and individuals, the pooling of unequal risks, and economies of scale in group insurance. Some of this is offset by the provision of social insurance in areas where the market fails.

3. The Effects of Different Types of Payment in the Perfect Market

In the perfect market, described above, payments made as cash, kind, or subsidy will have no difference whatever on the family receiving it if the family is consistent in its preferences. The assumption of the perfect market allows anyone to sell anything received in kind at the going market price; consequently, the payments in kind or subsidies have no different effect from cash payments. Even in the case of compulsory insurance for old age there will be no effect other than a change in lifetime income. Any purchase of insurance for old age can be "sold back" at the market price, and the only effect of the plan will be a redistribution of income resulting from the difference between market and government prices. The way in which old-age insurance can be "sold back" is as follows: Life insured loans are made for the market value of the premiums; if the individual dies before retirement, there is no debt; if he retires, his pension will just pay off the loans.

It is obvious, therefore, that policy decisions with regard to subsidies, or payments in kind must take imperfections into account explicitly. In the normal world opportunities for "selling back" either do not exist at all, as in the case of personal services such as medical care, or exist only at a lower price than the buying price because of the costs of providing insurance and other markets. In these cases there will be a great deal of difference in final consumption patterns, depending on the mix of the various types of payments.

4. Incentive Effects

Insurance contracts may carry with them incentives that change the behavior of those insured so that the expected gain is increased. For example, fire insurance provides an incentive to carelessness and arson; divorce insurance would, if provided, tend to increase the divorce rate of those insured; unemployment insurance may affect the effort expended on finding a new job.

These have the effect of either making a given insurance market smaller or eliminating it altogether. Consequently, there is a good argument, in these cases for social intervention. Social insurance cannot, however, merely provide insurance with cash benefits, copying the private sector. The incentive effects do not disappear. It can, however, provide or subsidize benefits in kind (usually services) that cannot easily be sold by the recipients, and that compensate for the incentive effects of providing the insurance. Examples of social insurance of this kind are job retraining programs for young and old, marriage counseling services, and training programs for the blind and disabled.

Incentive effects of a slightly different kind are present in old-age pension plans in the United States and Canada and in many relief