

ECONOMIC BRIEF NO. 16

Merit Goods: A Policy Dilemma

All economists view governments as the definers and enforcers of property rights and the provider of at least a few public goods, such as defense. Once past this short list, they start to disagree about government's role.

and health care are largely private sector responsibilities in the United States. Education can be private or public. Our water may come from a public provider, but we pay for it just as we pay for electricity from (mostly) private

over the role of the public sector as a provider and supervisor of health care.

If merit goods become too inclusive, the role of government expands while the private sector shrinks, and taxes become very high in order to pay for all those merit goods.

Just because something is defined as a merit good doesn't mean it should be paid for through taxes and provided equally to everyone.

For example, some minimal access to food (not necessarily gourmet food) is regarded as a merit good, but we only provide food stamps to the poor, not to everyone. This approach to the second and third dilemmas keeps the tax burden down, uses the private sector, and still guarantees access to food. In other cases we provide public access for the poor to public health clinics while others purchase their own services through the private sector.

Most Americans agree that their fellow citizens should have access to certain goods and services—housing, food, safe water, basic health care. There is, however, a lot of room for disagreement not only in what should be included in each category, but how to pay for it, and exactly what role the government should play in making it available.

Merit goods are those goods & services to which people are entitled as a birth-right, simply by virtue of being members of society, regardless of ability to pay.

Most often they disagree about merit goods.

Merit goods are those goods and services to which people are entitled as a birth-right, simply by virtue of being members of society, regardless of ability to pay. This does not mean that these goods should be totally free to everyone, only that people should not be excluded because of inability to pay.

Basic education and safe drinking water are merit goods that Americans seem to generally accept. Potential merit goods like adequate housing and basic health care are more controversial.

Merit goods differ from public goods such as defense, the legal system, and parks because merit goods can be and often are privately produced and paid for. Housing

and health care are largely private sector responsibilities in the United States. Education can be private or public. Our water may come from a public provider, but we pay for it just as we pay for electricity from (mostly) private utility suppliers. So merit goods do not have to be produced by the public sector in order to ensure that they are available.

There are three basic dilemmas with respect to merit goods:

What should be included as merit goods?

How should we pay for them?

Should they be produced in the public sector or produced in the private sector with public funds to ensure access.

All three dilemmas are at the center of the health care debate. While there appears to be some consensus that everyone is entitled to a kind of basic health care, disagreement is widespread over what to include in basic health care and how to pay for it. And there is also disagreement

In furtherance of Clemson University's land-grant mission, the Community & Economic Development Program at Clemson provides access for community leaders in South Carolina to expertise in all branches of knowledge on the University campus.