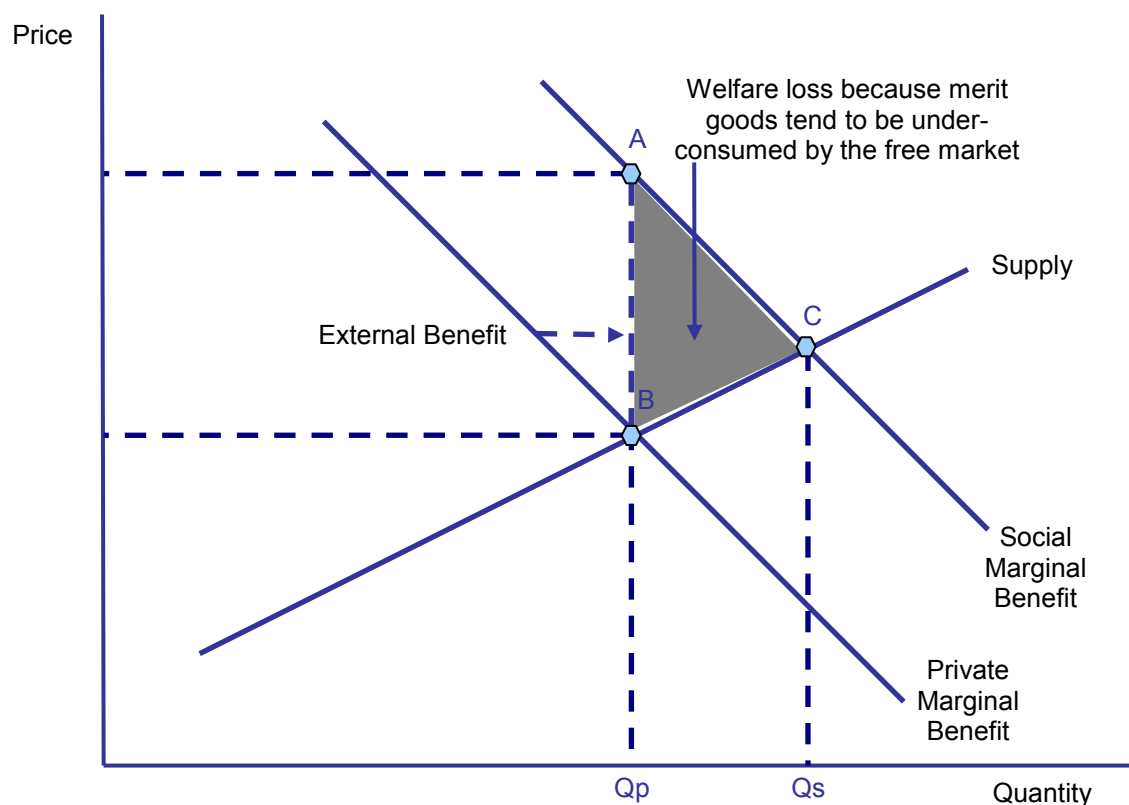


Merit Goods and Services

Merit goods are those goods and services that the government feels that people will **under-consume**, and which ought to be **subsidised** or provided **free at the point of use** so that consumption **does not** depend primarily on the ability to pay for the good or service.

- Both the **state and private sector** provide merit goods & services. We have an independent education system and people can buy private health care insurance.
- Consumption of merit goods is believed often to generate **positive externalities**- where the **social benefit** from consumption **exceeds the private benefit**.
- A merit good is a product that **society values** and judges that people should have regardless of their ability to pay. In this sense, the government is acting **paternally** in providing these merit goods and services. They believe that individuals may not act in their own best interest in part because of **imperfect information**.
- Good examples of merit goods include health services, education, work [training](#) programmes, public libraries, Citizen's Advice Bureaux and inoculations for children



Education as a merit good

The argument concerning **imperfect information** is an important one here. Parents may be unaware of the longer-term benefits that their children might derive from education. Children themselves will tend to underestimate the long term gains from a proper education.

Education is a **long-term investment decision**. The private costs must be paid now but the private benefits (including higher earnings potential over one's working life) take time to emerge. Education should provide a number of **external benefits** including **rising incomes** and



productivity for current and future generations; an increase in the **occupational mobility** of the labour force which should help to **reduce unemployment**.

Increased spending on education should also provide a stimulus for **higher-level research** which can add to the **long run trend rate of growth**. Other external benefits might include the encouragement of a more enlightened and cultured society. Providing that the education system provides a sufficiently good education across all regions and sections of society, increased education and training spending should also open up more **equality of opportunity**.

The debate over free entry into museums

Campaigners have hailed the success of free access to museums which have attracted an extra 30 million people to the nation's great artistic and cultural collections since admission charges were scrapped six years ago. Entrance fees to national museums across the country were scrapped on 1 December 2001. A report last year by the LSE found that before free admissions the total number of museum visits per year was approximately 27 million. By 2005 that had increased to 42 million, more than the number of people who visited Premiership matches that year and 50 per cent more than West End and Broadway theatre shows combined. Those museums that abandoned entry charges saw their annual attendance figures did particularly well, recording, on average, an 83 per cent increase in visits since 2001.

But despite the government grants that have enabled museums to cut their entry fees many national museums are still finding it hard to make ends meet, particularly as their income has not been rising as fast as staff costs and inflation. The LSE's report found that national museums show a falling total of capital expenditure and an increased reliance on government support.

Adapted from news reports, June 2007

Notice here that we are talking about the sorts of goods and services that society **judges** to be in our best welfare. Judgements involve **subjective opinions** – and we cannot escape from making **value judgements** when we are discussing merit goods.

Why does the government provide merit goods and services?

- To encourage consumption so that positive externalities of merit goods can be achieved
- To overcome the [information failures](#) linked to merit goods
- On grounds of **equity** – because the government believes that consumption should not be based solely on the grounds of ability to pay for a good or service

Comparing and contrast merit goods with pure public goods

Merit Goods	Pure Public Goods
Provided by both the public and private sector	Normally funded & provided by the government
Positive marginal cost to supply to extra users	Marginal cost of supply close to zero – if provided to one, it is provided to all
Limited in supply – may be a high opportunity cost	Largely unconstrained in supply
Rival – consumption reduces availability for other	Non-rival – one person's consumption does not reduce availability for others
Excludable	Non-excludable giving rise to the free rider
Rejectable by those unwilling to pay	Non rejectable - usually funded by general taxes

