as income increases. For example, a poor family is allotted 20 pounds of free tortillas a week, while a less poor family gets 15 free pounds, and a non-poor family gets none. Alternatively, if the target item is not divisible, such as the provision of a public housing unit, the phase-out can be implemented by a variable rate of subsidy that hinges on household income. For example, subsidies for housing are often structured to cover the full rental cost of the unit minus 30% of the tenant's income. Many other variations of these approaches are utilized in practice. The effect of either type of phase-out of an in-kind benefit is analogous to the reduction of a cash benefit based on recipient income—an increase in the marginal effective tax rate, which means that increased earnings are penalized by reduced benefits. A key attribute of these phase-out methods is that the net benefit declines smoothly with income increases.

With Income Assistance (IA) programs, a different type of phase-out is commonly used for associated in-kind benefits. The supplementary benefits can add significantly to the value of the cash benefits provided by the IA program; common ones include health-related, child-related, and shelter items. Cash benefits in IA are reduced smoothly with any increase in earnings at a tax-back rate that typically falls in the range of 50%–100%. In contrast, supplementary benefits tied to IA status are provided in full (for those beneficiaries having the particular need) but vanish entirely at the point of earnings where the cash benefits are reduced to zero. Figure 14 depicts the situation, with the 45-degree line for the absence of benefits (net income = earnings), and the blue line<sup>25</sup> for the cash portion of benefit declining from a guarantee ( $G$ ) at no earnings to zero at a break-even level ( $B$ ). Supplementary benefits add a value  $K$ , shown as the green line that does not decline with earnings until  $B$ , at which point they vanish, yielding the depicted notch.<sup>26</sup> This notch effect means that beneficiaries are actually better off earning just under  $B$  than any amount up to  $B + K$ , which contributes to the so-called welfare wall.

### Summary of Cash Versus In-Kind Policy Choice

In view of all the relevant factors affecting the choice between cash and in-kind formats for social benefits, a brief recap of the most salient elements is useful. This overview brings together the concepts of rivalry, the relative weight on the preferences of beneficiaries versus

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<sup>25</sup> The slope of the blue line is one minus the tax-back rate for cash benefits; since the green line represents the additional value of IKBs, and it has no tax-back, it assumes the same slope.

<sup>26</sup> This notch effect has been analyzed for welfare and other programs; see Blinder and Rosen (1985) and Singh and Ravi (2000).

society's objectives, fungibility, self-selection, the provision of in-kind benefits at infra-marginal levels, and the relative cost of provision by government versus the market. Many real-world situations will involve intermediate degrees to which these conditions are or are not satisfied, so they will require a balanced weighing of all the positive and offsetting elements. Some of the questions have to be answered simultaneously rather than sequentially. Thus, some aspects of the policy choice are not easily compressed into a simplified flowchart or decision tree, such as that in Figure 15. With those caveats in mind, we proceed to discuss the questions that need to be answered to assess the preferred policy format.

The first question posed in the figure is whether the target item contemplated as an in-kind benefit is rival in consumption. If it is non-rival then the good or service has to be formulated as a community-based benefit, which necessarily is in-kind. Only target items that are rival in use or consumption can be formulated as person-based benefits. The next question is whether society's objectives in fashioning the benefit as in kind are strong enough to outweigh any loss in efficiency and autonomy to beneficiaries based on their preferences. If the answer is negative, then the cash benefit format is likely to be preferred.<sup>27</sup> Next, even for a target item with compelling societal objectives, if the item is highly fungible then it may be optimal to provide a cash benefit. Otherwise, beneficiaries who would prefer to consume other goods and services will easily convert an in-kind benefit to cash, thus thwarting the purpose of providing the benefit in kind.

At this point in the decision process (or even earlier), the question is whether attributes of the prospective target item would make self-selection an efficient allocation method (relative to greater use of income testing for a cash benefit, for example). As noted previously, self-selection could be based on either qualitative aspects of the target item or relative need by different persons for the target item. If the answer is negative, then the item might still be better provided in kind if government can produce and/or distribute it at lower cost than the market. Finally, if the contemplated target item has passed all of the preceding tests, only if the ceiling on the quantity to be offered is greater than most beneficiaries' current consumption (i.e., not infra-marginal) will the in-kind format be preferred to an equivalent cash benefit. If the ceiling quantity is infra-marginal for most intended beneficiaries, then it will be predicted to exert little differential effect than a cash benefit. All of these arguments assume the validity of the rational consumer choice model, which needs to be moderated based on empirical evidence cited below.

An important implication of the consumer choice model as applied to comparison of in-kind and cash benefit formats is the connection between behavioural response and efficiency cost. In this framework, a pure cash benefit provided in a lump-sum manner independent of any activity by the recipient has no efficiency cost; it is the benchmark for the measure of efficiency. Even though the lump-sum cash benefit may affect spending on various goods and services, these are purely income effects. In contrast, an in-kind benefit that alters consumer choices

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<sup>27</sup> To give a sense of the complexity of the decision process, even at this point other factors could weigh in favour of an in-kind format. For example, a high efficiency of self-selection or a low cost of government production and distribution of the target item could support the choice of an in-kind format.



toward a target item differently than an equivalent cash transfer carries an efficiency cost. That cost arises because it distorts the relative price between the target item and all other consumer items. In the case where the in-kind benefit is provided at infra-marginal levels to the consumer, it does not distort relative prices and thus is like cash; it exerts only an income effect and carries no efficiency cost. In short, in-kind benefits that differentially affect the individual's choice of the target item carry efficiency costs that increase with their policy effectiveness.

### Empirical Evidence on IKB Responses

Extensive empirical studies have been undertaken to provide an understanding of behavioural responses to in-kind benefit programs.<sup>28</sup> Research has been most copious for U.S. programs relating to food stamps, housing subsidies, and public provision of medical services and education including early-childhood initiatives. Research has also been undertaken for varied in-kind benefit programs including conditional cash transfers (for children's school attendance and prenatal health) and food subsidies and provision in developing economies. The findings of these studies can provide insight into the validity and limitations of the core economic model of behavioural response to in-kind benefits. Some of the studies point to the need for broader, more complex behavioural, contextual, and institutional factors in understanding behavioural responses. Of course, the divergent findings can be explained in part by varying empirical methodologies, data limitations, and historical and institutional factors as well as the characteristics of the target item, the benefit structure, and the benefit delivery mode.

The starting point for analysis of the behavioural impacts of in-kind transfers is the consumer choice model of microeconomics, which was the basis for our earlier analysis of in-kind benefit structures. This model assumes that individuals are rational, well-informed, and have preferences that are given and independent of any policy interventions. However, a variety of departures from these assumptions have been documented in reality and explored in the multi-discipline of behavioural economics—a fusion of economics and psychology.<sup>29</sup> The following phenomena have been found to affect the behaviour and choices of individuals that depart from predictions of a simple microeconomic model in a variety of settings:

- myopia or excessive weighting of near-term relative to longer-term returns, formalized in the concept of *hyperbolic discounting*
- inability to deal with large amounts of diverse and possibly conflicting information, formalized in the concept of *bounded rationality*
- individuals in a household receiving a transfer and not acting in the full interests of other members, formalized as *agency* issues
- habitual behaviours, making decisions by rule of thumb or entrenched habit, also known as *heuristics*

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<sup>28</sup> Analytical and empirical studies of the impacts of in-kind benefits on the market price of the target item (so-called pecuniary effects) are discussed in a later section on delivery issues.

<sup>29</sup> For example, see Knetsch (1995) and the extensive sources cited therein.

- differential spending choices based on the source of income or the type of expenditure and accustomed prices, referred to as *mental accounting*
- socially constructed and policy-influenced notions of fairness, known as *inequality aversion*
- asymmetrical behaviour relative to prospective (or actual) losses versus gains, known as *loss aversion*
- addictive behaviours, which may be related to alcohol, drugs, gambling, simply spending versus saving, or gorging on a particular consumption item
- effects on individual preferences or behaviours of advertising, social norms, and choices and habits of those in one's social circle
- effects on individual choices of default options or ordering of options in public programs or private markets known as *nudges*<sup>30</sup>

In the context of social policy, the provision of transfers in the form of in-kind benefits is often intended to *alter* individual tastes, abilities, aspirations, and habits—all of which are assumed to be fixed and exogenous by the consumer choice model. With reference to anti-poverty policy, the intention is often to alter not just behavioural responses but the underlying determinants of behaviour.<sup>31</sup> These factors can explain voter preferences for many in-kind benefits including education, health care, child care, housing, and community facilities. As the economist who coined the term stated, “The satisfaction of *merit wants*, by its very nature, involves interference with consumer preferences.”<sup>32</sup>

### **U.S. Food Stamp Program**

The various incarnations of U.S. food stamp programs since the 1940s—currently known as the Supplemental Nutrition Assistance Program or SNAP—have provided an ideal laboratory for testing predictions of the consumer choice model. Box 3 offers a summary of the program's history and various empirical studies of the effects on food consumption. A focus of those findings is comparative analysis of in-kind food stamps versus equivalent cash benefits and whether they evoke differential levels of spending on food. While some of the studies provide strong confirmation of key aspects of the consumer choice model, others provide estimates that food stamps evoke greater spending on food than equivalent cash transfers even in situations not predicted by the model. Thus, the evidence regarding validity of the consumer choice model is mixed, with alternative behavioural models and contextual factors playing a potential role.

### **Labelling Effect of Benefit Programs**

One variant of behaviour not contemplated in the economic model of consumer choice is that beneficiaries respond to the labelling of the program benefit. That is, even if the level of benefit is not linked to an individual's spending on a target item, their behaviour may be affected

<sup>30</sup> For extensive treatment of this approach to policy design, see Thaler and Sunstein (2008).

<sup>31</sup> However, policy-induced disincentives can alter individual behaviour, public-sector behaviour, social norms, and institutional arrangements over the long run that are economically and socially adverse. See Lindbeck (1995) for description of “hazardous welfare-state dynamics” associated with cash transfers to households.

<sup>32</sup> Musgrave (1959, 13, italics added), appears to be the first to have used the term. Also see Auld and Bing (1971).

by the name of the program benefit. This factor could be at play in the case of the U.S. food stamp programs, though that proposition has not been directly tested. A labelling effect has been confirmed for several cash-type programs in other countries. A winter fuel payment is made to seniors in the U.K. as a lump amount independent of their actual spending on heating fuel. Their marginal propensity to spend (MPS) on fuel out of this payment has been estimated to be much higher than their MPS out of variations in ordinary cash income (Beatty et al. 2014). A cash benefit paid to Dutch mothers labelled a “child benefit” has been found to evoke a much higher MPS on children’s clothes than that for income from other sources (Kooreman 2000). A cash transfer to Moroccan fathers of school-aged children labelled as an education support program but not in fact conditional on school attendance has been found to increase attendance rates (Benhassine et al. 2015). These labelling effects have been attributed to the title of the program or the benefit and the expectations elicited in recipients and/or the context in which the benefit is administered or delivered.

### **Intra-Family Decision Making and Children**

The well-being and healthy development of children is a major focus of social programs and society at large. As noted earlier, this concern reflects both altruistic and self-interested motives of taxpayers who influence the political process that determines the structure and level of social programming. Thus, whether cash or in-kind transfers better achieve child development goals is an important consideration in program design. With cash transfers the allocation of funds is intermediated by parents, who may place less weight on the long-term needs of their children than do taxpayers. This principal-agent problem can potentially be addressed via the use of in-kind benefits directly targeted for children (Ross 1991). The use of cash transfers for the benefit of children may also be affected by which parent receives the payment, and an empirical study of the U.K. child benefit found mothers more inclined than fathers to spend funds for their child’s needs (Lundberg, Pollack, and Wales 1997). A study found that variations in the U.K. child benefit are spent more than other income variations on adult-assignable goods, such as alcohol, rather than the child’s needs (Blow, Walker, and Zhu 2012).

### **Evidence Regarding Other Responses**

Various in-kind benefit programs in the U.S. have been found to evoke significant positive and desired behavioural responses. However, many of these studies have not benchmarked against what equivalent cash transfers would have accomplished in similar outcome measures. The provision of food stamps has been found to exert positive effects on birth weights and neonatal mortality (Almond, Hoynes, and Whitmore Schanzenbach 2011). Removing a ban on food stamp eligibility for convicted drug felons was associated with reduced rates of recidivism (Tuttle 2019). The U.S. Head Start program has been documented as achieving positive outcomes for enrolled children,<sup>33</sup> and recent analysis finds further positive effects in terms of increased educational attainment, reduced teen pregnancy, and reduced

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<sup>33</sup> For example, see the findings in Thompson (2018) and the studies cited therein.

criminality rates for the children of mothers who had been enrolled in the program (Barr and Gibbs 2018). While these outcomes were not assessed relative to comparable cash transfers, it seems unlikely that the latter would have yielded such significant intergenerational effects. An earlier analyst opined, “Although the evidence is incomplete, it suggests that in-kind programs have stronger effects on children than cash transfers, and that programs that target special benefits directly to children have the largest positive effects” (Currie 1994, 1).

An extensive study of 133 U.S. policy changes over the past half century has found further evidence that direct in-kind investments in children from low-income families yield the highest long-run payoffs for society.<sup>34</sup> In fact, expenditures on such programs increase the lifetime earnings of children by enhancing their health and education more than pay for themselves. As the researchers state, “From a taxpayer perspective, these expenditures on children are investments, rather than just transfers” (Hendren and Sprung-Keyser 2019, 53). In contrast, cash-type transfers either through direct payments or via tax credits are found to have lower social payoffs (often yielding less in payoffs than their costs) because of how their benefit or payment structures reduce incentives to earn. Moreover, the study did not find that superior payoffs generalize to all varieties of in-kind benefit programs; various benefits for adults in the areas of training, nutrition, health, and housing yielded inferior payoffs.

### Delivery Modes for In-Kind Benefits

In-kind benefits can be delivered in a variety of ways with characteristics that affect their practical operation, targeting effectiveness, take-up rates, budgetary cost, and the range of beneficiary choice. Depending on the specific target item, multiple modes could be suitable for delivery, and the policy choice of delivery mode will hinge on all of those attributes as well as program objectives. While the formal structure of the benefit may be identical across those modes, various attributes of the chosen delivery mode can significantly affect aspects of a program’s operation and performance. The modes can differ in their information, monitoring, and enforcement requirements as well as the incentives they pose for beneficiaries and the institutions involved in the production or delivery of the target item. The extent to which market forces are engaged in the process will also affect the responsiveness to beneficiary demand for choices in the attributes of the target item, its cost, and its accessibility.

#### **Direct Delivery by Government**

At one pole of delivery modes for in-kind benefits is the government distributing and possibly producing the target item. The agency could be a direct public office or an arms-length public institution such as a university or hospital. The comparative attributes of public versus private production and/or distribution depend upon market structures and financial incentive

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<sup>34</sup> See Hendren and Sprung-Keyser (2019). Their measure (the “marginal value of public funds”) is a long-term ratio between marginal value of benefits to initial expenditures offset by additional taxes collected and reduced transfers as a result of the policy change. Note that this measure does not factor in value judgments about distribution or the weights assigned to the well-being of various groups; thus it is closer to an efficiency measure than a social welfare measure.

systems. If the private market is highly competitive, it may be more cost-efficient and responsive to varying beneficiary needs (within the allowable range of the target good). However, oligopolistic behaviour in some markets as well as overhead costs and financial incentives in some markets such as health care and education may make private suppliers less cost-efficient and responsive than public sector counterparts. Appropriate financial incentives in public sector institutions can also lead to innovative and cost-reducing behaviour. Legislative limits on budgeting or specification of the target item may result in queuing or wait lists for eligible persons to access the benefit.

### **Delivery by Voucher**

Several alternative delivery modes for in-kind benefits offer the potential for greater differentiation of the target item, a wider range of choice for beneficiaries, and incentives for more responsive and efficient behaviour. These non-governmental means of delivery have been called tied vouchers;<sup>35</sup> for present purposes we shall use the term *voucher-type* or *voucher delivery*. Note that vouchers can be specified in either dollar terms or in quantity terms.<sup>36</sup> Table 2 provides a classification of direct public provision and voucher-type systems based on whether they use direct expenditures or tax expenditures and whether they operate on the demand or supply side. Demand-side vouchers work through a subsidy or tax incentive provided to beneficiaries; supply-side vouchers work through a subsidy or tax incentive provided to the producer of the target item. Delivery via government or non-profit NGO operates solely on the supply side. All of these delivery vehicles can formally be modelled as subsidized or free provision of the target item to eligible persons using one of the benefit structures depicted previously.

Using provisions of the tax system to implement an in-kind benefit has different attributes than using direct spending in the form of subsidies paid independently of the tax system.<sup>37</sup> The pros and cons of each approach are summarized in Table 3. As a general proposition, tax expenditures are more legalistic in their definition and operation, and they are more limited in their ability to handle complex eligibility criteria. They are also more easily accessible as simple adjuncts to a tax system that most people use on a routine basis, yielding lower administrative and compliance costs and higher take-up rates. In contrast, direct spending through subsidies can handle more complex eligibility and benefit conditions, but at the cost of heavier administrative and compliance burdens, lower take-up rates, lesser anonymity for applicants, and potential stigma. Program costs for direct spending are more readily controlled via budgetary allocations, whereas tax expenditures are open-ended in cost and less subject to

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<sup>35</sup> See Daniels and Trebilcock (2005) for the conceptual framework and extended applications to several policy areas with program examples from various countries. Also see Steuerle (2000) and Bradford and Shaviro (2000) for conceptual discussion and application to U.S. policy context.

<sup>36</sup> Vouchers with limits specified in quantity terms require greater detail about the allowable target good or service to ensure that the beneficiary stays within bounds on cost.

<sup>37</sup> See the discussion in Kesselman (1990) and sources cited therein; also Boadway (2007).

periodic review. The use of fixed budgetary allocations for spending programs can lead to queuing or wait lists.<sup>38</sup>

Affordable housing can be used to illustrate how one particular type of target item could be delivered by any of six modes (as shown in the cells of Table 2):

- Direct government provision: publicly operated housing with income-based rents
- Demand-side direct expenditure: subsidy paid to beneficiaries based on family size, income, and rent paid for accommodation in private market
- Demand-side tax expenditure: tax credit or deduction based on family size, income, and rent paid for accommodation in private market
- Supply-side direct expenditure: grant or operating subsidy paid to private builder or operator of rental housing for use of certified beneficiaries
- Supply-side tax expenditure: tax credit or deduction available for private builder or operator of rental housing for use of certified beneficiaries
- Supply-side direct expenditure for non-profit NGO: capital or operating subsidy for charitable organization operating housing for needy residents

For some types of target items, all six types of delivery modes may not be available or suitable; for example, NGOs may not exist for the production or supply of some items.

### **Behaviour Response Under Delivery Modes**

When a government or official agency is the delivery mode for an in-kind benefit, the options for beneficiaries are limited. An eligible person can accept the target item as presented or decline it and purchase a counterpart item at full market price. With this delivery mode, beneficiaries who are not satisfied with the offered item's quality, characteristics, or place of provision may not have any alternative.<sup>39</sup> At best, they may be able to find a somewhat different variant of the item offered at a different government office. Moreover, preferences by beneficiaries for variations of the target item may have little influence on the official supply, unlike in a market-like setting where profit-oriented firms would seek to satisfy the differentiated demands. Direct public supply is also limited by budgetary allocations for the department or program, which in turn may evoke complex regulations to ration excess demand for the target item. Various forms of queuing or wait lists are the typical response in this situation, with the administering agency devising rationing methods not anticipated in legislation.

In contrast to direct supply by government, the use of voucher-type delivery modes introduces market-like incentives and responses to the varied preferences and needs of beneficiaries. Satisfying heterogeneous beneficiaries can make the target item more differentiated and thereby reduce the efficiency cost of offering benefits in kind rather than in cash. Market-like incentives can be inserted on either the demand side (beneficiaries) or the supply side (for-profit firms or non-profit NGOs) of the market. Each approach and whether it is

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<sup>38</sup> Exceptions are direct spending social benefits legislated as entitlement programs.

<sup>39</sup> An example arises when government chooses to be the sole supplier of the target item and bans competitive private supply, such as the situation in Canada for most in-hospital surgeries.

implemented via direct spending or tax expenditures has some unique characteristics and considerations relevant to policy choices.

If applied on the demand side via subsidies or tax provisions to eligible persons, the target item can be purchased up to the ceiling quantity at free or subsidized prices. By defining the target item relatively broadly—such as *food* or *rental housing*—a program would enable beneficiaries to choose from a wide range of goods or services with varying quality, attributes, and prices available in the marketplace. For-profit firms have an incentive to offer goods and services that meet those demands, and they also have an incentive to operate in cost-minimizing ways. These behavioural responses bring into play efficient incentives that are weak or lacking with direct governmental provision. With voucher-type incentives used on the demand side, issues of certifying eligible suppliers and monitoring their compliance (such as whether the items they supply conform to the program definition of the target item) need to be addressed. Using tax-based incentives requires that taxpayers filing returns include or retain proper receipts to support their claims or be audited at a sufficient rate to ensure compliance.

Voucher-type incentives can be applied on the supply side through subsidies or tax preferences to for-profit firms. This approach differs from demand-side application in that the eligible firms can be vetted for suitability, and their smaller numbers than total beneficiaries eases auditing and other compliance measures. Whether the assessment of claimants for eligibility is done at an official level or via approved vendors is a design issue. To be approved as an eligible supplier, a firm may need to present its performance record or other proof of its competence (such as certification for counsellors). Another issue for this mode of in-kind benefit delivery is the cost to government of monitoring and reviewing the performance of approved suppliers and their records to verify their reimbursement claims. Through their choices of which vendors to patronize, beneficiaries exercise influence over the types and qualities of the target items offered (within the acceptable range of characteristics for the target item).

An alternative way of applying voucher-type incentives on the supply side is through the use of non-profit non-governmental organizations. Typically these groups obtain capital and/or operating grants through competitive bidding on contracts with limited terms. Since the calls for bids are often open to proposals under an umbrella heading, this approach can encourage innovation and responsiveness to communities' diverse needs. However, unlike the in-kind benefits provided by many for-profit firms, those provided by NGOs are more typically available in a given locale by only one or a few organizations. Thus, beneficiaries in this circumstance will have much less choice of supplier and therefore less choice of characteristics of the target item. They may also be subject to rationing and even discriminatory treatment based on the limited funding and less-experienced or volunteer nature of the NGO staff. A program must also determine how much authority the NGO will have to assess the eligibility of benefit claimants and its accountability to the program administrators.

### **Pecuniary Effects of In-Kind Benefits**

The provision of in-kind benefits can have impacts on the market price of the target item, and these pecuniary effects hinge upon the nature of the supply as well as the delivery mode

used. If the IKB operates to increase beneficiary demand for the item and its supply is less than perfectly elastic, the pecuniary effect will be positive (a rise in its market price). Of course, such positive price impacts could also arise if the benefit were in cash format and beneficiaries had a high MPS on the item. One distinguishing aspect of making the benefit in kind with imperfectly elastic supply is the potential for depressing rather than inflating the market price. This result would occur if the delivery mode were to increase the supply of the target item in the relevant (often local) market. Potential policies include subsidies to producers, production by public entities, cheapened inputs for producers, and relaxed regulations on production. Government bargaining with private producers on large-scale purchases is another way that the IKB format can yield lower prices. The cash format for benefits does not offer these potential strategies.

Evidence on actual pecuniary effects of in-kind benefits supports the theory relating to supply responsiveness and mode of benefit delivery. The highly inelastic supply of housing in dense urban centres offers a good example of the impacts of rent subsidies that act on the demand side. The expected outcome is an increase in market rents, thus dispersing part of the benefits to landlords. That outcome was found in a study of a French housing subsidy program, where each additional euro of housing benefit raised rents for beneficiaries by 78 cents, leaving only 22 cents to decrease their net rental costs.<sup>40</sup> Conversely, in-kind benefit programs where governments directly increase the local supply of the target item can yield negative pecuniary effects, which means that non-beneficiaries who consume the same item also benefit. One would expect that outcome in a jurisdiction that constructed extensive public housing. In that case, the redistribution would occur at the expense of landlords, who would face lower market rents.<sup>41</sup> A negative pecuniary impact was also identified where the Mexican government provided food relief that augmented the local supply of foodstuffs in remote villages.<sup>42</sup>

## **Selected Issues for Delivery Modes**

### ***Cream Skimming by Suppliers***

For certain types of target items, the costs of serving beneficiaries will vary based on their characteristics. Common examples include personal services, such as counselling, medical treatment, and job training. If the rate of subsidy or reimbursement is uniform across persons served, profit-oriented suppliers will attempt to attract the least costly clients and turn away the most costly claimants.<sup>43</sup> This process of cream skimming works to the detriment of the most needy beneficiaries, who typically are the most time-consuming and costly to serve. To counter this outcome, the in-kind benefit program requires some method to assess individual

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<sup>40</sup> Fack (2006); this outcome was attributed to the very low elasticity of supply in the relevant housing market and the fact that the policy itself did nothing to increase supply. Other studies with estimates of the pecuniary impacts of housing subsidies on rents include Susin (2002), Viren (2013), and Eriksen and Ross (2015).

<sup>41</sup> Coate, Johnson, and Zeckhauser (1994) assess the use of expanded public supply of particular in-kind target items to depress market prices and thereby achieve what they term “pecuniary redistribution through in-kind programs.”

<sup>42</sup> See Cunha, De Georgi, and Jayachandran (2019) for the analysis. Coate (1989) provides an economic analysis of the conditions under which such beneficial negative pecuniary effects will arise from food relief programs.

<sup>43</sup> In the Canadian context, there have been incidents where the costly effects of private surgeries that went wrong were dumped on the public health care system to resolve.



needs and adjust the subsidy rates and/or ceiling quantities accordingly. That necessity may make the direct government supply of the benefit preferable, since public provision is not bound by a profit concern. Provision via an NGO may also be less affected by this issue. If a profit-oriented supplier is entitled to assess the extent of need and therefore its reimbursement, this may necessitate heavy monitoring and oversight by a government authority.

### ***Public or Private Production***

All delivery modes for in-kind benefits are publicly financed to the extent that the target items use public funds to cover free, subsidized, or tax-favoured provision. However, public finance of the target item does not necessarily require its public production. Of the six delivery modes shown in Table 2, five employ production of the target item by either for-profit private or non-profit NGO entities. Only direct government provision has the option of using in-house public or contracted private production. Government producing the target item itself can help to ensure the quality level (and thus avoid cream skimming) but can also lag in efficiency that raises costs (due to the absence of competitive pressures). One way to address some of these effects is for government to allow competitive private-sector supply of the same target item, so that beneficiaries can choose between public and private suppliers.<sup>44</sup>

### ***Certification and Monitoring***

Various operational issues arise with the use of vouchers rather than direct provision of in-kind benefits. First, what entities are certified as eligible to accept vouchers (or issue tax receipts) and redeem them for public funds? This process requires official vetting and monitoring of entities to ensure trustworthy compliance. It also requires auditing methods to ensure that the entity has supplied only eligible target items to beneficiaries and that their claim corresponds to actual quantities supplied. Moreover, qualitative aspects of service delivery may need to be monitored for certain types of target items. Whether the supplying entity is entrusted with assessing claimants' eligibility is another issue in program design. When vouchers take the form of tax credits or deductions, the tax department itself needs to assess the validity of claims by tax filers. In an age where most tax filing is done electronically, unaccompanied by receipts, systematic audits of filers for these claims are needed to enforce the system.

### ***Budgeting and Queuing***

When the budgetary allocation for an in-kind benefit over a given period is fixed, this can give rise to issues of rationing access even to eligible beneficiaries. This circumstance is far likelier to occur with delivery methods based on direct than tax expenditures. Some of the possible rationing mechanisms include administrative assessment and ranking of applicants, wait lists, actual queues where applicants must wait on-site, and multiple wait lists based on applicant characteristics (such as faster access for sole parents or those with disabilities). Limited supply of valued in-kind benefits can also evoke informal rationing responses such as

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<sup>44</sup> For discussion of this issue in the health-care context, see Barr (2001, 66–69). However, to control cream skimming by the private suppliers, monitoring and regulatory oversight are needed.

corruption (small gifts or cash payments to the supplier) or simply preferential treatment of individuals with the right connections, social status, or affinity relationships. Most of these informal mechanisms tend to favour the least needy among eligible persons.

### ***Presumptive In-Kind Benefit***

A particular type of program appears like an in-kind benefit but lacks the key characteristic of altering the relative price of the target item. The benefit is paid in cash, but unlike a true in-kind benefit the amount is assessed based on a beneficiary's attributes and not the amount spent on a presumed target item for which the benefit is nominally labelled.<sup>45</sup> Nor does the program monitor how the beneficiary spends the cash. Thus, its structure is actually that of a *cash* benefit. An example is a cash allowance provided to IA recipients in B.C. assessed as needing a special diet. To the beneficiary, this is unrestricted cash even if nominally assigned for the special dietary needs. This circumstance may appear like that of an infra-marginal beneficiary, except that it arises regardless of the beneficiary's spending level on the target item. Our earlier review of empirical studies found instances where the benefit has this structure and the mere labelling of the benefit caused beneficiaries to spend more on the target item than they would have with an equivalent (but unlabelled) cash transfer.

### ***Role of Vetting in Self-Selection***

Recall the two types of target items that are amenable to the use of self-selection: . Quality-selective items are inherently designed for individuals to choose themselves whether to take up the benefit or to opt out—subject to any eligibility conditions. In contrast, some need-selective items require external vetting by an appropriate authority to assess the validity of need and possibly the level of need. The vetting authority could be a health-care practitioner, social worker, or program administrator, depending on the item. Thus, need-selective target items may require two decision levels for access: by the prospective beneficiary and by a vetting authority. This attribute makes them more costly to administer, and for items that have a high level of fungibility, more challenging to deter invalid claimants.<sup>46</sup> If the target item is fashioned as a presumptive in-kind benefit, this will increase the number of bogus claimants since it is paid in cash without any monitoring of how it is actually spent. Possible policy responses to this issue are to use vouchers rather than cash payment and/or to diminish qualitative aspects of the relevant target item.

### ***Heterogeneity of Beneficiaries***

For many in-kind benefits, eligible persons will be divided between infra-marginal and supra-marginal for the ceiling amount of the free or subsidized target item. Even though persons with larger income are more likely to be infra-marginal, variations in personal preferences and

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<sup>45</sup> A Canadian example is the Manitoba Rent Assist program, which has not been evaluated for its spending effects. See Brandon, Hajer, and Mendelson (2017) and Brandon and Hajer (2019).

<sup>46</sup> For example, with special dietary, vitamin, or drug allowances available to beneficiaries, this can lead to “doctor shopping” to find more pliant vetting of claims. With presumptive in-kind or fungible benefits, the pressures become even more intense since the gain is additional cash.

circumstances may preclude a more targeted design of eligibility criteria or the functional relation between ceiling quantities and those attributes. Thus, infra-marginal persons may dominate the population eligible for the benefit, so that the total additional consumption response is small relative to the effects of an equivalent cash transfer. Nevertheless, the IKB's greater ability to raise consumption of the target item for a minority of the eligible group may be deemed sufficiently important to warrant its use despite higher operational and efficiency costs relative to a pure cash benefit structure.

### **Universal Basic Income Versus Universal Basic Services**

The preceding analysis demonstrates that the allocation of transfers between cash and in kind is not a binary choice but rather one of appropriate balance based on policy objectives and values as well as technical and practical considerations. However, some reform advocates including philosophers and economists have tilted more heavily toward cash transfers or toward in-kind benefits based on principled or practical arguments. Here we cite several of these viewpoints to demonstrate that most advocates of both Universal Basic Income (UBI) and Universal Basic Services (UBS) do not in fact take completely polarized positions on this issue.

The chief modern proponent of UBI is Philippe Van Parijs, a Belgian social philosopher espousing what he calls *real-libertarianism* and sometimes tagged as *left-libertarianism*. His central principle is a structure of institutions and transfers "... such that each person has the greatest possible opportunity to do whatever she might want to do (*leximin opportunity*)" (Van Parijs 1995, 25; italics in the original). His framework emphasizes the central role of a universal, unconditional cash benefit, but his writings equivocate as to the optimal level of UBI:

Leximin real freedom ... requires that the level of the unconditional income be maximized, subject to everyone's formal freedom being adequately protected (Van Parijs 1995, 92). [T]he highest sustainable basic income consistent with both formal freedom and undominated diversity can confidently be expected to be quite substantial, indeed to exceed what is there unanimously considered as belonging to the bare necessities. (Van Parijs 1995, 84). [Yet he writes ...] Let us bear in mind that it is *not* part of the definition of a basic income that it should be sufficient to satisfy the beneficiaries' basic needs ... the level of the basic income could be more and it could be less. Nor is it part of the definition of a basic income that it should replace all other cash benefits: a universal benefit need not be a single benefit. (Van Parijs 2004, 8)

His later writings suggest that an appropriate level for the basic income would be about one-quarter of average per capita gross domestic product.<sup>47</sup>

Yet, the UBI approach does not require that all transfers be in cash or that the benefit be set at a level that would supplant all public services. Van Parijs and Vanderborcht state:

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<sup>47</sup> Van Parijs and Vanderborcht (2017, 11). For Canada in 2019, the implied per capita basic income would be about \$15,000, which is below the Market Basket Measure of poverty at \$20,000 for a single person.

[A] basic income is not meant to replace all services provided or funded by the state. A combination of mild paternalism, awareness of positive and negative externalities, and concern for the preconditions of competent citizenship can easily override the argument for cash in the case of some specific goods such as basic health insurance and education at the preschool, primary, and secondary levels. Such provisions in kind can be defended in terms of the long-term interests of the individuals concerned, and also in terms of society's [sic] interests in maintaining the healthy and well-educated workforce and citizenry that are crucial to well-functioning economies and democracies. ... For all these reasons, making a strong case for a basic income paid in cash is consistent with supporting public provision of various services in kind. (2017, 13–14)

Early advocates of a negative income tax (NIT), beginning with conservative economist Milton Friedman (1962), stressed the savings in both administrative and budgetary costs as well as enhanced autonomy and freedom of beneficiaries. This camp has at times been labelled *right-libertarianism*. While they welcomed the prospect of reduced government intervention, it was not clear whether their schemes would have eliminated all in-kind benefit programs. Recent renditions of this approach from conservative economists and think tanks are more explicit and severe in how they would replace a wide range of both cash and in-kind benefit programs with a single NIT—again, to contain costs and the growth of entitlement programs. The conservative American Enterprise Institute think tank endorsed a scheme with specifics about financing. It would entail eliminating more than US\$2.5 trillion in annual spending including Social Security, Medicare, Medicaid, food stamps, veterans benefits and other major programs as well as repealing US\$650 billion of tax provisions.<sup>48</sup> Note that objectives similar to those sought by right-libertarians (other than reduced benefits and curtailed services) have been endorsed by UBI and NIT advocates from the progressive end of the political spectrum.

Leading social philosopher Elizabeth Anderson has argued against undue emphasis on a UBI to the detriment of a wide range of important in-kind benefits:

A policy to enact and maximize a UBI ... [is deficient because] ... it favors distributing income over direct in-kind provision of, or vouchers for, particular goods, such as health care or education. The preference for income rather than in-kind transfers reflects the commitment of real libertarianism to promoting freedom, conceived as a generic good; the real libertarian urges that we provide people with the resources they need to achieve their aims, whatever those aims are. Thus it gives no special priority to freedom from disease over the freedom to idle: freedom is freedom. As an account of what we owe to one another, that seems misguided. ... What we owe are not the means to generic freedom but the social conditions of the particular, concrete freedoms that are instrumental to life in relations of equality with others. ... A maximal UBI risks

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<sup>48</sup> See Ensor et al. (2017). The AEI proposal entails no benefit clawbacks. The benefit would be US\$13,800 for adults and half that sum for those under 18 years. Households with individuals aged 65 years and older at every income level would be large net losers under the AEI scheme. Also see the similar proposal by Murray (2016), which does have partial clawbacks on benefits beginning at US\$30,000 incomes.

overproviding optional freedoms at a substantial sacrifice—large enough to compromise social equality—to the particular freedoms we owe one another. (Anderson 2000)

Congruent reservations about a maximal UBI have been expressed by Barbara Bergmann, a pioneering feminist economist, based on pragmatic grounds:

State provision of “merit goods” and of narrowly targeted cash payments has higher priority than large universal cash grants. ... A generous welfare state is currently incompatible with large universal cash payments because of the problems that accumulate as the rate of taxation is pushed to very high levels. ... The funds that Universal Basic Income ... would require currently have alternative uses that are of higher priority. In particular, there is a class of “merit goods”—goods and services that it is in the public interest that every citizen have access to—that are best provided universally by government. Cash payments that are targeted toward people in particularly needy circumstances [such as disability and old age] might also have higher priority than Basic Income ... Both in terms of politics and in terms of human needs, putting the achievement of Basic Income ahead of the achievement of the welfare state is putting the cart before the horse. (Bergmann 2004, 107–09)

Advocacy for Universal Basic Services has recently emerged as a contender to UBI. The fullest formulation of UBS was developed at a University College London research institute (see Social Prosperity Network 2017; Coote, Kasliwal, and Percy 2019). They contend that universal access to a wide range of free or highly subsidized public services would be less costly than a UBI and bring greater benefits to the poorest members of society. This approach envisages not only extant U.K. public services like health care and education but also services extending to local transport, social housing, child care, legal services, food, mobile phones, and internet. A key idea is that provision of these goods and services reduces the need for cash income and thus addresses poverty from the other side of the household budget.<sup>49</sup> They also claim that providing services publicly at scale would yield large cost savings relative to market supply. Advocates of this approach acknowledge, “UBS need not be inconsistent, and could indeed be complementary, with a basic income *introduced at a modest level ...*” (Social Prosperity Network 2017, 24, emphasis added). Most recently the United Kingdom Labour Party (2019) endorsed UBS as a central pillar in their economic platform. However, UBI advocates have countered that the U.K. proposals for UBS fall short of universal since aspects of their provision would be on a needs basis, utilize lower quality or means tests for rationing, and entail stigma and paternalism.<sup>50</sup>

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<sup>49</sup> Also see Yalnizyan (2017a, 2017b, 2019) for similar arguments in the Canadian context.

<sup>50</sup> Most pointed is the rejoinder of UBI advocate Guy Standing (2019). He asserted, “Ultimately, there is no contradiction between having some public quasi-universal basic services and a basic income. They address different needs and stem from different rationales. But having cash enhances freedom of choice, is potentially more empowering and can be more transformative.”

## IKB Issues With Reform of Cash Transfers

The foregoing analysis has assessed the rationale, benefit structure, and delivery modes relating to the choice between cash and in-kind for transfers of specific types of target items and policy objectives. We now consider some generic issues that would arise for IKBs with any significant reform of the cash transfer system; our focus will be on pragmatic and systemic considerations. In particular, we pursue the following issues:

- How would major expansion of levels or access to cash benefits affect the fiscal, political, and/or public support for existing IKB programs?
- What types of IKB programs could be scaled back or eliminated if cash benefit programs were significantly enhanced?
- How would an expanded or more universal provision of cash benefits affect the provision and integration with various in-kind services?
- What factors should enter into whether existing IKBs are “cashed out” on either an individual option or program basis?

The present overview abstracts from the historical and institutional contexts that are essential in any applied policy design. We consider those aspects in our later analysis of cash versus in-kind choices for specific areas of program design for British Columbia.

A major expansion of the levels or access to cash benefits would carry significant implications for the fiscal and political calculus relating to the retention of existing IKB programs. Whether financed by increased taxes, realignment of existing taxes, or reduced program spending, this would likely constrain spending on and public support for existing in-kind benefit programs targeted at lower incomes. Raising basic cash support levels and/or access to cash transfer programs could also cause the public to see their ethical obligations to the poor as fulfilled, thus weakening support for targeted in-kind benefit programs.<sup>51</sup> A possible supposition is that increased cash support for the poor would reduce the need for specific in-kind benefits, as some proponents of UBI and NIT have asserted. However, arguments in this realm are highly speculative, since any major expansion of cash benefits *presupposes* a shift in public opinion. Canadian surveys have found greater public support for expanded anti-poverty cash transfers and IKB programs such as PharmaCare than willingness to pay the requisite taxes.<sup>52</sup>

If base levels of cash benefits were significantly increased through incremental or radical program reform, this could weaken the need for certain types of in-kind benefits. One example of dispensable programs would be food-related supports including food banks and food vouchers. Studies find that food insecurity is highly income-related,<sup>53</sup> so that raising the assured

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<sup>51</sup> Kelman (1986) posits this as a likely outcome.

<sup>52</sup> See various surveys by Angus Reid Institute (2016–2020) reporting majority support for a “guaranteed income” but majority opposition to paying the associated costs; also majority support for a national PharmaCare plan but majority opposition to paying the taxes needed to finance it.

<sup>53</sup> Among working-age Canadians with disabilities, overall food insecurity falls from 40% to 20% and further to 12% in moving from the first to the second and then to the third income decile (Borowko 2008, 45). Increases in Canada Child Benefits were estimated to reduce severe food insecurity (Brown and Tarasuk 2019); also see Najjarrezaparast and Pendakur 2020.

levels of cash benefits would do much to address that issue. Also, consumer tastes with respect to foodstuffs are highly diverse and would be ill served by in-kind transfers for food. Moreover, relying on more cash benefits is important in facilitating beneficiaries' autonomy and utility even if they do not always make the most nutritious choices. Conversely, programs of in-school free breakfast or lunch programs may be justified by child development objectives, especially if they can be targeted by locale so as to avoid stigmatizing aspects of eligibility. The heavy reliance on a food voucher program in the U.S. is explained by voter concerns about misspending of cash benefits rather than any credible evidence about its economic justification.<sup>54</sup>

Contrary to food, other types of target items are not so readily amenable to being addressed simply by dispensing higher cash benefits. Two important examples are health care and housing, both commonly deemed to be merit goods. What differentiates these items are characteristics such as market structure, degree of variation in individual tastes, and differing regularity in need. Food is supplied in highly competitive markets responsive to consumers; in contrast, markets for health care and housing are less competitive, less elastic in supply, and beset by various informational issues. Peoples' need for food is regular and ongoing, whereas their need for medical services is highly variable and unpredictable. Private markets for health care and related insurance suffer from adverse selection and high or prohibitive premiums for those with pre-existing conditions. Variation in individual tastes is considerably less important for health care and housing than for food, especially at low levels of household income. All of these factors make items such as health care and housing better suited to treatment as in-kind benefits.

The transition from current Income Assistance programs administered by agencies having direct contact with beneficiaries to a more confidential and distant taxation agency would have important implications. While it could enable greater anonymity and lesser stigma, this change would also eliminate the personal contact with caseworkers, who can assess special needs and connect beneficiaries with essential in-kind services.<sup>55</sup> These include personal, family, and psychological counselling, maternity and dietary resources, and child protection services along with myriad special allowances based on particular needs. How to preserve the positive components of these connections and services under a more generic cash transfer program operated through the tax system is an open issue. However, an NIT might still necessitate the maintenance of a traditional welfare-type system to deal with intra-year income variations. As a UBI proponent arguing in favour of his approach has observed, "[A]ny NIT scheme would have the desired effects on poverty only if it was supplemented by a system of advance payments sufficient to keep people from starving before their tax forms are examined at the end of the fiscal year."<sup>56</sup> To address this problem of individuals who suffer sudden income

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<sup>54</sup> This interpretation is amplified by recent reforms to strengthen work requirements in the U.S. food stamp program.

<sup>55</sup> New criteria and systems for assessing eligibility to various programs and services now linked to Income Assistance eligibility would need to be devised and implemented if the latter program were supplanted by a new tax-delivered cash support program.

<sup>56</sup> Van Parijs (2000) and see the extensive discussion of this issue in Kesselman (2020).

losses, one concrete proposal for a Canadian NIT would retain provincial Income Assistance programs (see Stevens and Simpson 2017).

The very purpose of structuring benefits as in kind is to promote greater access to or use of specified target items than would be induced by an equivalent cash transfer. That some beneficiaries of an in-kind transfer might prefer an equivalent cash transfer is not sufficient reason to provide them that option in most circumstances.<sup>57</sup> However, in some situations such an option may be justified if it provides an alternative way to meet the target objective. One example is a German scheme that allows families who opt to take care of their elderly relative at home rather than using a public nursing facility to obtain cash plus services at a cost below that of a care facility.<sup>58</sup> This approach provides what economists call a *Pareto optimal* solution: one that the families prefer and that is also advantageous to taxpayers.<sup>59</sup> Another example is based on a small-scale pilot program to permit persons with disabilities to opt among a specified set of employment supports within a fixed budget those they find most productive.<sup>60</sup> In effect, this example illustrates the voucher approach to providing in-kind benefits.

### **Application to IKB Programs in British Columbia**

The preceding analytical framework and conceptual apparatus can be applied to a sample of existing IKB programs in British Columbia. Many of these IKBs are not formally programs in the usual sense, but rather ancillary provisions within programs such as social assistance (SA); here we refer to all of them as programs. Our objectives in this exercise are threefold:

- to illustrate the abundance and diversity of such programs and how they fit within the various typologies for the in-kind benefit format
- to explore how the design of B.C.'s IKB programs could be modified to make them conform more closely to some attributes of a basic income
- to assess how the institution of an unconditional basic income in B.C. should affect the retention or design of existing provincial IKB programs

For present purposes we restrict the term *basic income* (BI) to unconditional but income-tested formats such as the refundable tax credit and negative income tax. The principles and objectives of a basic income are taken to be enhancing the agency of beneficiaries and the

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<sup>57</sup> In cases where a target item is highly fungible and no reasonable policy reform (in terms of cost or intrusiveness) is able to remediate that, conversion of the benefit to cash may be sensible.

<sup>58</sup> See European Commission (2018) and Nadash, Doty, and Schwanenflügel (2018). These benefits are provided under a compulsory contributory Long-Term Care Insurance scheme. About 80 percent of all beneficiaries opt for the set of benefits provided for home care.

<sup>59</sup> Of course, this outcome depends on the extent to which the private option would have been chosen even in the absence of a public subsidy; another example is parents who would choose to pay for private schooling for their children even in the absence of a partial public subsidy.

<sup>60</sup> See Tattrie et al. (2003). Participants were allowed to choose from a list of disability supports to assist job search and employment up to a fixed total dollar value per month.



automaticity of benefits, thus minimizing attributes such as conditionality, stigmatization, paperwork, and bureaucratic discretion.<sup>61</sup>

### **Relation to Conceptual Framework**

To relate our assessment of IKB programs in B.C. to our earlier conceptual framework, we explicate the relationship among several key concepts. Some programs are “real” IKBs in the sense that they satisfy our definition of altering beneficiary choices of a target item by reducing its cost relative to other goods or services. However, some such IKBs will have less impact on beneficiary choices because the quantities provided free or subsidized are below what most beneficiaries would have purchased in any event; these constitute the infra-marginal case, and for some programs this will include almost all beneficiaries. Similarly, when the target item is fungible for many beneficiaries, it may also have less impact on choices, albeit bearing transaction costs from the act of conversion to cash. Some IKBs are provided only on a vetted basis to determine recipient need but dispensed in money form without any incentive, restriction, or verification to ensure that the target good is actually purchased. Although these presumptive IKBs could be spent like unconstrained cash, one would expect them to be applied mostly to the intended purpose because the recipients have been vetted for the specific need.

In contrast to IKB structures, some benefits are provided in pure cash format—based on various eligibility and targeting criteria—and labelled for a particular purpose but without any related incentive in the benefit structure and also without any vetting for the specific need. As our empirical review revealed, some labelled cash benefits are in fact spent disproportionately on the labelled item. In short, some programs structured as IKBs have behavioural impacts that may differ little from analogous cash benefits, and some labelled cash benefits may exert impacts similar to IKBs. Attributes of the beneficiary population including preferences and perceptions as well as the structure and presentation of the benefit program can matter. Even in cases of extreme fungibility or infra-marginality, the primary justification for crafting benefits as in kind rather than in cash may be to render a program more acceptable to or supportable by taxpayers. The labelling of some cash benefit programs may be intended to serve a similar purpose.

### **Selection of B.C. In-Kind Benefit Programs**

Our selection of B.C. programs manifesting IKB attributes includes both supplemental benefits of the social assistance program and programs that operate independently of SA. An interest in SA supplemental benefits stems from the challenges that would arise with any significant move toward a basic income to supplant the SA program. The main divisions of beneficiary types in the B.C. Employment and Assistance program are Temporary Assistance (TA; persons deemed capable of financial independence through employment) and Disability Assistance (DA). In December 2019 the DA category had 110,500 cases; the TA division had

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<sup>61</sup> We exclude here the universal basic income paid irrespective of income, although it shares these principles and objectives (and more). See Kesselman (2020) and Tedds, Crisan, and Petit (2020) for detailed discussion of the design choices for BI formats and other cash transfer programs.

45,700 cases, further subdivided into “temporarily excused from work” (6,200; single parents with a child under 3 years and seniors), “persistent multiple barriers” (2,300), “expected to work—medical condition” (2,100), and “expected to work” (35,000) (Government of British Columbia 2019). DA cases greatly outnumbered TA cases, with more than triple the number of “expected to work” TA cases.

In addition to the main SA categories of TA and DA, British Columbia also provides hardship assistance (HA) to applicants who have immediate urgent needs but lack one or more of the standard SA eligibility requirements. Provision of HA is made on a temporary basis for one month at a time, and eligibility must be re-established for each month requested. The following circumstances can be the basis for HA eligibility: awaiting Employment Insurance benefits or income from another source, assets in excess of standard limits and not immediately available, strike or lockout, income in excess of the allowable maximum and unable to meet basic needs, immediate need and not yet meeting the work-search requirement, and default of a sponsorship undertaking. Review and approval for HA support entails some degree of administrative discretion, as do many of the supplementary benefits available for assessed need by all SA beneficiaries. Some kinds of HA benefits must be repaid to the government.

It bears note that a majority of B.C. residents who are poor, based on the market basket measure, are not beneficiaries of the SA program. Most of those individuals are employed at low wages on a part-time and/or part-year basis or are retired. Moreover, the institution of a basic income with a guarantee level approaching the poverty threshold would have a break-even income extending to many persons well above the poverty line, who are excluded from SA. Those groups are thus currently not eligible for the various cash-like and in-kind benefits that are contingent on SA status. If the SA system were reformed or replaced by a form of basic income, new provisions for determining eligibility for any retained additional benefits would need to be developed. That process might require new administrative apparatus and the use of income tests or other, possibly discretionary, eligibility criteria. We explore those issues after classifying and assessing selected benefit provisions.

### **Historical and Institutional Context for British Columbia**

Understanding the diverse IKBs in British Columbia social programs requires some historical and institutional context. How have we come to a system with so many programs and provisions within programs, large and small? As in all Canadian provinces, income security and social services in B.C. have developed organically over time with new programs added and old programs amended in response to evolving demands. The existing array of programs is not the result of some single over-arching rational plan; it is the product of many incremental reforms undertaken with varied and changing goals and political imperatives. The constitutional context also informs the way that programs have evolved at different levels of government. Federal authority encompasses cash benefit programs,<sup>62</sup> benefits provided via the tax system, and inter-

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<sup>62</sup> Federal government authority to implement Unemployment Insurance, Old Age Security, and the Canada Pension Plan required constitutional amendment or agreement with the provinces.

governmental transfers to lower jurisdictions in support of IKB programs.<sup>63</sup> The provincial governments also have authority to institute cash and tax-based cash benefits, but their almost exclusive domain lies in the direct provision of in-kind benefits and social services.

The most comprehensive reform of social service and benefit delivery provisions dates to the Canada Assistance Plan (CAP) enacted in 1966. CAP introduced the needs-based budget as a condition for cost sharing by the federal government with the provinces and territories for SA cash benefits and some social services. The central concept was that each household would have a budget calculated reflecting categories of basic needs—for food, clothing, shelter, and personal comforts, such as haircuts and toothpaste. SA rates would then be set to meet the household's basic needs as reflected in the budget for a household's size and composition. In order to qualify for federal sharing of 50% of its costs, a province was required to revise its SA eligibility criteria and social services to conform to CAP's needs-based budget and related principles.

Under the pressures of deficit reduction, the federal government transitioned from cost sharing with the provinces for social programs to a succession of block-transfer arrangements beginning in the 1990s. This process started with a series of constraints on the growth of federal CAP transfers. Next, CAP was replaced by block-transfer programs, led by the Canada Health and Social Transfer in 1996, followed in 2003 by its partition into separate block transfers into the two programs that are still in operation. Our present assessment will be restricted to IKB programs operated by the B.C. government. However, it is important to keep in mind the relationship between orders of government in both income security and social services, as this affects not only the current regime but also prospects for future development. The federal government remains dominant in income security with its operation of key cash benefit programs. In comparative expenditures, provincial SA is modest albeit playing a critical role as the program of last resort for those in need.

Although CAP has long ago been supplanted, many of its needs-based concepts remain embedded in our current systems. CAP's goal had been to create a single coherent rate structure in a simple statute for SA for every household—replacing several pre-CAP SA statutes in every province that existed for specific groups and needs. However, in reality many individualized needs were not encompassed within the regular categories of the needs-based budget. For example, what if a SA beneficiary had celiac disease and required a more expensive diet? How was the additional expense to be met? Over time, supplemental benefits were added to the SA systems in B.C. and every province, to meet specific needs, sometimes for many recipients and sometimes targeted on the needs of just a few. How to address these many individualized needs would remain a major challenge for the design and operation of any form of basic income, whether operated at the provincial level alone or as a joint federal-provincial undertaking.

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<sup>63</sup> Through provisions of the income tax the federal government can also exercise influence over IKBs, such as the child-care expense deduction and medical expense credit.

## Typologies and Attributes of B.C. IKB Programs

We next undertake a typology and assessment of 23 selected IKBs in British Columbia, equally divided between SA provisions and stand-alone programs outside of SA. Our selection includes both real and presumptive IKBs, and we use three different ways of categorizing the selected IKBs (each IKB appears in all three typologies):

- based on the functional characteristics of each program, such as presumptive, need-selective, quality-selective, or infra-marginal (Tables 4A and 4B)
- based on the kinds of criteria used for eligibility in each program (Tables 5A and 5B)
- based on the program’s delivery mode—whether direct or on the supply or demand side, and whether free or with user co-pay (Tables 6A and 6B)

Where figures are available, expenditures are provided for 2017/18 for programs in Table 4A and for 2019/20 for programs in Table 4B.

The IKBs that are dependent on eligibility for SA cash benefits are grouped in the first panel of each table.<sup>64</sup> A few of these benefits are provided to all SA beneficiaries of a given type, while most require satisfying an assessment for a particular need. We have counted at least 42 supplemental benefits in B.C.’s SA system, with just some shown for illustration. The sample of other IKB programs outside of SA is meant to convey the range of such benefits; a full inventory would include many more programs. Note that some programs outside of SA, such as hospital and physician services, are also open to SA beneficiaries; and a few programs outside of SA, such as the Rental Assistance Program, exclude SA beneficiaries. For each table’s distinct way of categorizing the programs, we provide an overview of its application.

### Characteristics of B.C. IKB Programs

Key functional characteristics of each selected B.C. IKB program or provision are shown in Table 4A for SA program provisions and 4B for other programs. An attribute for many benefits, particularly within the SA program, is its presumptive nature; that is, it is paid in cash and intended for a particular purpose, but the actual spending of the money is neither constrained nor confirmed. Thus, presumptive benefits are inherently fungible, but given the need of vetting to be approved for many such items and the low level of SA cash benefits, it is likely that these presumptive benefits are in fact mostly spent as intended.<sup>65</sup> The attribute of “need-selective” typically implies that approval for the particular benefit requires vetting by either a social worker or medical practitioner, but it could also apply to types of services where only an individual with the particular need accesses it by self-referral. The attribute of “quality-selective” relates to benefits that would not be chosen by most individuals who could afford a superior attribute in the market (such as better quality or reliability or lesser waiting time). Finally, the term “infra-

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<sup>64</sup> Descriptions of supplemental benefits in the BC SA program are provided in BC Ministry of Social Development and Poverty Reduction (2020) and linked webpages.

<sup>65</sup> Tables 4A and 4B reserves the denotation of fungible (F) to benefit items that are tangible goods or services capable of being resold for cash regardless of whether that is commonly done.

marginal” refers to items supplied at a level or quantity less than most beneficiaries would purchase even in the absence of the provision.

### **Eligibility for B.C. IKB Programs**

Key eligibility criteria for each selected B.C. IKB program are shown in Tables 5A and 5B, again with separate panels hinging on within or outside the SA program. The first column of Table 5A denotes which categories of SA beneficiaries are eligible for each benefit. Since eligibility for SA requires meeting both an income and an asset test, we omit those criteria from the column headings in Table 5A. Some of the SA supplemental benefits are paid based on simple demographic criteria, such as the Christmas supplement in December for each household receiving cash benefits. Approval for some supplemental benefits requires vetting by a social worker or health practitioner, but others such as the PWD bus pass can be self-initiated by persons who meet other criteria. Table 5B presents eligibility criteria for IKBs in programs outside of SA and displays the presence of income and/or asset tests. The presence of need vetting and queuing is also shown for some of these programs.

### **Delivery Modes for B.C. IKB Programs**

The modes used to deliver each of the selected B.C. IKB programs or provisions are shown in Tables 6A and 6B, again separated by SA and non-SA items. The tabulated types of modes parallel our earlier discussion of this topic, with direct delivery by government distinguished from delivery via private markets. The latter are differentiated between demand-side and supply-side, with the former typically some form of voucher, subsidy, or tax provision for the beneficiary and the latter most often a subsidy to the vendor. NGOs supported in part by public grants are used to deliver some kinds of social services and facilities. Both free provision and various forms of user charges or co-pays are used in different programs, and the latter include incentives embodied in the tax system. Repayable loans or grants are also employed in the delivery of a few programs.

## **Reforming or Replacing B.C. IKB Programs**

This section assesses how selected items from the tabulated IKB programs could be reformed or replaced for greater consistency with the attributes or philosophy of a basic income (BI). We undertake the exercise at two levels, hinging on the extent to which B.C.’s social assistance system were altered:

- If the cash benefits and eligibility criteria for SA were not fundamentally changed, how could the program’s supplemental IKBs best be handled for greater consistency with BI principles? That is, how could an IKB be made less restrictive, intrusive, and stigmatizing to give recipients greater agency and dignity?
- If the SA system were replaced by an unconditional, income-tested basic income, how could the IKB provisions best be treated? In particular, with all SA eligibility tests other than income eliminated, how could the IKB best be treated? And what would be the requisite delivery mode and administration?

We pose similar questions for IKB programs that are not ancillary to B.C.'s SA program. Few previous basic income proposals have recognized that SA is more than a program providing generic cash benefits; an individual's SA status is also the scaffolding on which many social services and special benefits have been erected.

In-kind benefit programs have been developed to address the ongoing needs of particular types of persons and to address particular needs that arise for some people at various points in time. Thus, the provision of IKBs requires an administrative apparatus for determining the eligibility and specific needs of applicants, beyond the criteria applied to assess need for general cash support for subsistence and shelter. That is, IKBs address the differential needs for additional supportive resources beyond the basic cash support for an applicant with given assets, earnings, and other income. Any of four approaches can be employed to serve BI principles of simplifying the system, easing access, reducing conditionality and stigma, and increasing the agency of beneficiaries:

- Eliminate the specific IKB program or provision if the scale of benefit is too small to warrant the administrative cost, potential inequities in its vetting, and/or intrusive aspects of its operation relative to the need that it serves.
- Eliminate the specific IKB and simultaneously raise the general cash support benefit for all beneficiaries who were previously eligible for the IKB as well as all others in that benefit category regardless of their need for the IKB.
- Remove the IKB provision from the SA program so that SA eligibility is no longer a prerequisite and provide it for all persons subject to an income test that is separate from that imposed for SA qualification and benefits.
- Offer the IKB universally to the entire population (separately from the SA program) without an income test but potentially using attributes such as quality-selectivity to ration demand for the benefit.

Each of the cited approaches to reforming or replacing a particular IKB has pros and cons. First, eliminating the IKB saves on program costs (outlays and administration), and it simplifies the system; however, it deprives those beneficiaries with the particular need. The second approach offsets the lost resources for those who had received the IKB with a cash equivalent. However, it substantially increases the program cost, since all beneficiaries in that category now receive additional cash. It also fails to restrict spending to the targeted good or service, thus eliminating the in-kind nature of the benefit. In the third approach, the IKB is detached from the SA program and extended to a wider group of lower-income persons. This approach reduces the work and other disincentives associated with SA, thereby lowering the welfare wall. Yet, it necessitates an income test apart from that in the SA program, which raises operational and incentive issues discussed below. The fourth approach is to provide the IKB universally and independent of income, which clearly would raise program cost. In assessing any of these approaches in a specific context, one needs to consider the objectives of the existing IKB including external benefits, merit good properties, and meeting individual needs.

Most IKBs supplemental to the SA program carry a discrete value that is lost entirely when the beneficiary attains an earnings level that disqualifies them from SA. For the last dollar of earnings that disentitles them from SA, the beneficiaries lose not only the tax-back rate times that dollar but also all of the supplemental benefit. This situation creates a notch effect as described earlier (Figure 14). An individual just at the verge of working their way off welfare is significantly worse off with incremental earnings—as they immediately lose all of the supplemental benefits. Shifting these various IKBs out of SA but not providing them universally does not avoid the phase-out problem. Either of two methods can be utilized. First, eligibility for the IKB can be based on an income test independent of the SA program. However, that would simply shift the cut-off to a different income level, thus creating a notch for a wider population than SA beneficiaries. Alternatively, if the IKB is divisible (such as number of chiropractor visits or dollars of dental treatment per year), the free or subsidized quantity could be phased out with higher incomes. Or, similarly, a user charge could be applied at rates that rise smoothly with the beneficiary's income ranging up to full cost of the IKB.

Any significant movement toward a BI regime would confront all the same problems of determining eligibility for supplemental benefits. Assuming that the BI scheme has an income-based phase-out,<sup>66</sup> its benefits are not paid to those with incomes above the break-even. If eligibility for supplemental benefits were conditional on being a BI recipient, then a notch effect would arise as earnings rise to the break-even level. Alternatively, if some form of graduated user charge could be implemented for a supplemental benefit (which may not be possible for all services) to avoid a notch, how to structure the user charge becomes a problem. If the phase-out of the user charge began at incomes below the BI break-even level, this would compound the effective tax rates on beneficiaries. If the phase-out were set to begin at incomes above the BI break-even, this would extend supplemental benefits to much of the overall population, with attendant budgetary cost. It would also raise the issue of whether the supplemental benefit should simply be provided on a universal basis. Only the universal approach would eliminate these problems and the requisite administrative apparatus; it would also fail to target various supplemental benefits on those having the actual need. Thus far, none of the proposed designs for BI have acknowledged or addressed these issues.

## **Analysis of Selected B.C. Programs**

### **Christmas Supplement to SA**

The Christmas supplement is automatically payable in December of each year for all SA beneficiaries. The amount is \$35 for a single childless person and larger amounts for couples and those with children. Thus, the supplement more closely resembles a labelled cash benefit than a presumptive IKB, since it is paid without reference to a vetted need, irrespective of whether the beneficiary celebrates Christmas, and regardless of how it is actually spent. The

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<sup>66</sup> If the basic income were of the universal format (with no benefit phase-out based on income), most of the same problems would still arise. Eliminating the phase-out rates of supplemental and cash benefits would only partially offset the high tax rates needed to finance a UBI.

supplement is also so small that one could consider deleting it as a supplementary benefit or apportioning the sum into regular monthly cash benefits over the year. The BI's agency and autonomy objectives would also incline against dispensing this sum at a specific time of year intimating how or when it should be spent. Conversely, many beneficiaries, especially those with children, do celebrate Christmas and are unable to save over the year for those expenses. Thus, the supplement could be justified on this paternalistic ground, but this illustrates the conflict with BI principles.<sup>67</sup>

### **Crisis Supplement to SA**

Crisis supplements of specified maximum amounts can be dispensed for one-time urgent food, clothing, or shelter needs (for example, up to \$40 for a month's food or \$100 per year for clothing).<sup>68</sup> These supplements are disbursed on a discretionary basis to beneficiaries facing unexpected emergency needs in situations threatening their physical health or removal of their child. Examples given by the provincial ministry include: a roommate moves out unexpectedly leaving the full rent on the beneficiary; a power outage results in food spoilage in the fridge. A Crisis supplement cannot be paid to cover an ongoing situation. Clearly, the very low cash benefit levels in B.C.'s SA program will push more beneficiaries into occasional need of a Crisis supplement. Even if the basic cash benefit levels were increased, some recipients would still require discretionary provision of a cash supplement to meet urgent unexpected expenses that could not be anticipated. This situation would continue to exist even under a BI regime,<sup>69</sup> and some kind of official provision for crisis situations would still be required, with the associated issues of administrative discretion, stigma, and departure from BI principles.

### **Health-Related Supplements to SA**

Several of B.C.'s SA supplementary benefit provisions address categories of health-related needs that vary across beneficiaries. These include the diet supplement, medical equipment and devices (several subcategories), optical services, extended medical therapies, medical transportation, and medical supplies supplements (not all displayed in the tables). Eligibility for all of these supplementary benefits is vetted by a relevant health-care practitioner, and typically the benefit is provided as a cash amount or restricted to specific goods or services. Some of these supplements are paid in cash without any need to verify that the specific items have been purchased; these items are presumptive IKBs and the likelihood is that most are in fact spent on the targeted items. Other supplementary benefits are delivered through restricted vouchers or supply-side payments to providers of the targeted service; the use of these benefits is more constrained and thus conforms to our standard definition of an IKB that is a specified target item and typically limited in fungibility.

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<sup>67</sup> Similar considerations apply to the school start-up supplement paid to SA beneficiaries with school-age children before the start of the school year.

<sup>68</sup> Total crisis supplement expenditure in 2017–18 was just \$5 million, but this covered 23,405 cases receiving 44,015 crisis supplement payments during the year or an average payment of about \$110.

<sup>69</sup> This would be a particularly severe problem with a BI structured as a refundable tax credit, since its benefits would respond to fluctuating income needs only with very long lags.



The policy choices for reform of the health-related supplementary benefits are similar whether the SA program is retained or replaced by a BI without eligibility restrictions beyond low income. Most SA supplementary health benefits could be moved out of the SA program and provided to all low-income families regardless of SA status. Eligibility would hinge, in the first instance, on an income criterion apart from that of the SA program. Whether this income criterion takes the form of a sharp cut-off level, yielding the cited benefit notch, or a variable income-related co-payment with a smoother phase-out is a policy choice. Regardless, a variable co-payment adds to the effective marginal tax rate on income along with the phase-out rate of the BI scheme. This problem is compounded for those using two or more supplemental health benefits. Access by eligible low-income persons to a particular supplemental health benefit would still require vetting by a relevant health-care practitioner.

### **Transitional Health Services and Healthy Kids Program**

In order to blunt the notch effect for beneficiaries losing their eligibility on account of increased earnings, the B.C. SA program instituted a special provision called Transitional Health Services. This provision extends their access to some of the Health Supplements for up to one year after losing SA cash benefits. Eligibility is restricted to SA beneficiaries who are in a family unit with at least one supported child. Note that this provision does not eliminate the notch effect but simply defers its impact for up to one year. The motivation for this provision was to reduce the so-called welfare wall facing individuals who return to work with sufficient earnings as to lose their SA eligibility. It is noteworthy that B.C. instituted the Healthy Kids Program for the same purpose of reducing the welfare wall facing SA beneficiaries as they increase their earnings.<sup>70</sup>

Benefits of the Healthy Kids Program (for basic dental services, optical care, and hearing aids) are based on family income below a specified annual threshold, which also imposes a notch effect. SA health supplements for children could be merged with the Healthy Kids Program, but this would require expanding the coverage of the latter program to conform to that of the former.<sup>71</sup> And it would not eliminate the income notch and associated disincentives; only expansion of these services to all children within the Medical Services Plan would achieve that end. Such a universalization of more health and dental services would also be consistent with the principles of a BI, but the additional costs would compound with those of providing the BI itself.

### **Rental Security Deposits in SA**

All categories of SA beneficiaries are potentially eligible for publicly provided loans of their security deposit on a rental contract. The deposit must be needed for the family to lease its rental unit, and they must agree in writing to repay the amount at the end of their tenancy. Borrowed security deposits not repaid in a lump sum are recovered via \$20 monthly offsets

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<sup>70</sup> B.C. introduced this program as one of its provincial reinvestment initiatives to reallocate some of its SA savings when the National Child Benefit initiative was launched in 1997.

<sup>71</sup> For example, orthodontics are not covered under the Healthy Kids Program but can be covered for children in SA families in accord with a treatment plan. If this is the only service not covered by Healthy Kids, it would presumably cost little for B.C. to integrate children in SA families into the Healthy Kids Program and thereby eliminate at least one source of stigmatization.

against their cash assistance. Determining whether an applicant is eligible for the loan is based on a determination by the caseworker. The rationale for such a provision is clear in that landlords always require a security deposit, and few SA beneficiaries will have the savings to cover that sum. Security deposits might seem like a relatively trivial issue, yet 22,475 deposits were issued on behalf of 19,961 cases in B.C. in 2017/18. This provision would appear to be essential to enable many beneficiaries to access the rental housing market. The institution of a loan provision for security deposits might also be desirable for some low earners not drawing SA benefits.

Presumably, the autonomy and agency goals of a BI suggest that beneficiaries should rely on their savings or, if need be, private borrowing to meet their security deposits. However, these assumptions do not fit the lived reality for most persons reliant on SA, whose poverty would preclude them from ever renting an apartment without the rental security deposit provision. Yet, the deposit loan could be made less discretionary within the current SA system, and therefore more consistent with BI principles, by making eligibility more automatic with a clearer set of rules governing its provision. Within a BI regime, access to rent deposits would still be needed but would have to be provided outside of the BI program. This example illustrates again how in-kind benefits would need to be rethought and amended if a basic income were to be instituted.

### **Shelter Allowance in SA**

Social assistance beneficiaries are entitled to a shelter allowance up to ceiling amounts that hinge on family size: for a single person the shelter maximum is \$375 per month, and for a family of four it is \$700. While these figures are well below typical rents even for lower quality units in urban B.C., they are paid only up to the actual rental costs that beneficiaries can document. Thus, the shelter allowance is a true IKB, albeit infra-marginal for most claimants. However, a minority of SA clients claim less than the maximum, and some (presumably the homeless) receive no shelter allowance. A simple reform to treatment of the shelter allowance to make it conform more to BI principles would be to add the full maximum shelter amount to the cash support allowance and permit beneficiaries to allocate spending as they chose. This reform would make no difference to beneficiaries currently spending the maximum amount on rent (or more), and they would no longer need to document their rent payments. It would also pay the full shelter allowance sum to beneficiaries now spending less or nothing on rent, which could induce some individuals to choose homelessness to access the extra cash (see Mendelson and Kesselman 2020 for assessment of these reform proposals).

The adoption of a full BI scheme would most likely proceed in a similar fashion to the reform mooted for SA. It would provide a guarantee level with cash benefits that consolidate all provision for general needs including shelter in a single sum, thus affording beneficiaries full discretion over the total amount. This approach would be most consistent with the BI objectives of simplification, non-paternalism, and autonomy for beneficiaries. While it would remove any policy leverage over individual choices of housing, this would not likely affect the housing choices of many beneficiaries. Evidence from the responses to changes in the child benefit

system suggest that a significant share of any incremental income from a BI would be spent on more or better housing, in any event (see the analysis and findings of Najjarrezaparast and Pendakur 2020). However, counter considerations are that the low supply elasticity of lower-end rental housing might result mainly in increased rents or displacement of some lower-income renters by others receiving increased income transfers.<sup>72</sup> Direct intervention to increase the construction and in-kind supply of new public or NGO-managed units would probably be more effective than demand-side policies.

### **Rental Assistance Program**

British Columbia offers rent subsidies for lower-income families with dependent children through the Rental Assistance Program (RAP).<sup>73</sup> Eligibility requires income of no more than \$40,000 (some of which must come from employment), assets of no more than \$100,000, and a dependent child. Receipt of the subsidy requires completing a multi-page application and annual renewal; the take-up rate for RAP has not been documented but is likely limited. The subsidy is based on a variable proportion of the gap between 30% of the beneficiary's income and the actual rent paid up to specified monthly maximums that vary by three regions. The highest maximum rent covered by RAP is \$1,250 for families of four or more in the most costly urban areas. Thus, the limit of \$40,000 imposes a limited notch effect: 30% of that income equates to \$1,000 per month, and the subsidy covers only a portion of the gap to the \$1,250 maximum. The notch is even less for smaller families in other regions with lower rent maximums.

The RAP is a true IKB scheme in that it reduces the relative cost of rental housing for beneficiaries, albeit at infra-marginal levels for many on account of the maximum covered rents.<sup>74</sup> Shortcomings of the RAP relative to the principles and attributes of an income-tested BI are several. First, the RAP subsidy requires a detailed application and annual renewal, and it has limited public awareness. Second, although the RAP draws on applicants' income tax information, benefits are administered and delivered by a provincial agency requiring claimant initiative. Third, similar to a BI of the refundable tax credit format, the RAP subsidy responds to variations in a family's income only with a lag of more than a year. Payment of RAP directly to beneficiaries likely reduces stigma, although the application requires reporting of the landlord's contact information. To overcome these deficiencies would require a major redesign of the RAP, making it less of an in-kind benefit and more like a cash benefit.

The RAP could be structured more like a BI if the subsidy were based on a scheduled, assumed amount of rent rather than the actual rent paid by an individual. Then the benefits would be determined by applicant income, family size, and possibly location of residence, with the net benefit declining as a function of income; in effect, this would be a "stealth" negative income tax. This structure characterizes Manitoba's Rent Assist program, which bases the

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<sup>72</sup> See our earlier discussion of this issue and citation of relevant empirical studies.

<sup>73</sup> A parallel BC program for lower-income seniors is Shelter Assistance for Elderly Renters (SAFER), which is structured similarly to RAP but does not require dependent children.

<sup>74</sup> Mendelson and Kesselman (2020) graph the patterns of RAP's marginal impacts on net rents.

subsidy on part of the gap between 30% of income and 75% of median rent in their area.<sup>75</sup> The Manitoba program still requires that individuals initiate an application and provide evidence that they are renting their accommodation.<sup>76</sup> Conforming to the principles of a BI and unlike a true IKB rent supplement, Manitoba's Rent Assist program does not incentivize spending on rent over other needs or wants. Nevertheless, its denotation as "rent" may induce some additional spending on shelter, as documented in our earlier account of the labelling effect in other programs.

### **Transportation Supplement to DA and PWD Bus Pass**

A transportation supplement of \$52 per month is added to the cash benefits of DA beneficiaries and those who have persons with disabilities (PWD) designation.<sup>77</sup> Since the supplement is not tied to its actual use for transport costs, it is really another example of a labelled cash benefit. In addition, DA beneficiaries are eligible to purchase a bus pass for use on both B.C. Transit and TransLink systems for a flat \$45 annual fee with unlimited use. To illustrate the potential value of this pass, an all-zones TransLink pass at the non-concession rate costs \$177 per month or \$2,124 per year. However, PWDs do not lose their access to the inexpensive bus pass when their incomes rise to the point of losing their DA cash benefits, so that any notch effect is avoided. The bus pass is also available at the same token annual fee to low-income seniors (based on their eligibility for the Guaranteed Income Supplement or equivalent), but with a notch effect arising if their incomes rise above GIS eligibility levels.

Given its very low flat annual cost relative to its actual value, the PWD bus pass is an infra-marginal IKB for virtually everyone who chooses to purchase it. Thus, most use of public transit by pass holders is effectively free. For a period in 2016–17, the previous B.C. government imposed a \$52 monthly charge on top of the \$45 annual fee for PWD purchasers of the bus pass—offset by an increase in the monthly cash benefit for DA. While this approach sought to provide a choice for beneficiaries, it was opposed by welfare advocates. The monthly user charge was abandoned by the new government, which retained only the annual fee and initiated the transportation supplement in 2018. This policy episode<sup>78</sup> illustrates the resistance to user charges for public services by the SA beneficiary population when they are hard pressed by low rates of cash benefits. But whether higher cash benefits or more highly subsidized or free public services are socially optimal is an open question. It goes to the heart of the equity and efficiency aspects of the cash versus in-kind formats, which also bears on the question of a BI.

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<sup>75</sup> For description and assessment of the Manitoba program, see Brandon, Hajer, and Mendelson (2017), Brandon and Hajer (2019), and Cooper, Hajer, and Plaut (2020).

<sup>76</sup> Persons drawing provincial SA cash and shelter benefits are ineligible for the Manitoba program, as are residents of First Nation communities.

<sup>77</sup> PWD designation is made by a medical or nurse practitioner and remains with the individual regardless of whether they continue to be eligible for DA cash benefits.

<sup>78</sup> For an account of these policy developments, see McCain and Chu (2017).

### **Affordable Child Care Benefit**

B.C.'s Affordable Child Care Benefit (ACCB) is a relatively new IKB program that expands a previous child-care subsidy. The amount of benefit is subject to maximum rates that hinge on type of care needed and age of the child. Benefits phase out smoothly at a 2.5% rate for adjusted family incomes above \$45,000, thus avoiding a notch effect. The benefit is usually paid directly to the care provider on behalf of the consumer, but it is more like a demand-side than supply-side subsidy. If it were desired to make the ACCB follow BI principles, it could be converted to a cash benefit paid directly to families and not tied to actual child-care outlays. This reform would enhance the agency of recipients to make their own choices (including home care of their child), while decreasing conditionality, paperwork, and government discretion.<sup>79</sup> Such a reform would eliminate the in-kind nature of the program, thereby disengaging the linkage to actual child-care usage and reducing the province's ability to influence qualitative and other aspects of the operation of licensed care centres. It would also dramatically increase costs as everyone with qualifying income and age of child would become eligible regardless of their use of paid child care. This example illustrates the limits of a strategy to increase the agency of beneficiaries consistent with a BI cash benefit philosophy.

### **Legal Aid Program**

British Columbia residents requiring legal advice or representation can access services if they meet certain eligibility criteria, which differ by type of service. Assistance is provided via the Legal Services Society, which is a publicly funded NGO. The income cut-off for representation in standard non-criminal cases is close to the Market Basket Measure of poverty and higher in criminal cases. An asset test is also applied in assessing eligibility for legal aid, with the presumption that many types of assets should be sold if needed to meet legal expenses. Access to legal aid is not conditional on SA status. As with many other programs, the income test imposes a notch effect with associated disincentives. Since access to legal advice and representation in criminal cases, as well as many civil and family matters, might be deemed a basic human right, the shift to a BI scheme would not relieve the need for a legal aid program. Individuals at low and moderate incomes cannot be presumed able to meet unexpected or rare legal costs. Legal aid serves a basic insurance function since individuals cannot be expected to self-insure, and private insurance markets are not available for this purpose.

### **Medical Services Plan**

The hospital, physician, and laboratory services covered by B.C.'s Medical Services Plan (MSP) are a prime example of a universal IKB program. They also reflect major reasons for providing benefits in kind rather than cash. By acting as a single payer, the government can exercise restraint over costs such as physician fees and lab charges. It can also avoid the marketing costs, adverse selection, and client paperwork associated with private health-care

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<sup>79</sup> This change would fall on the borderline between a presumptive IKB and a labelled cash benefit. The previous federal Universal Child Care Benefit assumed a format of this kind, with the intention of giving parents the choice between hiring child care and providing own care. However the amount paid per child was far below the actual cost of child care.

insurance. These services are provided free to all residents of the province,<sup>80</sup> and competitive private supply of most medically necessary services is legally prohibited. To the extent that alternative private services are available, regardless of legality, the publicly provided benefits are not extensible—patients cannot take the public service and pay the extra cost for a superior or preferred service.<sup>81</sup> On account of the program’s universal coverage and broad scope, the public health-care program costs billions of dollars and consumes over 40% of the entire provincial budget. Still, budgetary limitations mean that many individuals face queuing for services (especially specialists and surgeries), a characteristic of some IKB programs. A program like MSP would still be warranted and needed with any shift of cash benefits to a BI.

### **Fair PharmaCare Plan**

Like the MSP, B.C.’s Fair PharmaCare plan is a form of public insurance against health-care costs. It similarly relies on the powers of public intervention in markets to achieve lower costs than individuals could obtain on their own or through unregulated private insurance. Fair PharmaCare establishes a formulary of covered drugs, and its reference drug program diverts claimants to lower-cost drug equivalents where available. Individuals preferring to purchase a higher-cost version (say, a branded drug versus a generic) have that option but must pay the difference. This provision is an example of “topping up” as described in our earlier typology of IKBs. Reimbursement under the program is 70% of eligible covered drug costs, with an annual deductible that increases with family net income.<sup>82</sup> The multiplicity of small notches in the deductibles schedule suggests that any associated disincentive effects are likely to be limited. A plan of this genre would still be necessary with a BI since drug needs vary greatly across individuals and time, and their cost cannot be readily compensated in a cash benefit.

## **Observations for Policy in British Columbia**

In the applied sections of this study, we surveyed a sample of B.C. programs offering in-kind benefits. Tables 4A, 4B, 5A, 5B, 6A, and 6B catalogued their characteristics based on the typologies developed in the analytical sections of our study. Even this limited selection of programs displays the diversity of program types and the wide range of needs they are designed to address. We then examined the potential for reforming some of these programs to make them align more closely to the principles and attributes of a basic income—or to complement the replacement of B.C.’s SA program by a basic income. We find that a purely cash benefit scheme could not supplant all of the objectives of many IKB programs. This result is not surprising in that some prominent BI advocates have acknowledged the desirability of

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<sup>80</sup> SA beneficiaries are eligible for several medical and health-related benefits not covered by MSP for most residents; some of these were described earlier.

<sup>81</sup> Some exceptions to this point may arise, such as when an individual is undergoing surgery for a covered malady, with the operating room and anaesthesiology covered publicly, the surgeon may engage in ancillary services that are not covered for an additional private fee.

<sup>82</sup> No deductible is applied until income reaches \$30,000, and above that the deductible is a multi-step schedule that is about 3% of incomes. After a family’s drug expenditure exceeds 4% of income, the reimbursed rate rises to 100%.

retaining a variety of in-kind benefits based on considerations of merit goods, externalities, and particular needs of some individuals. Nevertheless, rarely have BI proponents investigated the specific role and design of IKB provisions that should accompany a shift toward greater reliance on cash benefits. Several observations for British Columbia and more widely emerge from our study.

### **Objectives That Cash Programs Cannot Serve**

In essence, many IKB programs have objectives that would not be served by the adoption of a basic income. These considerations could also constrain the ability to align existing programs such as SA more toward BI principles. A key issue is the existence of widely varying individual needs for particular goods or services, which could not be met by transfers of uniform cash benefits. Also, the provision of additional cash transfers does not ensure that recipients will spend in ways that meet particular targets for specific merit goods. For example, even with increased incomes, some beneficiaries would not or could not spend adequately on housing, sound diet, medical care, child care, and education to augment their health, well-being, and productivity. Society at large also has a large stake in the intellectual, physical, and emotional development of children that may not be prioritized by all parents, particularly those with very limited incomes. Moreover, cash transfers cannot enable all beneficiaries to purchase private insurance against many risks, on account of market limitations, such as bias against pre-existing conditions, adverse selection, individual myopia, and limited information. In addition, private markets to insure against many types of individual risk simply do not exist.

### **Creating Options Within IKB Programs**

In-kind benefit programs can offer eligible beneficiaries various types of options. As noted earlier, the very specification of the target item affects the degree of choice open to the beneficiary. Specifying a broader category of goods or services enhances choices and thereby potentially increases the self-perceived well-being of participants. However, it also has two other effects that need to be considered in program design. Consider the example of widening the coverage of a food voucher program from a few items that are all nutritious to the full range of foodstuffs. This broader definition of the target item may weaken the program's ability to achieve an objective of increasing the nutrition and health of beneficiaries, some of whom will spend their vouchers on sweets and junk foods. This broader definition of the target item may also reduce the power of the program to use self-targeting as a rationing device; it will be less effective in filtering out the moderately hungry from the severely hungry since only the latter will accept the voucher regardless of tastes. Thus, the precise specification of an IKB program's target item can exert complex effects on its targeting, take-up, recipient utility, and efficacy.

An IKB program can be designed to provide beneficiaries options beyond its standard target item; alternatively, its design can exclude such options and offer the standard item on a take-it-or-leave-it basis. We described the latter characteristic of a target item as "exclusivity." Still, providing options for beneficiaries to "top up" the standard benefit enhances their agency and warrants consideration. Our description of B.C.'s Fair PharmaCare option for a beneficiary to obtain a branded drug rather than the covered generic drug by paying the extra cost is one

example. Another example would be allowing a patient eligible for free public coverage of a specified surgery to pay the incremental cost of a superior variant (in terms of risks, quality of expected outcome, recovery speed, or discomfort).<sup>83</sup> Providing that option increases utility for some patients, but it could promote multi-class medical care, potentially degrade the standard target item, and could weaken the targeting efficacy of quality-selectivity. The exclusivity approach could discourage some individuals from paying for the entire superior treatment from a private provider versus choosing the covered free variant.

### **Universalizing Social Assistance IKBs**

Social assistance programs in B.C. and all provinces provide supplemental IKBs that are in many cases not available for the non-SA working poor and in some cases are offered to non-SA persons in parallel income-tested programs.<sup>84</sup> This segregated treatment can be stigmatizing for SA beneficiaries and typically exacerbates the welfare wall. To ameliorate both of these problems, the IKBs could be amalgamated in programs that treat all poor households equally regardless of their employment or SA status. Unless these benefits were extended to the entire population, they would need to be subject to income tests separate from those in the SA program. Those tests should respect the phase-out design issues that we canvassed earlier in order to avoid the notch problems arising with sharp cut-off of benefits at an income threshold. Moreover, to the extent that these benefit types are targeted at particular individual needs, an apparatus for the vetting of need and administrative delivery would still be required even under a basic income, whether universal or income-tested.

### **Reforming or Replacing B.C. IKB Programs**

Many in-kind benefits serve functions that are not readily replaced by unrestricted cash benefits. However, some existing IKBs provided within social assistance programs as well as independently of SA are amenable to reforms that would make them more consistent with the principles and attributes of a basic income. We take these aspects of a BI to include simplicity, accessibility, autonomy, financial security, social inclusion, and respect (minimal stigma and intrusion). In-kind benefits unavoidably entail some compromise of autonomy for beneficiaries because their very goal is to alter the use or consumption of goods and services from what would be chosen with an equivalent cash transfer. Many IKBs also entail greater complexity, stigma, and intrusion in the lives of beneficiaries than cash benefits. However, appropriate design of IKBs can minimize or eliminate some of these compromises. We next offer a brief summary of our findings on the two core questions posed earlier for British Columbia's IKB programs: (a) If the cash benefits and eligibility for SA were not altered, how could the program's supplemental benefits be reformed for greater consistency with the principles and attributes of a basic income? (b) If the SA program were replaced by an unconditional but income-tested BI, how could various IKB provisions and programs best be treated?

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<sup>83</sup> A further issue is whether the public supplier charges the true incremental cost or allows a private supplier to charge an uncontrolled premium amount for the added service (such as an independent surgeon acting under contract to the public health-care system).

<sup>84</sup> As we mooted earlier, this arrangement may be a holdover from the Canada Assistance Plan.



Some supplemental benefits in B.C.'s SA program could be modified for greater consistency with BI principles. One simple example is the Christmas supplement, which is a presumptive IKB or even a labelled cash benefit; its small amount could be blended into regular monthly cash benefits at the option of the beneficiary. Other supplemental provisions could be amalgamated with existing B.C. programs for the non-SA low-income population in order to reduce welfare stigma and lower the welfare wall. One example is the supplemental health benefits for children in SA families, which could be merged with the B.C. Healthy Kids Program. This reform would require changes to standardize covered services; it should also deal with the notch issue in the latter program, or else the reduced notch effect in SA would simply be replaced by a new, albeit smaller, notch further up the income scale. Another potential reform of this variety would merge the SA shelter allowance with the Rental Assistance Program, although this would need to surmount significant challenges to both program design and administrative arrangements.<sup>85</sup>

Replacing the full SA program with a basic income for the cash part of benefits would still leave many issues about how to deal with the current supplemental benefits. A person's SA status could no longer be used as a qualifying condition, yet most of those specific in-kind needs would still have to be met. One approach would be to universalize some of the benefits—with vetting of specific need apart from low income. This would be costly and would likely predispose the design to degrade quality of the target item to leverage self-selection. Another approach would be to introduce an income test so that all lower-income persons with the specific need would be served; ideally this would avoid a benefit notch effect by introducing a variable user charge. However, such a user charge would add to the higher effective marginal tax rate required for the BI itself, and it would complicate program operation. In the absence of SA, a separate new administrative apparatus would have to be developed for the vetting of need and delivery of in-kind target items. The shift to a BI would also raise questions about the possible modification, elimination, or expansion of various standalone IKB programs for greater consistency with basic income principles and attributes.

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<sup>85</sup> Manitoba's Rent Assist is effectively two separate programs: one for those on and another for those not on SA benefits. For challenges in unifying the two streams, see Cooper, Hajer, and Plaut (2020). Unlike Manitoba's program, B.C.'s RAP benefits are available only for low-income families with children. Also see Mendelson and Kesselman (2020) for discussion of these issues.

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### Box 1: Rationales and Ethical Bases for In-Kind Benefits

Diverse rationales and ethical bases have been advanced to support the provision of transfers in the form of in-kind benefits rather than cash payments. All of these positions argue for the priority of specific types of goods and services; they otherwise recognize a complementary role for unrestricted cash transfers. These approaches use different terminology, but some overlaps and common strands exist among them. The concept of merit goods (which includes services) focuses on items that need to be distributed other than the ordinary market would do on account of both distributional and efficiency reasons (Besley 1988). The concept of specific egalitarianism stems from the view that certain goods and services should be distributed less unequally than the ability to pay for them (Tobin 1970). Similarly, one notion of what constitutes a good and just society dictates that it not be strictly utilitarian but rather establishes minimal standards such as for health care, shelter, and food (Thurow 1974). Simply redistributing more cash does not ensure that these minimal standards will be met for everyone, due to aspects of both individual and market behaviour. The notion of equality of opportunity requires that certain items, such as health care and education, be ensured to all persons regardless of their income (Gasparini and Pinto 2006). Bergmann (2004) similarly gives precedence to in-kind benefits.

A more holistic view of human rights and societal obligations can also provide a solid foundation for the provision of major in-kind benefits. This approach has been expressed in various ways, but its essence can be summarized as follows. It begins with an ethical assertion about the primacy of dignified life for all human beings, giving rise to rights for specific resources and capabilities. As one proponent has stated, “It is from the right to life and the right to be spared from living in degrading circumstances that justifications for rights to health care and to a minimum standard of living can be developed. ... [R]ights are not justified on the basis of the satisfaction they produce ... but directly on the basis of their connection to human worth” (Kelman 1986, 62–63). More specifically, “People have a right to health care, not to the cash equivalent of health care” (Kelman 1986, 63). The most expansive expression of this approach has been by economist-philosopher Amartya Sen and philosopher Martha Nussbaum, with the concepts of rights to “capabilities” and “functionings.” This approach stresses individual differences in ability to transform resources into valuable activities, freedom of choice in well-being, and rights that dominate utility-based claims. It also supports provision of the requisites for dignified life including social citizenship. (See Wells n.d.; Wikipedia n.d.). On similar grounds, philosopher Elizabeth Anderson (2000) views society’s obligations as meeting individuals’ specific needs requisite for equality but not the open-ended “freedoms” provided by a universal basic income.

One commonly raised issue is whether the provision of in-kind benefits rather than cash is paternalistic. Certainly, some rationales for the in-kind format are paternalistic—that is, ranking the preferences of voters or society above those of beneficiaries. Public finance authority Richard Musgrave, who originated the term *merit wants*, justified them “[w]here interference with individual preferences is desired ...” (1957, 341). He asserted, “there may arise a distortion in the preference structure that needs to be counteracted” (1959, 14). The economic literature on Pareto optimal redistribution explicitly counter-balances the preferences of taxpayers (or society more generally) against those of beneficiaries to support the provision of in-kind benefits that are of particular concern to taxpayers (Hochman and Rodgers 1969; Rodgers 1973; Garfinkel 1973). All of these approaches may be deemed paternalistic in the sense that beneficiaries’ valuations are overshadowed by those of taxpayers. However, the policy preference for certain types of in-kind benefits need not rely on paternalism. Even with altruistic transfers beneficiaries may respond in inefficient ways to increase the size of the transfer, a situation called the *Samaritan’s dilemma* (Buchanan 1975). A non-paternalistic, efficient resolution of this problem is to tie the transfers to specific items that increase the future earnings capacity of beneficiaries such as education and health care, thus offsetting the short-run disincentive effects (Bruce and Waldman 1991).

## Box 2: Economic Analysis of Cash Versus In-Kind Transfers

Formal economic analysis has been applied to the comparison of cash and in-kind benefit formats as well as the optimal structure of in-kind transfers under varying assumptions. The case of interdependent preferences between taxpayers and beneficiaries has already been considered (see Box 1). We begin with the earlier research focusing on in-kind benefits as a self-selection device (sometimes called self-targeting) without reference to the cash tax-transfer system. By specifying the target item as something that only someone with a need for it or of inferior quality that only the needy would choose, the in-kind format can serve this self-selection purpose when a cash benefit (that anyone would value) does not. The underlying idea is that other targeting or eligibility criteria such as income are limited in their ability to distinguish the truly needy and that a cash benefit will induce some less needy persons to “mimic” the needy. One branch of this research focused on need (Nichols and Zeckhauser 1982; Blackorby and Donaldson 1988; and Krashinsky 1981, chapt. 3), while the other branch focused on inferior quality (also Nichols and Zeckhauser 1982; Tomanoff 1986; Besley and Coate 1991; and Pinto 2004).

The next generation of economic research on the role of in-kind transfers focused on the limits of even the best-designed income tax and cash transfer system to provide a fully optimal outcome. One limitation of the income tax is its distortions on individual behaviour with respect to labour market decisions. If the system could assess workers' true ability levels (as judged by their wage rates) it could implement a first-best solution; but since it can measure only income (the product of work hours and wage rates), some higher ability persons might be induced to reduce their earnings so as to draw more transfers. Providing the transfers in-kind rather than cash can assist in separating the truly needy from the “imposters” (as in the self-selection process described above) and thus facilitate a superior solution. Studies in this vein employ varied assumptions, and some also include optimal commodity taxes. (See Boadway and Keen 1993; Boadway and Marchand 1995; Blomquist and Christiansen 1995, 1998b; Cremer and Gahvari 1997; Munro 1991; Balestrino 1999, 2000; Bastani, Blomquist, and Micheletto 2010). Barriers imposed to weed out the less needy from the more needy (such as queues) can improve the targeting but at the cost of reducing participation by the intended beneficiary group (Tridimas 1996).

Another set of studies assesses the use of in-kind target items that are positively related to labour supply as another way to offset the implicit disincentives of income taxes and income-tested cash transfers. These items could include child care, public transit, education, and training. The research finds that the use of in-kind items that are substitutes for leisure (complements to labour) will induce increased work effort, thus offsetting the distortions caused by the income tax. Studies that pursue this issue include Murray 1980; Leonesio 1988; Munro 1989; Gahvari 1994 and 1995; Blomquist, Christiansen, and Micheletto 2010. One empirical study found the partial cash out of a U.K. in-kind benefit program reduced labour supply, as might be expected (Bingley and Walker 2013). An experiment in Mexico comparing in-kind (food) and equivalent cash transfers found little difference in their labour force impacts, which could be explained by the infra-marginal size of the food transfers (Skoufias, Unar, and González-Cossío 2008; and see Box 3).

Economic research has also investigated optimal user charges (free or subsidized) and benefit structures. Early analyses investigated the conditions under which the optimal charge was zero (free) or positive and the all-or-nothing benefit structure (Pauly 1970; Olsen 1971). A later analysis concluded that in general user charges (non-free provision) were optimal because they afforded an extra handle on redistribution (Besley 1991; also see Blomquist and Christiansen 1998b). Properly calibrated notch benefit schemes can achieve maximal increase in consumption of the target item for a given program cost (Singh and Ravi 2000; also see Blinder and Rosen 1985). The case where the target item cannot be topped up by additional purchases in the market, and the conditions under which prohibition of topping up is optimal, has also been investigated (Munro 1992; Blomquist and Christiansen 1998a; Epple and Romano 1996).

### Box 3: Empirical Analysis of Food Stamps Versus Cash Benefit

The basic microeconomic theory of consumer choice was applied to food stamps originally by Southworth (1945), an analysis that is equally applicable to other voucher-type programs. His analysis covered all key aspects that have been investigated in subsequent empirical studies of the U.S. food stamp program: infra-marginal provision, cash versus in-kind impacts on consumption, fungibility, purchase requirement, participation incentives, and market supply-demand effects. He noted the role of “rationing by inconvenience” as “deterrents [that] are themselves depended upon to provide a sufficient restriction of participation, eliminating the need for means tests” (46).

Voucher programs for food have had a long history in the United States, and program variations have posed an ideal laboratory for testing the relevant micro theory of consumer response to cash versus in-kind benefits. The first food stamp program began in 1939 as an outgrowth of the food distribution programs of the 1930s depression. It entailed a requirement for purchase at full cost of a specified amount of orange stamps (redeemable at participating groceries), which entitled the purchaser to half that amount of free blue stamps (usable only for surplus agricultural items) (USDA n.d.). The purchase requirement was instituted to “assur[e] that the subsidy stamps were used to purchase foods in excess of [a family’s normal] level” (Southworth 1945, 47). In 1964 the purchase requirement was converted from a fixed dollar amount per family of a given size to 30% of family income; the subsidy filled the gap to the cost of a nutritionally adequate diet (Sexauer 1977). The purchase requirement was eliminated in 1978, which significantly increased participation rates (Smallwood and Blaylock 1985). In 2008 the use of stamps was replaced with electronic benefit transfer cards, and the program was renamed, accordingly, Supplemental Nutritional Assistance Program (SNAP). Cards also eliminated black-market trading in stamps.

A key prediction of micro theory is that individuals will respond identically to an in-kind and an equivalent cash benefit if offered at infra-marginal levels. For such individuals the marginal propensity to spend on food (MPSF) should be the same for increases in income whether from cash or food subsidy. Several empirical studies have confirmed this prediction, including Hoynes and Schanzenbach (2009, 2016) for the U.S. food stamp program. They also found the minority of beneficiaries who received supra-marginal benefits increased their food spending to a larger degree, consistent with predictions. An earlier study estimated that 20%–30% of food stamp recipients were supra-marginal and thus would be predicted to increase their food consumption relative to a cash benefit (Whitmore 2002). Elimination of the purchase requirement was found to increase food stamp participation substantially, as predicted by theory (Hoynes and Schanzenbach 2016). Pilot U.S. projects in 1990 that cashed out food stamps found households spending less on food (Currie 2003, 272), attributed to households for which stamps had been supra-marginal (Whitmore 2002; also USDA 1993). A study of a Mexican food aid program confirmed the micro theory predictions for a majority of households receiving infra-marginal benefits (Cunha 2014).

Several empirical studies have estimated a MPSF much greater for increased food stamp subsidy than increased cash income. This could be consistent with micro theory for households that are supra-marginal; it could also be the result of either methodological weaknesses in estimation or behaviours differing from micro theory. An early study with findings of this kind is Hu and Knaub (1976). More recent studies with similar findings even for households with infra-marginal food stamp benefits are likely grounded in stronger data and methodology (Beatty and Tuttle 2015; Hastings and Shapiro 2018). These behaviours could be explained by labelling effects, intra-household decision making, or behaviours such as mental accounting.

If food stamps are highly fungible, this could also explain an equivalence between cash benefits and in-kind benefits even for households whose food stamps are supra-marginal. Evidence on the transferability of excess food stamps is limited. However, Whitmore (2002) estimated that food stamps traded for only

about 65% of their face value on the informal market. The later replacement of stamps with electronic cards likely reduced this value further.

**Table 1: Concepts and Terminology for In-Kind Benefit Format**

<b>Term or concept</b>	<b>Meaning or application</b>
Ceiling quantity	A target item that is provided to the beneficiary up to a maximum number of units per period (free or subsidized)
Efficiency cost	The additional cost in monetary or utility terms for a beneficiary in getting the target item rather than an equivalent cash transfer
Exclusivity	A target item that a beneficiary may accept but only to the exclusion of purchasing any counterpart item in the market
Extensibility	A target item that a beneficiary can accept and supplement by the purchase of additional units in the market
Floor quantity	A target item that is provided to the beneficiary only for units above a specified number per period (free or subsidized)
Free provision	Absence of any user charge or co-payment for the target item (may be subject to ceiling quantity)
Fungibility	The extent to which a beneficiary can convert unwanted units of the target item into cash by resale or exchange
Infra-marginal	Ceiling quantity of a free or subsidized target item that is less than the beneficiary is already consuming
Labelled cash benefit	A benefit paid in cash and labelled for a particular purpose but without vetting of need for that purpose
Notch effect	A point in the benefit structure where the entire IKB is lost when the beneficiary earns an extra dollar of income
Presumptive in-kind benefit	A benefit paid in cash but after vetting for a particular need but without any verification of how the money is spent
Purchase requirement	Requirement that a beneficiary must purchase a specified quantity of the target item at full market price in order to qualify for free or subsidized purchase of additional units
Self-selection	Process whereby an eligible beneficiary may opt to accept or decline offer of free or subsidized target good; may be based on quality of or need for the target good
Subsidy rate	An explicit or implicit rate of subsidy for the target item; rate may depend on beneficiary characteristics
Substitutability	The degree to which a beneficiary can substitute between the target item and all other goods and services (i.e. cash)
Supra-marginal	Ceiling quantity of a free or subsidized target item that exceeds the level that the beneficiary is already consuming
Target item	Specification of the in-kind benefit provided including its quantity, quality aspects, free or subsidy rate, floors or ceilings
Voucher	Any of various forms (certificate, tax credit/deduction, coupon, etc.) entitling bearer to choose among various suppliers a target



	item free or at a subsidized price
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**Table 2: Direct and Voucher-Type Delivery Modes**

<b>Mode/Outlay</b>	<b>Direct expenditure</b>	<b>Tax expenditure</b>
<b>Direct government provision</b>	Free or with user charge	N/A
<b>Demand-side: via beneficiary</b>	Subsidy or free	Tax credit or deduction
<b>Supply-side: via private for-profit</b>	Subsidy or free	Tax credit or deduction
<b>Supply-side: via non-profit NGO</b>	Capital and/or operating grant	N/A

**Table 3: Attributes of Tax Expenditures Versus Direct Expenditures**

	<b>Tax expenditures</b>	
<b>Pros</b>	<b>Mixed</b>	<b>Cons</b>
Easy and fast to implement	Federal-provincial issues*	Infrequent budgetary or policy review
Administrative structure already exists	Legalistic entitlement/appeal	Administration not suitable for discretion
No administrative discretion, horizontal equity		Cannot handle complex eligibility criteria
Low administrative and compliance costs		Low responsiveness to income variations
High take-up rate, all tax filers can access		Non-taxable persons need to file returns
Easy link to beneficiary (tax filer) income		
User anonymity, minimal stigma		
Less susceptible to high total METRs		
No queuing, open-ended benefits		Cannot control budgetary costs (demand-driven)
	<b>Direct expenditures</b>	
<b>Pros</b>	<b>Mixed</b>	<b>Cons</b>
Annual budgetary review and constraint	Federal-provincial issues*	Budget may lead to queuing for benefits
Can handle complex eligibility criteria	Administrative entitlement/appeal	Needs separate administrative apparatus
Allows for administrative discretion, more refined targeting of benefits		Possible discrimination and horizontal inequities; less anonymity and stigma more likely
Allows for better inter-program linkages		Harder to publicize new programs, lower take-up
Benefits can be responsive to income changes		More susceptible to higher METRs

\*Federal government can engage in social policy via tax expenditures but is more limited (constitutionally, politically, and operationally) in using direct expenditures for direct operation of social programs; federal role in social policy using direct expenditures is executed mainly via transfer payments to the provinces for specified purposes.

**Table 4A: Characteristics of Selected In-Kind Benefit Programs in British Columbia: Supplements to SA Programs**

<b>Program</b>	<b>Benefits</b>	<b>Need-selective</b>	<b>Quality-selective</b>	<b>Infra-marginal</b>	<b>Presumptive (P) Fungible (F)</b>
Christmas supplement \$6.3M	December payment of \$35/adult + \$10/child			X for many	P
Crisis supplement \$5M	Shelter at actual cost and \$40 per month for food. In 2017/18, 44,015 issued to 23,405 cases				P?
Diet supplements \$6.2M	Cost of approved supplements. In 2017/18, 163,057 for 15,769 cases	Assessment of need by doctor, nurse, or dietitian	X for some	X for some	P
Confirmed job supplement \$0.02M	Cost of essential work-related items to begin a job. In 2017/18, 98 cases	Upon application for verification of need			
No-deductible PharmaCare coverage \$N/A	Value contingent on otherwise deductible	Medical assessment for prescriptions		X for some	
Medical equipment and devices \$31.3M	Least expensive to meet medically essential needs	Medical assessment			
Optical services \$4.9M	Vision exams and eyeglasses. In 2017/18 31,347 cases	Rx prescription from ophthalmologist or optometrist	Only inexpensive glasses; low-fee eye exams		
Supplement for alcohol and drug treatment \$5.3M	Travel plus meal allowance plus. In 2017/18, 9,871 clients	Self-referral for non-residential counselling and anti-opioid services	"Least expensive" counselling services		
School start-up supplement \$3.4M	Child age 5–11 at \$100/yr, age 12+ at \$175/yr. In 2017/18, 16,707 issued				P
Rental security deposits \$7.3M	Loan repayable at \$20 a month from SA benefit. In 2017/18, 22,475				
Transportation supplement and PWD bus pass \$72.4M	Choice of bus pass or \$52 per month. In 2018/19, 41,111 bus passes issued; 38,204 clients chose cash				F: bus pass possibly fungible but photo ID of owner reduces value

**Table 4B: Characteristics of Selected In-Kind Benefit Programs in British Columbia: Programs Other Than SA**

<b>Program</b>	<b>Benefits</b>	<b>Need-selective</b>	<b>Quality-selective</b>	<b>Infra-marginal</b>	<b>Presumptive (P) Fungible (F)</b>
Hospital and physician services	Wide range of office, hospital, and outpatient medical services provided without charge	Self-referral for some primary; diagnosed medical need for secondary and tertiary services.	Due to queuing and waits for secondary, surgical, and diagnostic services, some individuals will seek services outside coverage		Use of photo-ID cards minimizes fungibility
Healthy Kids \$13.7M in 2019/20	Dental, audiological and vision care for low-income households. As of March 2018, 144,484 children				
Fair PharmaCare \$765M in 2019/20	Pays all or part of the cost of listed prescription drugs. In 2018/19, 472,000 beneficiaries	Requires prescription for need by a qualified medical practitioner		Some patients will choose non-covered drugs (such as branded vs. generic) and pay the difference	F (drugs obtained through the program could be resold, but uncommon)
Affordable Child Care Benefit \$234.4M in 2019/20	Partial subsidy of child-care costs based on income. In 2018/19, approx. 31,000 cases			X Most parents need to "top up" subsidized fee	
Child Care Fee Reduction Initiative \$97.1M in 2019/20	Payments to certain types of child-care providers conditional on pass-through to parents as fee reductions			X Most parents need to "top up" subsidized fee	
Child Care Operating Funding \$118.8M in 2019/20	Payments to licensed child-care providers			X Most parents need to "top up" subsidized fee	
Independent social housing \$430.8M in 2019/20	Rent-geared-to-income housing, with approx. 42,200 units		Many units perceived as lower quality		
Rental Assistance Program \$64.3M in 2019/20	Subsidy for renters in the private market. In 2019/20, approx. 11,000 households			X for many renters since actual rents exceed the ceiling on subsidized rent	

**Table 4B: Characteristics of Selected In-Kind Benefit Programs in British Columbia: Programs Other Than SA** (continued)

<b>Program</b>	<b>Benefits</b>	<b>Need-selective</b>	<b>Quality-selective</b>	<b>Infra-marginal</b>	<b>Presumptive (P) Fungible (F)</b>
Emergency shelter and housing for the homeless \$259.8M operating cost	Emergency shelters, rental supplements for homeless and supportive housing. in 2018/19, about 20,000 units		X		
Women's transition and supportive housing \$33.8M operating grants in 2019/20	Emergency transition, safe homes and second stage housing for victims of domestic violence. In 2019/20, 864 units				
Home owner grants \$817M in 2019/20	\$570 per year with varying amounts by age and higher home value			X for most homeowners, since grant does not cover full property tax liability	
Legal Aid representation \$57M in 2019/20	Legal services for certain types of cases, subject to meeting income criteria	A range of legal services to residents with low incomes	Limited time and funds for any case may compromise quality		

**Table 5A: Eligibility Criteria for Selected In-Kind Benefit Programs in British Columbia: Supplements to SA Programs**

<b>Program</b>	<b>SA categories*</b>	<b>Demographic</b>	<b>Need-vetting</b>	<b>Self-initiated</b>	<b>Comments</b>
Christmas supplement	TA, DA, HA	Automatic to all recipients			
Crisis supplement	TA, DA, HA, PWD		Upon application and verification of need		
Dietary supplement	TA, DA, HA		Medical verification of need		
Confirmed job supplement	TA, DA, HA		Upon application and verification of need		
No-deductible PharmaCare coverage	TA, DA, HA	Automatic enrolment in PharmaCare Plan C	Medical verification of need		
Medical equipment and devices	TA, DA, HA		Medical verification of need		
Optical services	TA, DA, HA		Medical verification of need		
Supplement for alcohol and drug treatment	TA, DA, HA, and dependent children			Request for counselling or anti-opioid treatment	
School start-up supplement	TA, DA, HA	Automatic to all recipients with dependent children			
Rental security deposits	TA, DA, HA		Upon application and verification of need		Repayment required
Transportation supplement and PWD bus pass	PWD	Automatic to all with PWD designation		Choice between bus pass and supplement	

\* TA = temporary assistance; DA = disability assistance; HA = hardship assistance; PWD = persons with disability

**Table 5B: Eligibility Criteria for Selected In-Kind Benefit Programs in British Columbia: Programs Other Than SA**

<b>Program</b>	<b>Demographic</b>	<b>Income test</b>	<b>Asset test</b>	<b>Need-vetting</b>	<b>Queuing</b>
Hospital and physician services	Universal (after B.C. 6 months residence)			Medical verification of need for most services	Triaged queuing for some services
Healthy Kids	Child under 19 years or otherwise dependent; not on TA, DA, or HA	Income under \$42,000		Medical verification of need	
Fair PharmaCare	Universal	Income-related minimum and maximum deductibles		Medical verification of need	
Affordable Child Care Benefit	Parent using an eligible service provider	Income tested up to \$110,000			Limited by spaces at eligible providers
Child Care Fee Reduction Initiative	Parents using a participating service provider				Limited by spaces at eligible providers
Child Care Operating Funding	Parents using a service provider receiving program payments				Limited by spaces at eligible providers
Independent social housing	Persons renting subsidized or below-market units	Income tested rent supplemented by grants to providers			Limited number of units available
Rental Assistance Program	Under age 60 with child under age 19; private market renter; not on TA, DA, or HA	Income under \$40,000 and subsidy linked to income	Less than \$100,000		
Emergency shelter and housing for the homeless	Based on need				Limited number of units available
Transitional supportive and assisted living	Based on need				Limited number of units available
Home owner grants	Owner/occupant of a B.C. principal residence	No income test	Phase-out for homes above \$1,525,000		
Legal Aid representation	Low income and need	Net income below a specified threshold	Countable assets below a specified threshold	Eligible legal need	



**Table 6A: Delivery Modes for Selected In-Kind Benefit Programs in British Columbia: Supplements to SA Programs**

<b>Program</b>	<b>Direct provision</b>	<b>Demand-side</b>	<b>Supply-side</b>	<b>Free to user</b>	<b>User co-pay</b>
Christmas supplement	X			X	
Crisis supplement	X			X	
Dietary supplement	X	X		X	
Confirmed job supplement	X			X	
No-deductible PharmaCare coverage		X		X	
Medical equipment and devices			X	X	
Optical services			X	X	
Supplement for alcohol and drug treatment			X	X	
School start-up supplement	X			X	
Rental security deposits	X				X (repayable loan)
Transportation supplement and PWD bus pass	X				X (chooser of bus pass forgoes cash)

**Table 6B: Delivery Modes for Selected In-Kind Benefit Programs in British Columbia: Programs Other Than SA**

<b>Program</b>	<b>Direct provision</b>	<b>Demand-side</b>	<b>Supply-side</b>	<b>Free to user</b>	<b>User co-pay</b>
Hospital and physician services	X		X	X (with minor exceptions)	
Healthy Kids	X		X	X	
Fair PharmaCare		X			X
Affordable Child Care Benefit		X			X
Child Care Fee Reduction Initiative			X		X (user pays the balance of fees)
Child Care Operating Funding			X		X (user pays the balance of fees)
Independent social housing		X			X
Rental Assistance Program		X			X
Emergency shelter and housing for the homeless	X (often via NGOs)		X		
Transitional supportive and assisted living			X		
Home owner grants	X			X	
Legal Aid—representation			X		

Figure 1: Consumer Choice With Income Variation

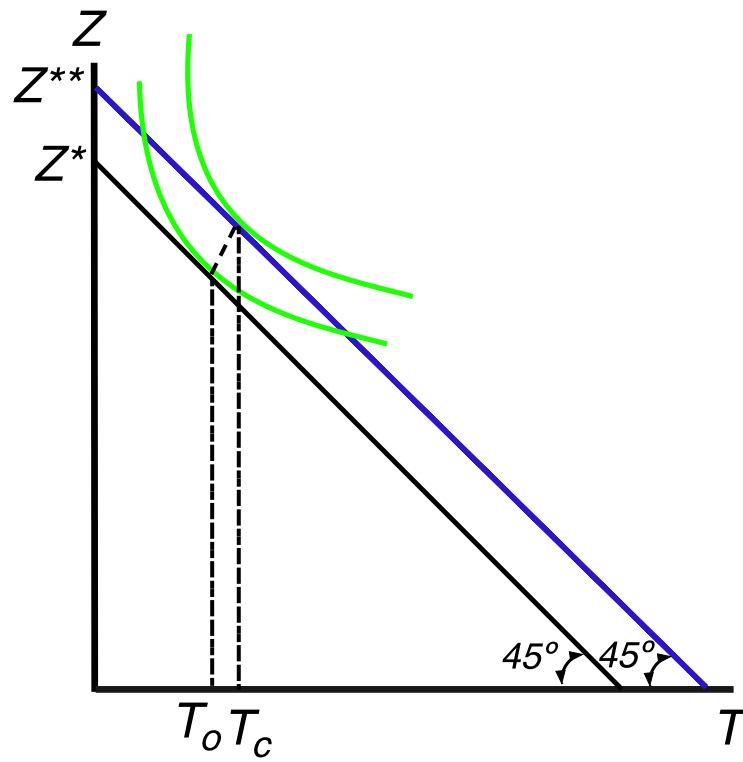


Figure 2: Consumer Choice With Price Variation

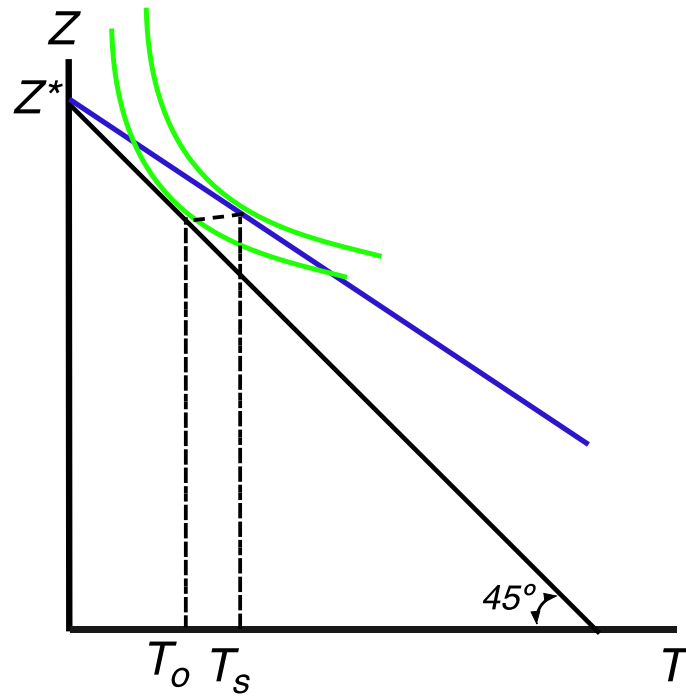


Figure 3: Efficiency Comparison: Subsidized Provision

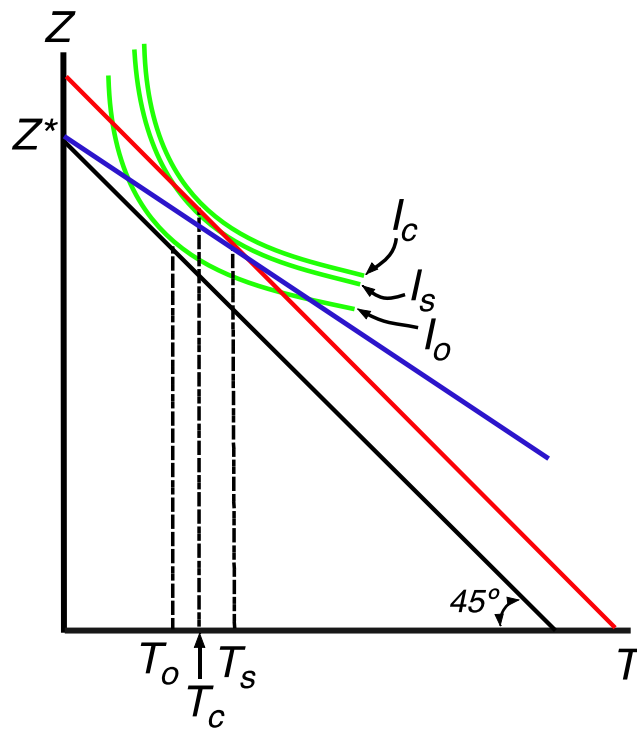


Figure 4: Efficiency Comparison: Free Provision

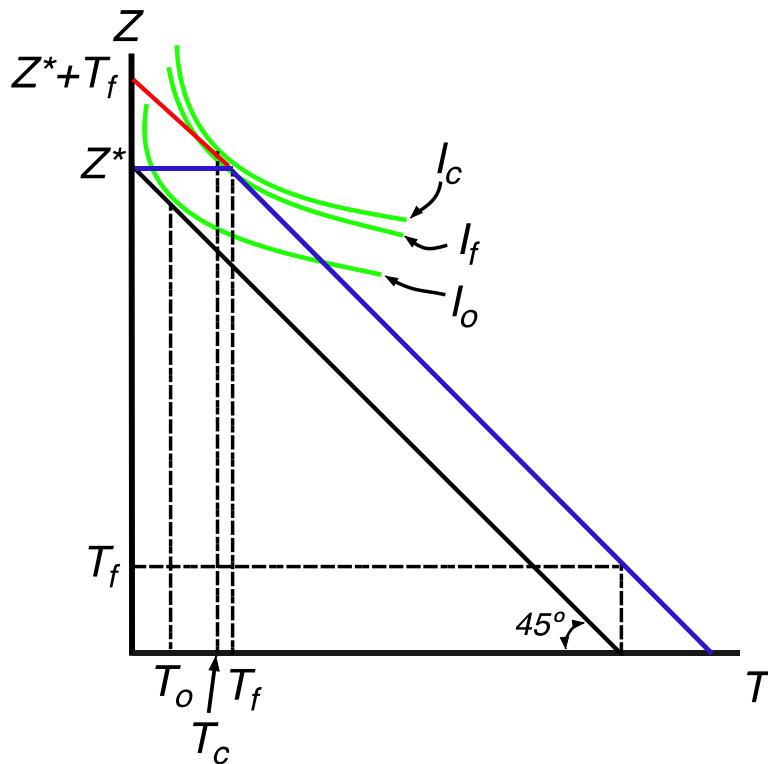


Figure 5: Infra-Marginality With Ceiling on Subsidy

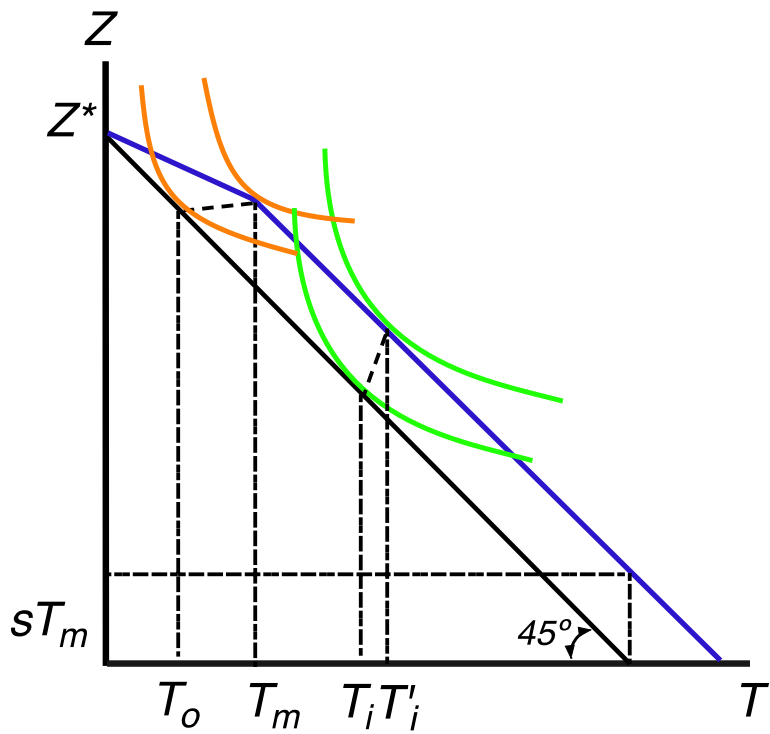


Figure 6: Infra-Marginality With Ceiling on Free Provision

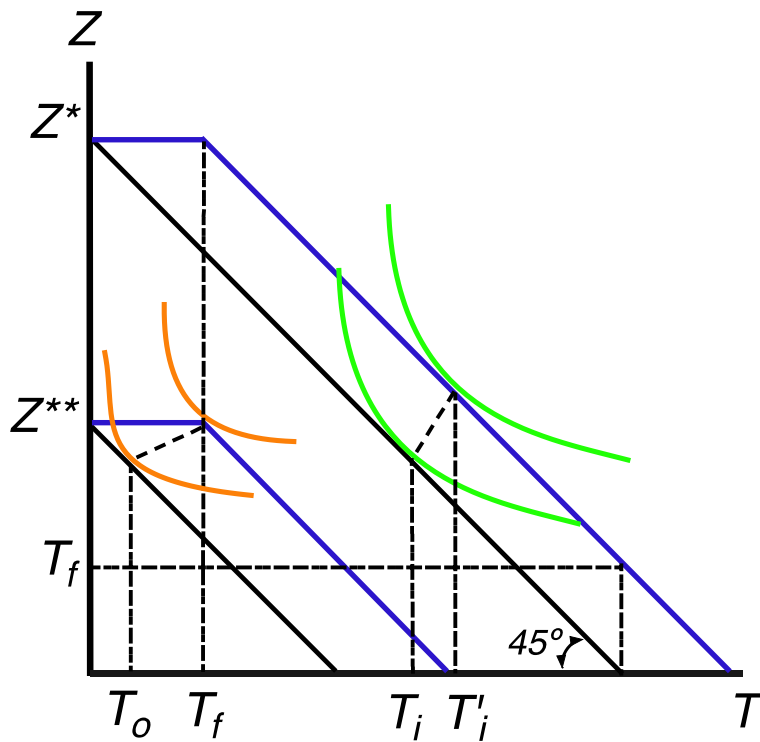


Figure 7: Fungibility With Free Provision

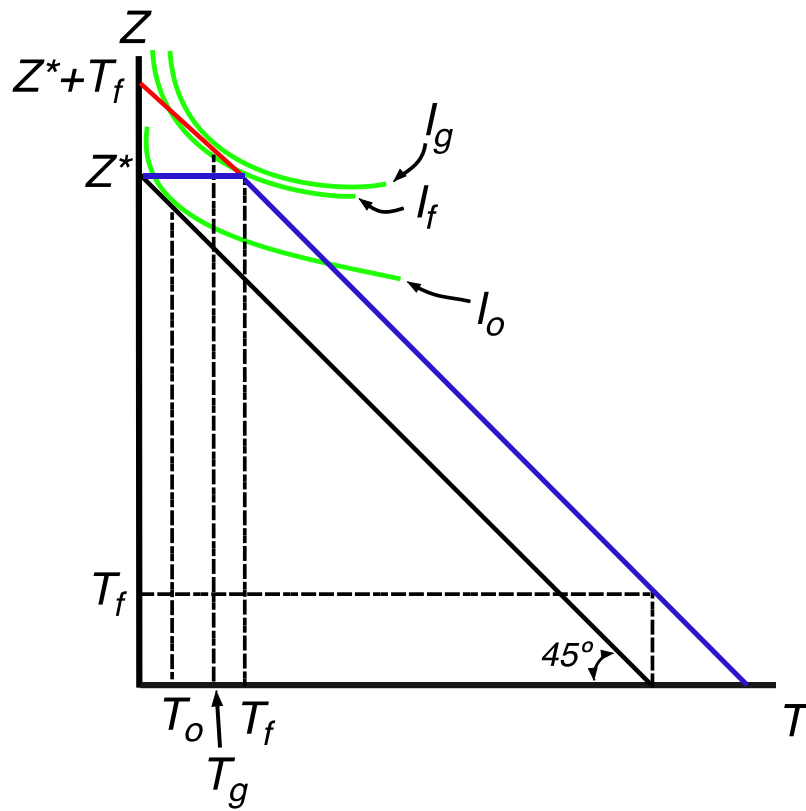


Figure 8: Floor on Benefit, Purchase Requirement, or Costly Participation

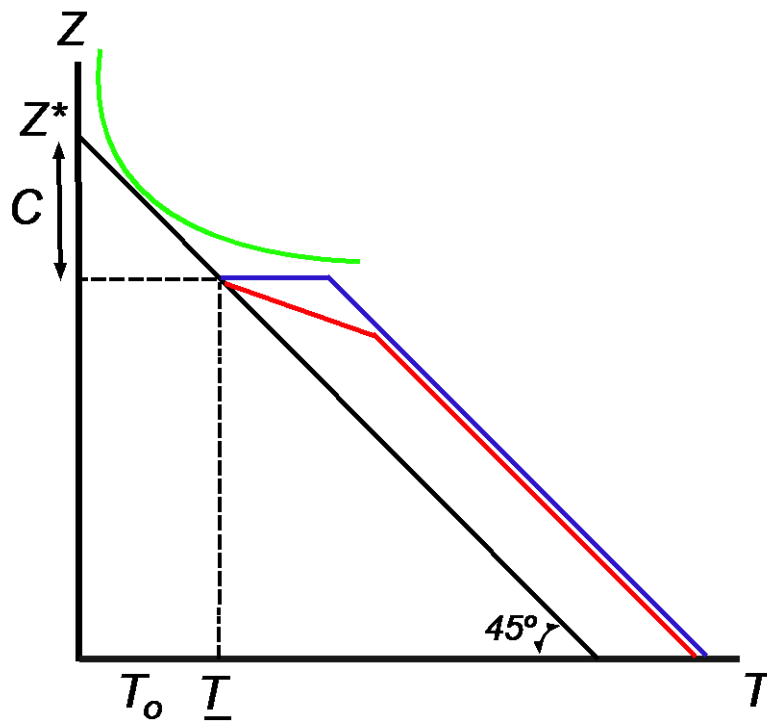


Figure 9: Exclusivity and Self-Selection

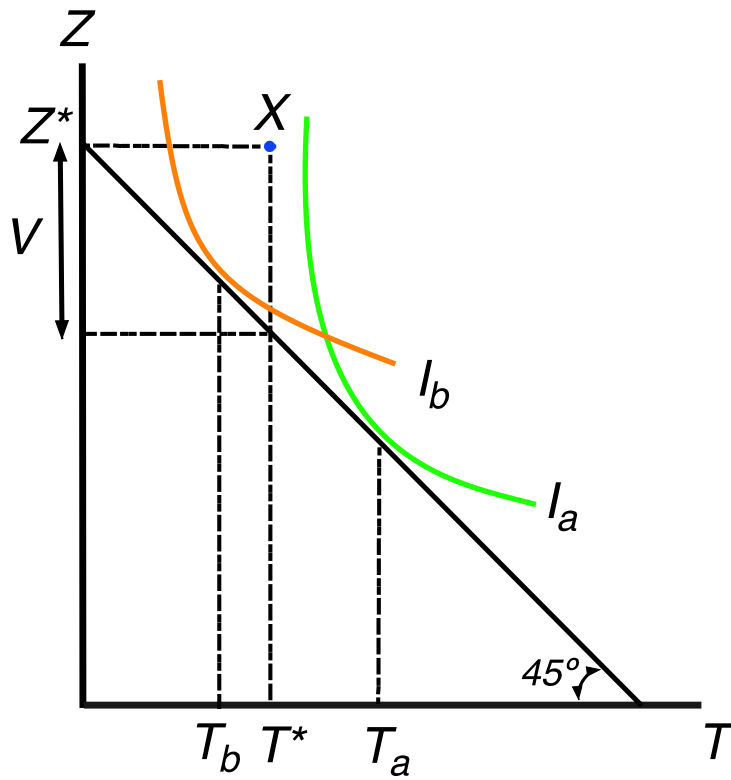


Figure 10: Exclusivity and Self-Selection

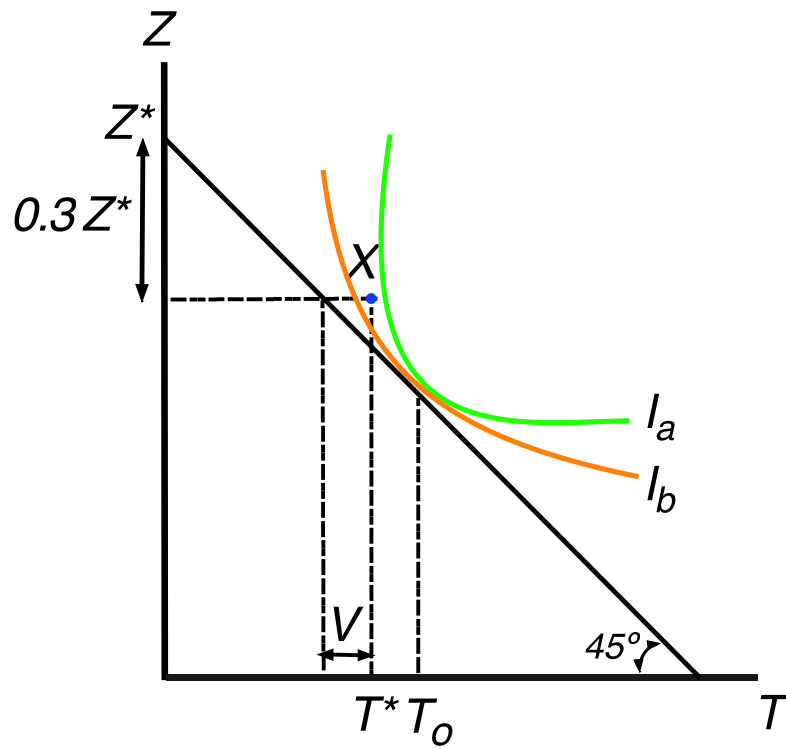


Figure 11: Cash Benefit With Labelling Effect

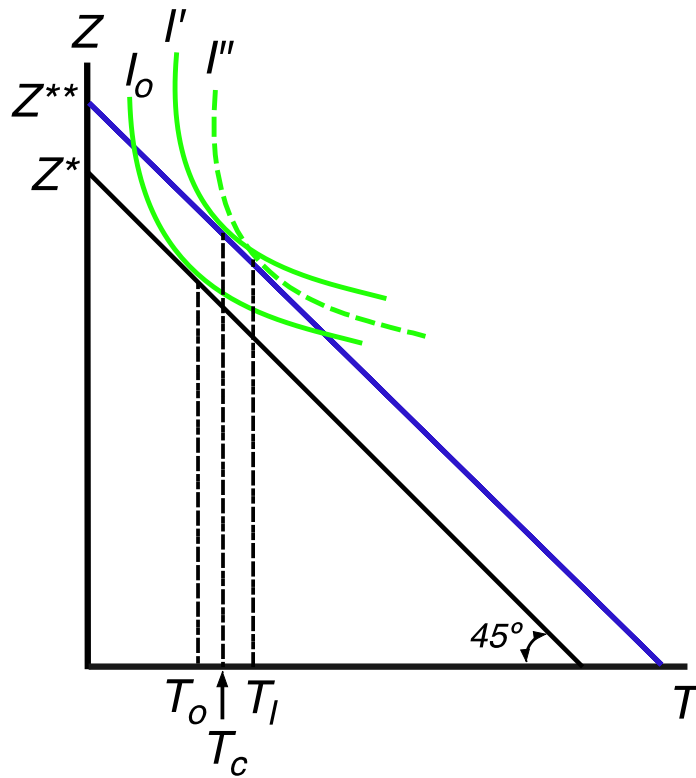


Figure 12: Free Provision With Cash-Out Option

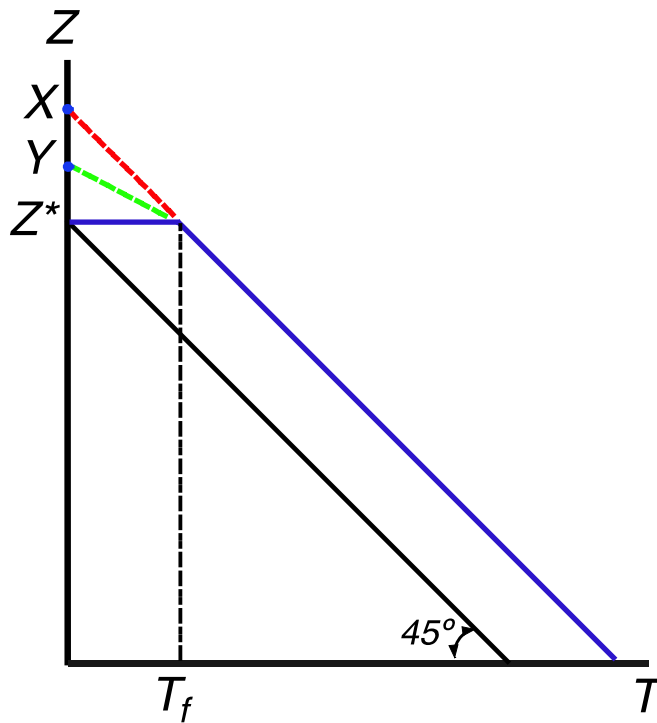




Figure 13: Beneficiaries With Heterogeneous Preferences

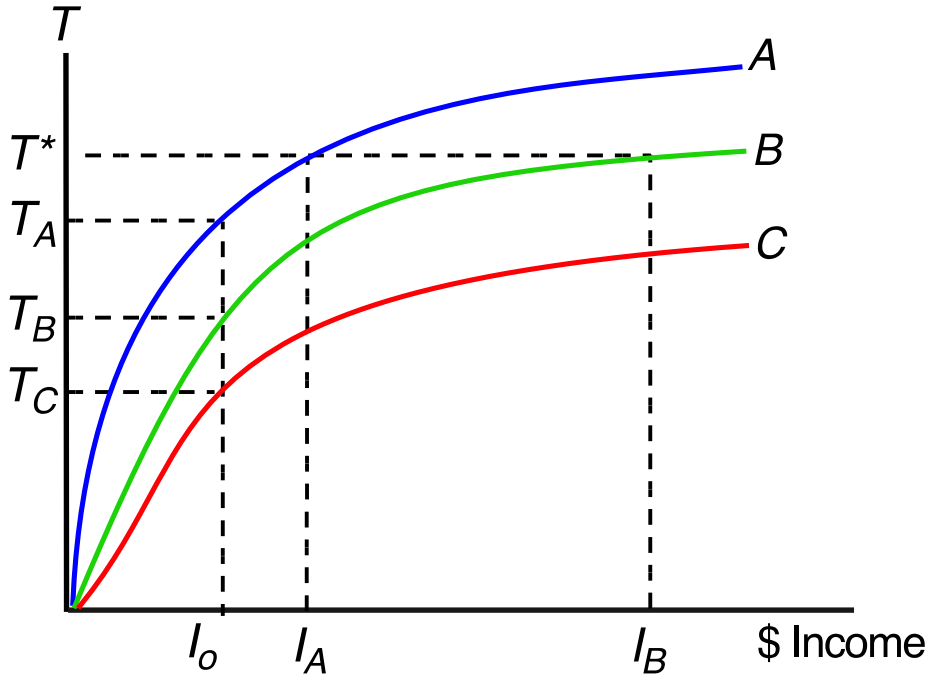


Figure 14: Income Assistance With Notch for IKB

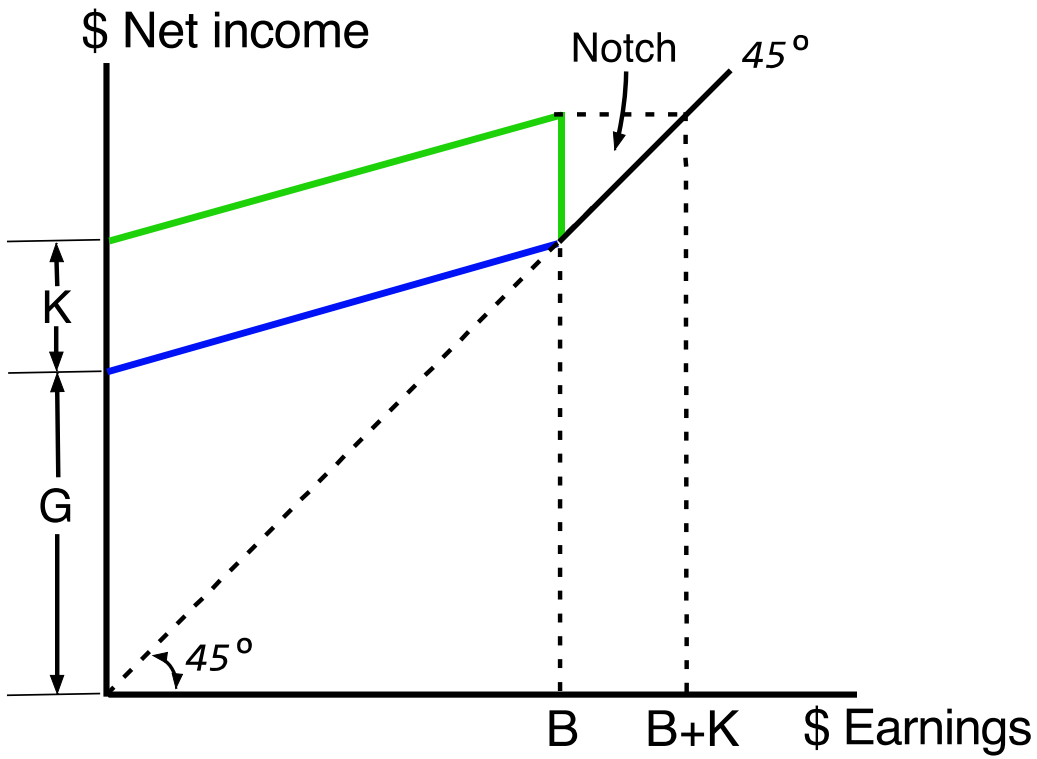


Figure 15: Decision Tree for Cash Versus In-Kind Benefit Format

