Introduction

Social benefits may be provided either in cash or in kind. Cash benefits are income transfers, such as retirement pensions, unemployment benefits and social assistance. Benefits in kind are goods or services, such as medical care, education or housing, directly transferred to recipients at zero or below-market prices (Glennerster 2017, Barr 2012).

This chapter describes the characteristics of benefits in kind and in cash, reviews the main arguments for and against in-kind provision, and discusses the implications of choosing one type of benefit over the other in terms of distributional effects, incentives to participate in the labour market, impact upon consumption and administrative ease.

Core concepts

Benefits in cash and in kind may be found in all areas of social policy (e.g., old age (see Chapter 36), health (Chapter 35), unemployment (Chapter 32), disability (Chapter 37), family (Chapter 38), housing (Chapter 33), etc.).

Retirement pensions, unemployment benefits, disability allowances, child benefits, housing allowances and income support to poor households are all examples of cash benefits.

Long-term care for the elderly (see also Chapter 43), retraining courses for the unemployed, residential services for the mentally ill, kindergarten-type care for pre-school children, the allocation of social housing to eligible households and the direct provision of food to the poor are all cases of benefits in kind.

Benefits in kind: goods vs. services

In Europe, benefits in kind are usually services, such as education, healthcare and social care, the latter referring to caring for children (early childhood education, childcare), for the elderly (long-term residential or domiciliary care), for the disabled, the mentally ill and other groups in need. With respect to funding, hospital care in most countries is provided either free of charge or at near-zero prices (at the point of use). User fees are even rarer in the case of education:
enrolment is compulsory up to a certain age (e.g. 15), while tuition is provided free of charge to all children attending state schools, irrespective of family income. Moreover, childcare is often heavily subsidised; kindergartens are run by the state or (more commonly) local government, while user fees, where applicable, are usually income-related (in the sense that higher income families pay higher fees, while lower income families pay less or are fully exempted). Furthermore, social care (e.g. for the elderly) may also be available on similar terms; besides, several countries such as Germany have developed long-term care insurance schemes to cater for the future needs of an ageing population (Ranci and Pavolini 2015).

Benefits in kind in the form of goods rather than services are less common in Europe. Social housing is a significant exception, involving the allocation of apartments at subsidised rent (or free of charge) to eligible families, and including emergency accommodation for selected groups in acute need (i.e. the homeless, refugees, victims of family abuse and so on).

Food aid is a fixed feature of social protection in Latin America (see Chapter 21), the USA and elsewhere. For instance, the food assistance programme (Programa de Apoyo Alimentario (PAL)) in Mexico provides families living in rural poor communities with a monthly food basket. In Europe, its importance has risen since the Great Recession, as food parcels handed out by charities, and soup kitchens organised by municipalities or voluntary associations, have become more common (Lambie-Mumford 2013).

**Vouchers**

Vouchers combine features of both cash and in-kind transfers: on the one hand, they are exclusively redeemable to purchase the good whose consumption policy makers intend to promote; on the other hand, they allow beneficiaries more choice over the type of good consumed relative to direct provision.

For instance, in the USA (see Chapter 18), welfare recipients are issued with Food Stamps (vouchers exchangeable for food at grocery stores). The Supplemental Nutrition Assistance Program (SNAP), introduced in 2008, operates through electronic benefit cards rather than paper vouchers (Hoynes and Schanzenbach 2016). Similarly, in Greece a Food Card was briefly introduced in 2015 (Matsaganis 2017), while in Italy a Social Card, used to pay for food as well as for utility bills, has been in operation since 2008 (Madama et al. 2014). Globally, in 2016 cash-based transfers represented just over a quarter of emergency food assistance provided under the World Food Program.

Housing vouchers (the US equivalent to rent subsidies and housing allowances) and school vouchers (as an alternative to direct public provision of compulsory education) are further examples of the same principle.

**Conditional cash transfers**

Cash benefits may also be tied to in-kind provision in a broader sense. Conditional cash transfers provide income support that may be used to buy anything, but eligible families must comply with the requirement to invest in their children’s human capital by consuming publicly provided education and health. For example, under the Bolsa Família programme in Brazil, low-income families receive a monthly cash allowance on condition that their children attend school and regularly visit healthcare facilities, while the Progresa programme in Mexico provides beneficiaries with cash assistance and food aid on the same conditions (school attendance and regular health check-ups). Such programmes linking cash assistance to in-kind provision are generally deemed a success in terms of alleviating poverty and raising investment in human capital,
Benefits in kind and in cash

Although questions remain about whether they can on their own boost employment and break the intergenerational transmission of poverty (Nelson and Sandberg 2016).

In Europe, conditional cash transfers may be said to exist in the form of guaranteed minimum income schemes, such as the French Revenu de solidarité active. These schemes provide cash assistance in cases of extreme financial hardship, but beneficiaries are required to participate in “social reintegration” activities. The same principle applies in the case of Welfare to Work programmes like the New Deal for the Unemployed in Britain, where the receipt of cash benefits is conditional upon participation in active labour market policies (see Chapter 32).

Relative weight of benefits in kind vs. in cash

In Europe, most social protection is delivered in cash. In 2014, the 28 member states of the European Union spent 18.1 per cent of their combined GDP on cash benefits, and another 9.5 per cent of GDP on benefits in kind. It follows that cash benefits accounted for 66 per cent of all social expenditure, with the remaining 34 per cent spent on benefits in kind (Eurostat 2017). The share of in-kind benefits in total social spending was highest in Sweden (47 per cent), followed by Finland and the United Kingdom (both 38 per cent), and lowest in Italy (24 per cent), Poland (23 per cent) and Greece (20 per cent). Healthcare accounts for three-quarters of all expenditure on benefits in kind in the EU-27 (7.1 per cent of GDP in 2014). Childcare, services to the elderly and social housing account for most of the remaining 2.4 per cent of GDP. Education, not included in European social protection statistics, is the second largest programme of in-kind provision (5.3 per cent of GDP in 2011).

In recent years, the relative weight of benefits in kind has increased, especially in Western Europe, partly reflecting the rise of the “social investment” paradigm, which emphasises provision of services over cash transfers, and the need to address new social risks over an exclusive focus on traditional policy concerns (Hemerijck 2017).

Means-testing

Social benefits, whether in cash or in kind, may be means-tested to target the poor (Atkinson 1995). Alternatively, eligibility thresholds may be set at higher levels, designed merely to exclude the rich (“affluence-testing”). Administrators may assess applicants’ incomes as well as assets (such as bank deposits and housing wealth), or their incomes alone (in which case the term is “income test”). Means-tested benefits are typically non-contributory, i.e. funded out of general taxation (see Chapter 40).

Non-means-tested benefits may be either contributory or non-contributory. Social insurance benefits are contributory: a specific contributory record (i.e. a minimum number of insurance days or years) is among the eligibility conditions that recipients must meet. The required contributory record is relatively long in the case of old-age pensions (e.g. 35 or 40 years), but is typically much shorter in the case of unemployment insurance (e.g. 2 or 3 years). On the other hand, child benefits or childcare services are almost always non-contributory, whether income-related or not.

Non-means-tested benefits are considerably more common: in 2014, means-testing accounted for a mere 11 per cent of all social expenditure in Europe (Eurostat 2017). Benefits in kind were somewhat more likely to be means-tested than cash benefits (14 per cent vs. 10 per cent of all spending on the relevant category). The share of means-tested benefits was comparatively high in Denmark (36 per cent) and in Ireland (31 per cent). At the other extreme, it was a mere 3 per cent in Sweden and the Czech Republic, and 1 per cent in Estonia and Latvia.
Arguments for benefits in cash vs. in kind

Even though redistribution of income from rich to poor through cash benefits seems to be the standard case, the very substantial presence of in-kind benefits in actual systems of social protection around the world (as seen in the previous section) begs the question of why and when the latter are preferred over the former.

The case for benefits in cash

The main argument in favour of cash provision is personal autonomy – or, translated into the language of economists, “consumer sovereignty”. Recipients of an income transfer may spend the money involved as they like, rather than being constrained to consume a particular quantity (and quality) of a particular good provided in kind. Similarly, using the tools of economic analysis, it can be shown that a consumer will reach a higher level of utility if paid a benefit in cash than in kind (or the same level of utility at a lower cost).

Furthermore, cash benefits are superior to in-kind provision on the grounds of administrative costs as well; for example, paying recipients a transfer of €100 in cash will be cheaper than providing them with a food basket worth €100.

The case for benefits in kind

A common justification for in-kind provision is paternalism and interdependent preferences (Currie and Gahvari 2008). Under interdependent preferences, if the rich care for the condition of the poor, a transfer from the former to the latter will leave both better off. The transfer may be funded out of taxation, but could also be purely voluntary.

However, the rich are generally concerned neither with the welfare (as such) nor with the level of income of the poor: their most specific concern is with poor families’ consumption – and, more specifically, with “good” rather than “bad” consumption (both as defined by the rich). In particular, the welfare of the rich increases as the poor consume certain items (e.g. children’s clothing or food), but it declines as they consume other items (e.g. cigarettes or alcohol).

Therefore, from the point of view of taxpayers, the provision of an income transfer will be inferior to the provision to eligible recipients of particular goods and services, either directly (e.g. healthcare and education) or indirectly (e.g. through vouchers such as food stamps).

Paternalism is intimately related to the idea of merit goods and merit wants. Society may be concerned that certain goods should be available to all of its members – or even that all of its members should be forced to consume certain goods. Therefore, school attendance up until a certain age is compulsory, rather than left to the individual preferences of children or their parents.

A related idea is the notion of “specific egalitarianism”. For instance, it has been argued that while many people have no problem with income inequality per se, they would like to see that all individuals receive adequate food, medical services or housing (Tobin 1970). It follows that, even where political preferences are generally pitched against large-scale redistribution via social security and the tax system, there remains a strong argument in favour of public provision in kind of essential goods and services.

Another argument concerns price effects. Benefits in cash increase (as intended) the purchasing power of recipients, and hence push up their demand for several goods and services. Depending on supply conditions, some of the increase in demand may be translated into higher prices.
Benefits in kind and in cash

rather than increased consumption alone. Conversely, the price effect of benefits in kind will be
difficult to predict a priori. When benefits in kind increase the overall supply of the commodity
in question, prices will be lower than with cash benefits. For instance, the availability of social
housing may help keep market rents affordable.

Self-selection is another justification for in-kind transfers. The argument here is that “anything
that makes it less attractive for people to mimic those with lesser ability will extend the
limit to redistribution” (Hindriks and Myles 2013: 435). If the quality of publicly provided
goods (e.g. housing) and services (e.g. healthcare) is seen as lower, higher ability individuals will
opt for the private alternative rather than reduce effort to qualify for the transfer.

Abstracting from the more controversial aspects of libertarian political economy and the per-
verse incentives of targeted benefits, the case for benefits in kind is also supported by the
“Samaritan’s dilemma” (Buchanan 1975), along the lines of the Chinese proverb that “rather
than simply give someone a fish, it is better to teach them how to fish”.

Indeed, whether or not one accepts the thesis that cash benefits breed dependency, there can
be little doubt that healthcare and education constitute investments in human capital, and there-
fore help individuals escape poverty in the future.

Perverse reactions

Recipients may subvert the preferences of policy makers (or taxpayers). For example, this will
happen if the benefit in kind is “tradable” – that is, when recipients can sell the good and use
the money to buy a different consumption bundle. The same problem will arise if the good
provided in kind is “fungible” – that is, when, following the receipt of a food parcel, an indi-
vidual can spend on “bad” consumption (e.g. alcohol) the money he or she would have spent
on food in the absence of the in-kind transfer.

Market failure

While paternalism and merit goods may go some way towards explaining why governments
provide health and education directly (rather than paying recipients cash benefits to enable them
to buy as much health and education as they like), in certain cases a more powerful explanation
of in-kind provision involves market failure. Since doctors have more knowledge about the
type and quantity of healthcare their patients need, this information asymmetry would create
insurmountable problems in the context of the free market. The ensuing market failures (such
as moral hazard, adverse selection and so on) will result in both high costs overall as well as
coverage gaps among the most needy (e.g. the poor, the old, the chronically sick, etc.). In view
of that, not only do most societies entrust doctors with the relevant decisions, but they actually
do so in the context of publicly funded healthcare (Chapter 35). Similar arguments apply in the
case of (compulsory) education, where consumer sovereignty does not apply.

In other words, the choice between benefits in cash and benefits in kind to achieve some
equity objective is constrained by considerations of efficiency. In general, when market allocation
is efficient, equity objectives can be pursued via benefits in cash, enabling recipients to buy what
they need at market prices. In contrast, when markets fail (e.g. owing to asymmetric informa-
tion), cash benefits cannot be the solution: economic theory suggests that in such cases equity
objectives should be pursued through benefits in kind, such as publicly funded healthcare and
school education (Barr 2012).
Implications of provision in cash vs. in kind

This section reviews the implications of provision in cash vs. in kind for household resources, redistribution, consumption, labour supply and benefit administration.

Household resources

International comparisons of household incomes and the distributional role of social transfers, such as those routinely produced by Eurostat – currently drawing upon the European Union Survey of Income and Living Conditions (EU-SILC) database – include cash benefits but exclude benefits in kind. This can be misleading. The experience of an average-income family living in a country where healthcare is publicly provided at no cost to users will be radically different from that of another family, also at average income, but living in a country where healthcare is only available privately at a substantial cost to individuals.

For this reason, the Commission on the Measurement of Economic Performance and Social Progress (Stiglitz et al. 2009) recommended in its final report that household income should include in-kind services (such as healthcare, education, childcare, etc.) provided by the government. Verbist and colleagues (2011) did just that, and found that it made a difference: if the value of all publicly provided social services is imputed in disposable cash income, the resources of European households increase by an average of around 30 per cent (over 40 per cent in Sweden).

Redistribution

Social benefits may redistribute resources horizontally (e.g. across the life cycle) and vertically (e.g. between individuals belonging to different income classes), reflecting the two aspects of the welfare state as a “piggy bank” and “Robin Hood” respectively (Barr 2001). It has been estimated that, if measured on a lifetime basis, about two-thirds of all redistribution in Britain is horizontal (Hills 2004).

Benefits in kind are generally considered to be less redistributive than benefits in cash. In particular, their contribution in reducing poverty and inequality has been questioned, for instance, by Le Grand (1982), who suggested that “almost all public expenditure on the social services benefits the better off to a greater extent than the poor”.

Part of the difficulty in assessing whether and to what extent this is true lies in the fact that social services actually affect the “primary” distribution of incomes (i.e. before taxes and benefits) in a variety of often subtle ways. For instance, childcare and elderly care arguably promote equality through their effect on female employment – both by freeing up women from family responsibilities so as to pursue careers, and by providing women with job opportunities in the social services sector (Esping-Andersen and Myles 2009).

The question of redistributive effect is further complicated by the fact that benefits in kind are typically provided in response to greater need associated with the onset of some life event (from childbirth to illness and frailty in old age). Controlling for need – which is not straightforward – will generally reduce the “gross” distributional impact of services. For instance, a comprehensive analysis of Norwegian local public services (Aaberge et al. 2010) concluded that even though the inclusion of non-cash income reduced inequality by about 15 per cent and poverty by almost one-third, adjusting for differences in need offset a significant part of that impact.

Empirical work on the redistributive role of benefits in kind has proliferated since the pioneering work of Smeeding (1977). In the most comprehensive analysis available to date, covering 21...
EU countries, Verbist and Matsaganis (2014) found that benefits in kind (focusing on non-elderly services) reduced inequality and poverty substantially compared to a counterfactual situation in which such benefits had not existed. Indeed, taking the 21 EU countries as a whole, the authors estimated that in the absence of services poverty would have been twice as high, and inequality, as measured by the Gini index, 17 per cent higher (adjusting the equivalence scale for the extra need for services).

Institutional design may be crucial. As van Lancker and Ghysels (2012) showed, the Swedish system of childcare outperformed that of Flanders in terms of equity: in the latter, parental fees in public childcare facilities rose with income, but that effect was offset by the fact that higher income families made greater use of childcare while also benefiting from generous tax deductions.

**Consumption**

In-kind provision (e.g. of food or housing) can lead to too much food or housing being consumed compared to what the families themselves would have chosen had they been provided with a cash transfer of equivalent value. In fact, the ability to distort consumption motivates paternalist arguments in favour of in-kind provision in the first place.

Recent research suggests that these distorting effects may be smaller in size (or less desirable) than previously thought, casting doubt on the paternalist argument in favour of in-kind provision. Evidence from the Mexican food assistance programme to the rural poor (Programa de Apoyo Alimentario (PAL)) shows that food consumption did not differ greatly between recipients of in-kind provision and cash assistance of equal value – nor were families receiving cash transfers found to “indulge in vices (such as alcohol or tobacco) or nonnutritious foods upon receipt of unrestricted cash transfers” (Cunha 2014: 229).

Often, in-kind provision is “infra-marginal” in the sense that the quantity of the good or service transferred is lower than what would have been consumed in the absence of such. For instance, in the USA in 2013 the average monthly benefit under the Supplemental Nutrition Assistance Program (SNAP) was $275 per household ($133 per person), but spent on food at home a total of $323 per month, making up the difference with cash. Moreover, programme participants were on balance more likely to increase food consumption: an extra dollar of food stamps was estimated to raise food consumption by 16 cents, while an extra dollar of cash did so by only 9 cents (Hoynes et al. 2014).

There are several reasons why this should be the case. A minority of recipients are “constrained”; that is, they would have preferred to consume less food than can be purchased with food stamps, so the programme increases their food consumption more than cash would. Alternatively, behavioural economics insights suggest that recipients, though not “constrained”, may use a mental accounting framework that puts food stamps in a separate category from cash, and hence may consume more food as a result.

**Labour supply**

A large literature addresses the issue of the implications of means-tested benefits in general (Moffitt 2002, Brewer et al. 2010), and of in-kind provision in particular (Currie and Gahvari 2008), for one crucial aspect of economic efficiency: incentive to work. The combination of low wages when working with (relatively) generous benefits when not working can create situations in which “work does not pay”. As explained elsewhere (Chapter 32), an early concern with the adverse effects of social benefits on labour supply has led to a policy shift towards
“activation”. Of course, the goal of making work pay can be achieved through very different policies: to put it crudely, either by reducing benefits when not working, or by increasing wages when working; both have similar effects on employment rates, but very different implications in terms of poverty and inequality.

The design of benefits may also determine work incentives. When means-tested benefits are withdrawn pari passu (i.e. euro per euro), or gradually withdrawn as recipients’ income rises, beneficiaries are no better off taking a job than simply relying on benefits. In fact, if the costs of working – whether explicit (e.g. bus tickets) or implicit (e.g. the cost of childcare when the mother is out working) – are taken into consideration, not taking a (low-paid) job actually makes better sense. In this way, while, on the one hand, social benefits protect recipients against extreme poverty, on the other hand, their design prevents them from escaping poverty altogether. This phenomenon is known as the “poverty trap” (Atkinson 1995).

The proportion of income earned that is lost again through a combination of reduced benefits, income taxes and social contributions is the “marginal effective tax rate”. Reducing that rate (and, therefore, improving incentives to work) is possible. With universal benefits, the amount of benefit is entirely independent of earned income, and therefore the question does not arise. With in-work benefits, such as the Working Tax Credits in Britain or the Earned Income Tax Credits in the USA, benefit is withdrawn more slowly as income rises, and therefore continues to be paid at higher levels of income, than is the case with ordinary means-tested benefits. With both universal and in-work benefits, reductions in marginal effective tax rates for benefit recipients come at the cost of increases in fiscal costs, and hence in average tax rates for other taxpayers (Barr 2012).

The theoretical literature distinguishes between the work incentives of benefits in kind and of cash benefits, and predicts positive labour supply effects of in-kind provision of goods that are complementary to labour:

The labour supply effects of in-kind transfers differ from those of cash transfers because they subsidize a good which may be a complement or substitute for leisure, and because the in-kind transfers typically provide minimum or fixed quantities of the good in question and hence have the potential to constrain the consumption choices of the family.  

(Moffitt 2002: 2396)

Nevertheless, the empirical evidence remains rather inconclusive (Currie and Gahvari 2008). On the whole, the choice of benefits in kind vs. cash benefits from the point of view of work incentives is probably secondary to the choice of the marginal effective tax rate to prevent poverty traps.

Administration

As discussed above, the cost of administering benefits in kind is higher (often considerably so) than that of provision of cash benefits. We also know that means-tested benefits are associated with higher administrative costs than either universal or contributory benefits. In turn, the fact that the latter involve no stigma and require less proof of eligibility results in far fewer targeting errors than is the case with means-tested benefits (Atkinson 1995).

Targeting errors involve both the non-payment of benefit to legitimate recipients (“non-take-up”) and/or the payment of benefit to illegitimate recipients (“leakage” or “overpayment”). On the whole, non-take-up is likely to be higher where the claiming process is less automatic, where expected benefits are lower, and where transaction costs and/or stigma are greater.
As a recent review of in-kind transfers has pointed out, “there is a great deal of evidence that potential recipients of in-kind transfers are sensitive to application costs” (Currie and Gahvari 2008: 350). In particular, concern with stigma was a key factor behind the decision to replace the previous Food Stamps Program in the USA by the Supplemental Nutrition Assistance Program (SNAP), and paper vouchers by electronic benefit cards.

Nonetheless, the extent of non-take-up associated with stigma is more likely to depend on programme characteristics and the nature of the claiming process than on the choice of transfers in kind vs. cash as such.

Conclusion

Benefits in kind and cash benefits are both significant components of European welfare states. In-kind provision is the preferred option where market provision is prone to failure, and where the emphasis is placed on the consumption by recipients of specific goods and services (rather than on their income or “utility”). In the USA and elsewhere, a presumption against large-scale government intervention, a preference for means-tested provision and a greater dose of paternalism all militate in favour of public assistance being provided to the poor in kind. In Europe, income support is typically complementary to a range of publicly funded (and, often, publicly provided) services in health, education, childcare and care for the elderly, while with the exception of social housing, direct provision of goods is far more limited. On the whole, benefits in cash reduce poverty and inequality more than benefits in kind, even though the latter may be more redistributive in the long run, once their role in increasing female employment is taken into consideration.

References


Manos Matsaganis


