Consumer Sovereignty Re-Examined: Applications of the Merit Goods Argument

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Economic thinking has traditionally distinguished between public and private goods. Several decades ago, however, the new concept of merit goods was introduced into economic thinking. Economics has generally resisted this new concept. While public and private goods may be purchased through voluntary action (either individual or collective), merit goods are different: merit goods are those that the public authorities, through a value judgment, determine should be consumed at higher than market rates. (A demerit good is the opposite). Merit goods, by definition, aim at interference with consumer preference, and this violates the basic assumption of economics: that individual consumers' autonomy and preferences have normative value. However, a survey of the writings of various authors shows that the concept of merit goods is unavoidable in economics. These writers are unable to locate their arguments within the framework of traditional economics because their prescriptions fundamentally involve interference with consumer preference.

In this paper, I will examine articles by a variety of economists and non-economists. These articles range from economic theory to a feminist critique of philosophy, but they all involve some measure of application of the merit goods concept, implicitly or explicitly. Through this examination, I will show that the concept of merit good must be introduced not only because it is theoretically necessary but also because it is practically unavoidable.

I begin with the article, “Fairness, Hope, and Justice” by Nobel laureate economist James M. Buchanan. Buchanan is concerned with articulating a theory of economic justice that derives from a sense of fairness. To effect this fairness, Buchanan says, he will focus on “the distribution of rights and claims prior to or antecedent to the market process itself rather than on some final distribution of the product” (Buchanan 53). Buchanan wants to keep his interference with market mechanisms to a minimum; this is why he proposes interference prior to the market process. Even still, he is forced to concede that the “justice” for which he is arguing “necessarily get[s] mixed up and intermingled with pure self-interest” (55). Thus even Buchanan’s very limited intervention in the market violates self-interest narrowly defined to some extent.

Buchanan argues that the primary source of “unfairness” or “injustice” in our society is birth (59). Therefore, he proposes the “imposition of what we may call handicaps so as to [facilitate] . . . equality in starting positions” (62). But while he wants to create these handicaps, Buchanan says that he does not at any point want to interfere with the market directly, either with its process or its outcome (e.g., 53). Therefore, he advocates the taxation of asset transfers and public financing of compulsory education (63-4). Despite Buchanan’s intentions, both of these prescriptions do violate market preferences. Buchanan says as much; he admits that his policies “necessarily interfere with the liberties of those person who are potential accumulators of wealth and potential donors to their heirs” (63). And the mandate of education clearly interferes with the preferences of anyone who derives a negative utility from required attendance at school. Since Buchanan wants to “interfere with the liberties” of some, his policy must be considered a merit good prescription.
Examples of merit goods are not limited to explicitly economic examples. In her article, “The Need for More Than Justice,” Annette C. Baier describes the shortcomings of a system of ethics based solely on justice (Baier 19). The solution, Baier says, is the introduction of “care” as an ethical system to supplement traditional liberal theories of justice. She contends that women are more likely to have feelings of care, while men generally take only the justice perspective (e.g., 20, 22, 23). Baier argues that the perspective of caretakers fulfills people’s emotional needs to be attached to something. Reciprocal equality, characteristic of contractarian liberalism, does not guarantee this attachment (23).

Baier contends that this attachment (derived from care) is needed for every human being, and moreover, that it cannot be freely chosen in the traditional liberal framework. First, liberalism assumes interaction between equals. More often, care is between unequals: parent and child, doctor and patient, student and teacher (28). Second, the rules of liberalism, guaranteeing basic minima, don’t protect “the relatively powerless against neglect, or . . . ensure an education that will form a person to be capable of conforming to an ethics of care and responsibility” (29). Care is precisely about looking out for the powerless; it cannot be sustained at merely minimum standards. Finally, liberalism (political and economic) regards action as free choice. A moral theory, however, “cannot regard concern for new and future persons as an optional charity left for those with a taste for it. If the morality the theory endorses is to sustain itself, it must provide for its own continuers” (29). Here we can see the merit goods nature of Baier’s critique of liberal ethics. While Baier’s argument is not directly economic, she is proposing a normative framework (of care) that necessarily interferes with individual preferences. Morality, Baier writes, must be “for all persons, for men and for women”—regardless of choice (31); under her system, a mother cannot “opt out” and choose to neglect her children — the ethos is universal.

Another argument that does not facially seem to relate to economics is put forth by Nobel Prize-winning economist Amartya Sen in “More than 100 Million Women are Missing.” In this article, Sen describes the current situation in South Asia, West Asia, and China, where the ratio of women to men is less than 0.94, a far cry from the 1.05 or 1.06 ratio found elsewhere in the world (Sen 61). The prevailing explanations for this phenomena are either economic or cultural: that the regions in question are underdeveloped economically or that the cultural context in those regions devalues the role of women (Ibid). However, Sen demonstrates that both explanations are inadequate — for example, some underdeveloped regions have higher ratios, and many countries with expanded roles for women have lower ratios (62). Sen contends that some combination of the two is the real explanation: that women are viewed as inferior due to their lack of gainful employment and lack of education (64). To remedy this situation, Sen endorses state funding of public education and public policy that can work to raise the ratio of women to men in these countries (66). It is important to note here that Sen does not want to leave this situation to market mechanisms; a freely-operating market might reflect precisely the biases and social factors he seeks to change. His normative prescriptions do not allow for some society to reject the rights of women to be educated and employed. Instead, the policy (particularly of education) is to be carried out even if some derive a negative utility from the policy, even on net. Thus, Sen’s argument — which seems at first to have nothing to do with economics — is a merit goods argument.

The last argument for merit goods presented here might seem strongest to classical economists. It is put forth by another Nobel laureate economist, Joseph E. Stiglitz, in his article, “Whither Reform? Ten Years of the Transition.” In it, Stiglitz shows the failure of market reforms in Russia. He argues that the transition to a market economy lacked the institutional and legal infrastructure that it needed to take firm root in Russian society (Stiglitz 5). This argument is important because it delineates a clear departure from classical economics. Adam Smith believed that the economic order was natural and would establish
itself of its own accord. However, Stiglitz contends that the very reason market reforms failed in Russia was because Western consultants believed that the market could operate without the requisite supporting institutions (3). Post-Soviet Russia lacked many such elements, presupposed in a market economy: bankruptcy laws and a judiciary to enforce them, entrepreneurship, and capital (financial, social, and organizational), to name a few (4-8). Indeed, Stiglitz is explicit on the need for such institutions, saying that “a market system cannot operate solely on the basis of narrow self-interest” (8). The interferences in self-interest that Stiglitz argues for are merit goods: the “implicit or explicit social contract(s)” (Ibid) to supplement market mechanisms. The “credible and enforced laws and regulations” that are needed to provide the institutional framework for market economics, too, are merit goods (19).

This essay began by examining Buchanan’s view on economic theory: the fairness necessary in starting positions. From this premise, he derived a merit goods argument for taxing asset transfers and financing public education. The Stiglitz article, shows a merit goods argument deriving from economic reality: the harsh failures of market reforms in Russia. As Stiglitz shows, the lack of institutional frameworks to support the free market doomed reforms to failure. The economic order that was to “naturally” establish itself never materialized. The neoclassical assumption — that a fully-functioning free market would arise of its own accord — was proven wrong, because economists failed to prescribe Pareto-suboptimal remedies, even though they were necessary conditions for the functioning of the free market.

The arguments of Baier and Sen are useful to show that interference with the preference mechanism is not limited to facially economic arguments. Even feminist critiques (Baier) and socio-cultural studies (Sen) require interference with consumer preferences to address the issues raised. From this diverse range of disciplines, we can see that we must, in certain cases, place normative value upon interference with consumer preferences.

As each of these authors illustrates, value judgments are unavoidable in liberal theory. Whether they are advocating for the very rules that are necessary to make the market work or critiquing liberal ethics, the bottom line is the same: consumers are not sovereign — preferences are not absolute — and some degree of coercion is unavoidable. This violation of classical liberalism necessitates — theoretically and practically, economically and non-economically — the introduction and acceptance of the new concept of merit good.

Notes

1. The author is a J.D. Candidate at Harvard Law School, Class of 2007. This essay was written three years ago, when the author was a senior at Georgetown University, enrolled in the Honors Program in Government. He wishes to thank Professor Wilfried Ver Eecke, Georgetown University Department of Philosophy, for his comments and feedback on this paper. The paper closely tracks arguments that Professor Ver Eecke has raised, in articles and elsewhere, about merit goods. Professor Ver Eecke’s work on merit goods, from which I draw liberally, includes “The Concept of a ‘Merit Good’: The Ethical Dimension in Economic Theory and the History of Economic Thought or The Transformation of Economics Into Socio-Economics.” Journal of Socio-Economics 27, no. 1 (1998); “Public Goods: An Ideal Concept.” Journal of Socio-Economics 28, no. 1 (1999); and Merit Goods: The Birth of a New Concept — The Unfinished Ethical Revolution in Economic History (forthcoming anthology). The author’s other writings have expanded the domain of merit goods into political theory, public policy, and law. See “Civic Engagement Among American Youth: Research, Activism, and Democracy,” Paper Presentation at ARNOVA Conference (2005) (with Dr. Chris Toppe); “Service-Learning, Community Needs, and Democratic Theory,” The Generator: National Journal of Service Learning & Youth Leadership 22, no. 1 (2003); “Can’t Touch This! Private Property, Regulatory Takings, and the Merit Goods Argument” (in development).

2. The introduction of the concept of merit good can be found in Public Finance in Theory and Practice, by Richard A. Musgrave and Peggy B. Musgrave (McGraw Hill: 1976-1984). Additional commentary on the concept (both favorable and unfavorable), can be
found in Rationality, Individualism, and Public Policy, Geoffrey Brennan and Cliff Walsh, eds. (Australian National University: 1990), featuring selections by Charles E. McClure, Jr. and John G. Head, to name a few.

Works Cited


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