Using the Economic Concept of a “Merit Good” to Justify the Teaching of Ethics Across the University Curriculum

Mark Nowacki, Wilfried Ver Eecke
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I. Introduction

Philosophers often lament the limited role that philosophy plays in the intellectual formation of the average university student. Once central to university life—there was a time when the study of philosophy defined what it meant to be a student of the liberal arts—philosophy as a subject of study has become marginalized. It is a painful reality that in many universities philosophy has been reduced to the status of a fluffy elective, a course of study to be conscientiously avoided by the more “practical” and “hard nosed” students bent upon success in the pragmatic worlds of business and politics. Only classical studies has suffered a greater come-uppance.

The situation is dire, but I don’t believe that we should give up hope yet. What follows in this paper is an argument that can be used to justify the introduction of philosophical, and specifically ethical, discourse into a wide range of university courses. The argument I advance is, I hope, both sufficiently formal to convince administrators, and sufficiently broad to convince students, of the practical importance that at least one area of philosophy has for the successful pursuit of even the most praxis-oriented career.

In particular, I will argue that the economic concept of a merit good provides a convenient platform for introducing ethical discourse across several areas of the college curriculum. Moreover, the concept of a merit good can serve as a ready vehicle for introducing an ethical dimension into the formation of future leaders in

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business and politics. I will say more about merit goods and how these objectives might be accomplished in a moment. But I should like to mention that one considerable advantage of the “merit good” approach is that students come to recognize that it is impossible to avoid ethical considerations in their future careers. Business activity—to take but one example—simply cannot be properly understood apart from its ethical dimension. Hence, if students wish to gain a true and accurate understanding of their future field of employment—if, in fact, they wish to excel at what they do—then an education in ethics is not only appropriate but, most likely, necessary.

So, what I hope to do here is to offer a suggestion, open to further articulation and revision, that I believe has some interesting implications both for the general project of justifying the teaching of ethics across the curriculum, and for how, in a concrete way, the introduction of ethical discourse can be accomplished in a manner attractive to students, teachers, and administrators.

The basic argument I am going to make goes as follows: There exists, within economic theory, a class of economic goods, namely “merit goods”, that are, I would argue, of at least equal theoretical and practical importance to “private goods” and “public goods”. What is interesting about merit goods is that as a precondition of their existence, and embedded within their very definition, merit goods make reference to and depend upon normative disciplines like ethics. Insofar as understanding and accounting for merit goods is important to economics, and insofar as economics is itself important to other fields of study, the economic notion of a merit good can be used to underwrite an introduction of ethical discourse across a wide spectrum of university courses. Moreover, the particular constellation of courses within which mention of merit goods naturally arises happens to overlap significantly with the types
of courses praxis-oriented future leaders are likely to take. Given the appropriate instructional context, future leaders will no longer perceive ethical reflection as an alien intrusion but rather as an organic development that makes contact with and flourishes within the subject they are studying. The formal study of ethics is thus introduced, in a natural and systematic way, into the formation of future leaders.

II. So, what is a merit good?

The concept of a “merit good” was formally introduced by Richard Musgrave in 1956 to account for certain conceptual “orphans” in his theory of public finance. Musgrave recognized that there are several economic goods which, while they are part of the public budget, are not justifiable by a public goods argument. In other words, goods such as subsidized housing for the poor, obligatory public education, and mandatory public inoculations cannot be justified by claiming that these economic goods are supplied to the people who want them, in the degree to which they are wanted, and that the burden of paying for them is being born by those who benefit and in proportion to the benefit that they receive from such goods. Consumer sovereignty is clearly violated in such cases: consumers are coerced into accepting more inoculations (for instance) than they would prefer. Yet, despite the failure of a public goods argument, it would be strange indeed to think that there can be no justification for such laudable items within the public budget. It would also be odd to think that the science of economics should not attempt to both describe and theoretically grapple with such patently economic phenomena.

Enter the concept of a merit good. Properly stated, by a “merit good” I understand an economic good with respect to which competent authorities may, legitimately, and for axiological reasons, intervene in markets in a manner contrary to consumer preferences. Such interventions are usually (though not always) intended
to bring about a change in consumer preference. The intention to change consumer preference is itself prompted by a prior critique of actual consumer demand, the level of prevailing demand being judged by those competent authorities to be inappropriate in some way.

An obvious example of this class of economic goods is what one might actually wish to call a “demerit” good, namely cigarettes. Some competent medical and political authority—say the Surgeon General—judges that the current consumer demand for cigarettes is too high. In response to that judgment, we find that high taxes are imposed on cigarettes, that venues for the advertisement of cigarettes are limited, that smoking in public buildings is curtailed, and that labels with severe health warnings are required on the product. Over time, it is hoped that a new pattern of consumer demand for cigarettes will emerge, a pattern of demand that is more in keeping with the lowered demand patterns envisioned by the intervening authorities.

Let me now situate merit goods in relation to the two other basic types of economic goods. I begin by dividing all economic goods into private goods and non-private goods. By “private good” I understand an economic good that is optimally provided via the free market mechanism. Private goods typically involve rivalry and exclusivity in consumption. For instance, if a person eats an apple then the benefit of eating that apple accrues exclusively to them and they cannot share the benefit of eating the apple with anyone else.

Non-private goods, on the other hand, are economic goods that are not optimally provided via the free market mechanism. Non-private goods come in two types, public goods and merit goods. The distinction between the two types of non-private goods turns upon the reason why the free market fails to provide those goods at optimal levels. A “public good” is a non-private good that is supplied, typically by
the government but sometimes by other organized groups, with the intention of respecting consumer preferences. Consumers need help in procuring such goods because of some technical or formal feature of the good that makes it either difficult or impossible for individuals to acquire the good by themselves in an optimal way. Typical reasons for market failure in the case of public goods are their non-rivalness in consumption and their non-excludability. For instance, clean air to breathe will not be lessened by several people enjoying it nor can we prevent people from enjoying clean air.

Merit goods are also non-private goods and, as I’ve already mentioned, merit goods are also instances of market failure. However, the reason for the free market mechanism failing in the case of merit goods is not technical in nature but axiological. The value consumers place on merit goods is inappropriate: in a free market consumers either desire too much of a bad thing (as in the case of cigarettes) or too little of a good thing (hence compulsory public education). Consumers *ought* to value things differently than they do, and so some intervention by competent authorities is justifiable.

Such, then, must suffice for a formal characterization of merit goods. For present purposes I do not think that it is either necessary or prudent to fill in too much detail here. Formal research into the nature and the behavior of merit goods is still relatively new, and much important work remains to be done. At this time I would, however, like to highlight the following salient features of merit goods.

First, and most importantly, as a matter of brute empirical fact, merit goods do exist.⁷ Some of our most treasured public institutions and social programs display merit good aspects, mandatory public education, subsidized housing, and sumptuary taxes on cigarettes being clear instances.
Second, the phenomena picked out by the “merit good” concept are clearly economic in nature, and as such it is necessary for the science of economics to provide an account of them. Economics would be incomplete, and economists would be shirking their duty, if merit goods escaped their purview. It is entirely appropriate for us to expect a distinctively economic account of merit goods to be forthcoming.

Third, the existence of merit goods logically depends on a prior, normative critique of consumer demand. Optimal provision of merit goods is emphatically not achieved by satisfying existing consumer demand. Rather, optimal provision of any merit good requires active intervention contrary to prevailing consumer demand.

This third point is worth dwelling upon. Note that what the optimal levels of merit goods are, and which specific economic goods are best interpreted as merit goods, are issues that cannot be settled from within the discipline of economics itself as it has traditionally been conceived. By this I mean that economics, at least in the form in which it is generally understood, is conceived of as the science which maximally satisfies the allocation of scarce resources in accordance with pre-given consumer preferences. Normativity extends only thus far in traditional economic thought. But the point of identifying a particular economic good as a merit good is that the pre-given consumer preferences themselves are is in need of criticism. Thus—and this is a crucial point—a properly economic understanding of merit goods must make reference to disciplines outside the bounds of economic science as traditionally conceived. Economics cannot help but be socio-economics. And, since the optimal consumption levels are revealed only through a normative critique of what should be the case, what ought to be done, it follows that the particular discipline socio-economics must look to for its illumination is ethics. Ethics, the science of what human beings ought to do, is thus a natural companion to economics instruction.
Therefore, with the introduction of merit goods, ethical discourse assumes a natural, and perfectly proper, place within economics courses.

III. Applications of merit goods: university courses and the formation of leaders

At the outset of this paper I claimed that it is my position that the economic concept of a merit good can be used to legitimate the discussion of ethics within a variety of educational contexts, some of which are of particular interest to future leaders. I would now like to develop that program. I will begin with a few remarks on how ethical discourse might arise within the teaching of economics courses, and then I will expand the range of application of the merit good concept to other aspects of the curriculum.

Let us begin with an examination of the teaching of economics at the undergraduate level.

As economics is generally taught at the introductory level, students are treated to a brief conceptual survey wherein they are made acquainted with the fundamental distinction between private goods and public goods, and then the instructor moves quickly on to a formal or mathematical treatments of these two goods. Yet, as I have argued, the division of economic goods into public goods and private is hardly exhaustive: the division overlooks the wide range of economic phenomena that is captured only through the introduction of the concept of a merit good. Of course, no introductory course aims at a complete treatment of its subject: details are filled in only after further academic specialization; but the variety and importance of merit good phenomena cry out for acknowledgement (if not full exposition) at the introductory level. A systematic and satisfying introduction to economics as a science requires, I believe, some discussion of merit goods.⁸
While the technical treatment of merit goods is still, after several years, in its nascence, achieving an adequate theoretical grasp of any particular economic good that is de facto treated (at least by the intervening authorities) as a merit good will require mention of the prior normative thinking that prompted the intervention economists now find themselves obliged to describe. To appreciate just how wide the de facto net of merit goods can be cast, consider that any economic good can be treated as a merit good (or, more precisely, as a demerit good). This potential is implicit in the government’s ability to place a sumptuary tax upon any economic good it wishes.9

Since merit good interventions must appeal to normative standards for their justification, it follows that some knowledge of ethical theory and ethical practice can illuminate a wide spectrum of economic activity. The government’s power to tax is a clear example, since taxes require justification. Moreover, without an understanding of ethics, such phenomena as mandatory inoculations, property taxes to support public schools, and sumptuary taxes on cigarettes would remain economically unintelligible: there would be some surd, some un-analyzable remainder whose import the integrated understanding of the economist would fail to grasp. Why, for instance, do we not pay cigarette smokers to quit but instead penalize smokers for smoking? Both solutions are equally possible, and equally plausible, under a cost/benefit analysis. Since the utility implicit within both scenarios is equal, to consistently decide in one way rather than another can only be justified by referencing a theory of what should be done over and above what can be done.10 Normativity is the faculty that allows for the successful resolution of economic Buridan’s Ass problems.

A final remark about ethics and introductory economics. As I have argued, it is impossible to abstract all consideration of the ethical from economics and yet
generate an adequate and undistorted understanding of economic phenomena. In the case of merit goods, ethics is definitely not an alien accretion but instead is naturally allied with the empirical investigations of the economist. Ethical reflection, and the formal study of ethics, can thus be shown to be fellow-travelers in the achievement and dissemination of economic instruction in the classroom.

Let us assume that my basic point, namely that ethical discourse may legitimately appear within economics courses, has been sufficiently established. I would now like to consider how the merit good concept may be applied in other disciplines.

The point I would like to make in this regard is fairly straightforward. Other disciplines can be shown to benefit from the study of ethics in proportion to the importance that a grasp of economic facts has for that particular discipline. Not that there are lacking any number of alternative justifications for introducing ethics into, say, a class on public policy. But I would argue that the importance of possessing a reasonably nuanced understanding of economics for the public policy practitioner is a sufficient justification for introducing ethical discourse into a course on public policy.

This may be the place to dilate a bit on the conceptual link, or the general relation that obtains between economics and public policy. Not only do policy makers hold themselves in some measure accountable for economic performance (they certainly take the credit for good times and don’t hesitate to point a finger during bad ones), but policy makers consistently try to influence society through economic means. Certainly in the formulation of almost any public policy the question of economics arises. Leaders in the formulation of public policy are often those who are responsible for identifying areas where levels of consumer demand are currently at
unacceptable levels. In short, public policy wonks are responsible for identifying merit goods.

Public policy leaders are also tasked with implementing market interventions, and here a theoretical grasp of the axiological pre-conditions for merit goods can be useful. For instance, and I here apologize for the controversial nature of the example, it has been demonstrated by R.K. Godwin that treating family planning supplies as having a merit good aspect leads to a more efficient allocation of social resources in less developed nations.\(^\text{11}\)

As Godwin notes, between 1963 and 1977 the governing elites of 62 less developed nations set the goal of reducing the birth rates in their respective countries. In each case, the impulse to have smaller families came from above, not from below, from the governing elites, not from the governed masses. The public policy of reducing fertility rates is thus an example of an intervention contrary to prevailing market preferences. To develop programs that would effectively change the prevailing desire for larger families, it proved important to acknowledge both the ethical reasoning that went into the intervention sponsored by the governing elites as well as the ethical milieu of the governed masses whose desire for larger families was the target of the intervention. Godwin demonstrates that taking a mixed approach, wherein the provision of family planning materials is treated as simultaneously possessing private, public, and merit good aspects, leads to the most efficient allocation of social resources. For the student of public policy, there are thus practical advantages to explicitly acknowledging and understanding merit goods.

Again, understanding the normative considerations behind merit goods can serve as a useful brake on unwarranted government interventions. Policy makers do well to remember that any merit good intervention they initiate entails that they are
out of step with the public perceptions of their constituency. Ethical reflection
naturally arises here, both with regard to initial policy formation and with regard to
public vindication of individual policies. Policy makers must be able to discern what
should be done, must be able to justify their understanding and pursuit of what should
be done, and must be able to predict how their proposed interventions will be received
given the prevailing morals and mores of the target group of the interventions. As V.
Santhakumar has shown (in an interesting study of water provision in the Indian state
of Kerala), there are social costs associated with public officials mis-identifying merit
goods.\textsuperscript{12}

I have argued that introducing the notion of a merit good, and the ethical
discourse concomitant with the introduction of that concept, into public policy courses
is both justifiable and desirable. Future leaders of public policy are likely to welcome
the introduction of ethical discourse into their discipline, for pragmatic reasons related
to public effectiveness, if for no other reason.

I would now like to mention just one more area of the curriculum where
introducing the concept of a merit good would be appropriate: business courses. Any
leader, including business leaders, whose field of activity is significantly affected by
economics should take ethics into account in order to be more effective. For instance,
future business leaders will discover that \textit{which} particular goods and services they
may provide, as well as \textit{how} those goods and services can be distributed, are affected
by axiological considerations. The days of J. S. Mill defending the opium trade are
long over: the noble principles of free trade can hardly justify an Opium War once
opium has been classified as a demerit good of the most extreme variety.\textsuperscript{13}

Ethical awareness can also be of use to business leaders when they are
confronted with concrete difficulties related to product development and product
placement, and can also aid their interaction with regulatory agencies. To interject a personal example: one of the odd things about living in Washington, D.C., is that one sees advertisements here for things that one would never see advertised anywhere else. So, for instance, as of October 2003, if one were to walk into various Metro stations in the city one would discover large posters advertising Lockheed-Martin’s F-22 Raptor. There are also ads for the plane on the radio (WGMS, the classical station: listen live at www.wgms.com). Now, the F-22 is not the sort of plane one uses for casual business travel. What the advertisers are clearly trying to do is sell the F-22 to public officials by positioning their product as a merit good. Lockheed-Martin is working hard to convince Congress that the Raptor should be adopted by the U.S. military. And, while I am sure that demand for the F-22 is below what Lockheed-Martin would like it to be, I would also be surprised if this advertising blitz were not at least partially successful. Such is the life of the government defense contractor: gaining the private good of company profits through the sale of merit goods.

There are, I think, other disciplines within which an ethical dimension may legitimately be introduced via the mechanism of economic merit goods. (Anthropology and history, to name but two.) The list of courses I have mentioned is by no means complete but has, I hope, been sufficiently suggestive.

IV. Conclusion

In this paper I have presented the notion of a merit good and have argued for the appropriateness of expanding ethical discourse into economics courses. This is, already, something of a gain. But, as I have argued, once introduced into economics courses, the discussion of ethics occasioned by merit goods spreads beyond the borders of economics. A wide range of praxis-based courses, including the public policy and business courses favored by future leaders, are natural extensions. And
with the systematic and justifiable introduction of the concept of a merit good comes
the equally justifiable introduction of ethics across wide areas of the typical college
curriculum and the exposure of future leaders to the peculiar pleasures of
philosophical reflection.

1 An early version of this paper was presented at the Fifth International Ethics Across
the Curriculum Conference, sponsored by the Society for Ethics Across the
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Liew, and Michael Pelczar.

2 Although in this paper I present a pragmatic argument to justify an expanded role for
philosophy within the university curriculum, I do not believe that this is, ultimately,
the best sort of argument one should advance in favor of philosophy. While it is true
that the study of philosophy does bring certain practical benefits in its train, in itself
philosophy is not an instrumental good that finds its justification in how effectively it
brings about some other good beyond itself. Philosophy is, in and of itself, a human
final good. Philosophical knowledge is knowledge that it is good for human beings to
have, and the pursuit of philosophical knowledge is an activity that it is good for
human beings to do. A suggestive parallel may be drawn with music appreciation.
Why is it good to be able to appreciate music? Do we think that it is important to learn
how to appreciate different types of music because doing so will give us something interesting to talk about while cutting business deals on the golf links? Intuitively, I suspect that most people would say that the appreciation of music is not the sort of thing that needs to be justified instrumentally.

With regard to its specific genesis, this paper grew directly out of our experience in teaching business and professional ethics to incoming freshmen. One serious challenge that anyone teaching business and professional ethics faces is that of making the material relevant to the students. When asked why they are in the course, a majority of students claim that they are taking the class simply to fulfill a distributional requirement. Among new students there is a widely-held presumption that ethics is related only tangentially to business and the professions. A significant percentage of the students believe that ethical considerations are a dispensable luxury and that fretting over ethical issues gets in the way of good business decision making. In short, there is a presumption among students that ethics either is or should be detachable from one’s business or professional behavior.

The classic treatment of merit goods is to be found in R. A. Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959). The tentative definition Musgrave suggests is that merit goods are economic goods that the government supplies “if [those goods are] considered so meritorious that their satisfaction is provided for through the public budget, over and above what is provided for by private buyers.” (Ibid., 13.)


6 Promulgation of anti-smoking measures are common in several countries. A personal favorite is the required warning for cigarettes in Singapore: “Smoking Kills.”

7 This seems to be the best place to anticipate one possible line of objection. Suppose we were to encounter a classically-trained economist—I’ll call this imaginary person “Smith”—who objected to my proposal on the grounds that economists have already rendered the problematic notion of a merit good conceptually superfluous by introducing the better-behaved notion of an economic “externality”. I do not believe that Smith can escape in this way. Here is one way that the argument might go.

Suppose I were to point to some specific instance of a market failure and then claim that that market failure should be labeled as a merit good. Smith will then object, claiming that the market failure in question is due to some externality. To begin with, since Smith refuses to admit merit goods into economic theory, I will assume that
Smith believes that all economic goods are exhaustively categorized as either public goods or private goods. (This is a simplifying assumption, as various economists have proposed more robust classificatory schemes. I believe that the following argument can, *mutatis mutandis*, cover such theoretical extensions.) Now, since Smith claims that externalities can be adequately handled from within standard economic theory, it seems that the particular externality in question must itself be some sort of economic good. However, the externality cannot be a private good; otherwise, there would be no market failure for me to point at in the first place. Therefore, the externality must be a public good. This means that Smith implicitly holds the position that what I would label merit goods should be reduced to public goods. But, as it turns out, merit goods cannot be reduced to public goods. For, if merit goods are reducible to public goods, then it is either the case that our market failure is due to a failure of will or it is the case that our market failure is due to a failure of knowledge. Smith cannot admit that the market failure is due to a failure of will. This is because criticizing an agent’s failure of will involves advancing a normative critique of either what the agent ought to desire but doesn’t (i.e., the agent is morally misdirected) or what the agent should do but doesn’t (i.e., we have an akratic agent). This is exactly the sort of normative critique that the proposed definition of merit goods recognizes. Nor, for that matter, can Smith admit that the market failure in question is due to a failure of knowledge. For then Smith will be claiming that some economic agent *ought* to possess additional knowledge. That additional knowledge will itself constitute an economic good, which on Smith’s position implies that the additional knowledge is itself either a private good or a public good. The required additional knowledge cannot be a public good, for that would make Smith’s argument viciously circular: market failures occur because there are (explanatorily prior) failures in knowledge, and failures in
knowledge occur because there are (explanatorily prior) market failures. Nor can the required additional knowledge be a private good, for the relevant additional knowledge clearly is not being desired or supplied by the free market mechanism at a level Smith finds acceptable. Since the additional knowledge that one ought to have can be neither a public good nor a private good, should Smith still wish to claim that economic agents ought to possess some additional knowledge, then this ought is to be interpreted in a normative sense. But Smith’s advancing a normative critique—a critique, let it be noted, endogenous to the science of economics—of the distribution of knowledge in the market would entail that Smith is treating knowledge as a merit good—which would, of course, imply that Smith admits the legitimacy of the merit good concept.

8 The extent to which consideration of merit goods and ethical issues arises within any particular course is, naturally, a function of the aims of the instructor. Within an introductory economics course it may well be that discussion of merit goods and their ethical implications would be fairly minimal. On the other hand, in more advanced courses in public policy, the discussion of the ethical implications of merit goods might conceivably dominate a considerable portion of the course.

9 Even the bearing of children has been subject to merit good schemes. Some societies have placed a heavy tax on having children (e.g., China); other societies have developed incentive schemes to encourage couples to have more children (e.g., Singapore’s “Baby Bonus Scheme”). (As of 2 March 2004 information on the Baby Bonus Scheme was available at www.babybonus.gov.sg/html/menu/index.html.)

10 There are clear cases of government regulatory interventions that were historically justified by normative considerations rather than, e.g., appeals to increased efficiency. For instance, the public furor generated by Upton Sinclair’s The Jungle lead to
regulations concerning meat production, the justification being that people should not have to put up with the sorts of polluted product then being marketed.


13 John Stuart Mill, *On Liberty*, ch. 5: “On the other hand, there are questions relating to interference with trade which are essentially questions of liberty; such as the Maine Law, already touched upon; the prohibition of the importation of opium into China; the restriction of the sale of poisons; all cases, in short, where the object of the interference is to make it impossible or difficult to obtain a particular commodity. These interferences are objectionable, not as infringements on the liberty of the producer or seller, but on that of the buyer.”