Merit Goods

Richard Musgrave coined the term "merit good" to describe a commodity that is assessed to be beneficial to a person or community based on some concept of benefit rather than ability or willingness to pay. Although the phrase is maybe less commonly used today than it was in the 1960s and 1980s, the principle nevertheless drives many governments economic policies. In - kind transfers include things like providing food stamps to help with nutrition, providing health services to enhance the quality of life and reduce mortality, and providing subsidised education and housing.
The topic has a very high chance of being asked as a UPSC Prelims Economy Question or as a Current Affairs Question, as it has been in the news recently.

About Merit Goods

A merit good is a commodity that, in a free market economy, will be under - consumed (or under - produced) for two basic reasons:

1. Whenever a merit good is consumed, it generates positive externalities (a 3rd party/spill - over effect of the good/service's production and/or consumption). This implies that whenever a merit good is consumed, there's also a divergence between private and public gain (i.e. the public benefit is much more than that of the private benefit). Consumers, on the other hand, solely consider private advantages when consuming most commodities, implying that they are under - consumed (and hence under - produced).
2. Individual people are short-term utility maximisers, and hence under-consume merit goods because they do not consider the long-term benefits of doing so.

Justification

In many circumstances, merit goods offer services that should extend uniformly to everyone in a given context, a viewpoint similar to that of philosopher John Rawls' understanding of primary goods or arguments concerning social inclusion. Merit goods (including in-kind transfers), according to Lester Thurow, are justified based on "individual-societal preferences": just as we provide each adult citizen with an equal vote in the electoral systems, we should likewise allow each person an equal right to life, and thus an equal right to life - saving medical treatment. On the supply side, it is frequently proposed that implicit redistribution through the allocation of particular goods and services will have more social support than explicit redistribution via money. It is frequently stated that society as a whole is better suited to determining what individuals require because people can act erratically (for example, poor people getting monetary sums may utilise them to buy liquor or other intoxicants instead of nutritious food).
Merit, as well as demerit goods (goods that are thought to have a negative impact on the buyer but not on society as a whole), are sometimes merely viewed as an extension of the concept of externalities. Merit good can be defined as good having positive externalities. As a result, an inoculation against a communicable disease may be regarded a virtue good because it protects others from contracting the disease from that inoculated person. Externalities, on the other hand, can be used to define merit and demerit goods in a different way. Due to a lack of information, consumers may under-consume merit products (and over - consume demerit ones). This occurs since most consumers are unaware of how beneficial or harmful a product is for them: either they lack the necessary knowledge or they lack relevant information. Merit good, according to this definition, is one that is better for an individual than the individual who may consume it recognises.

Imposing communal standards (prostitution, narcotics, etc.), immaturity or inability, and addiction are all plausible rationales for classifying some commodities as merit (or demerit) products. All of these have one thing in common: they all counsel for or against certain products based on factors other than consumer preference. In the case of education, it may be claimed that individuals who lack education are unable to make an informed decision about the advantages of education, which would warrant compulsion. The motivation in this situation is the realization of consumer sovereignty instead of the opposition to consumer sovereignty. Good government policies, according to Public Choice Theory, are under-supplied merit good in a democracy.

Criticism

Arguments about welfare recipients' irrational conduct are frequently criticised as paternalistic, especially by those who want the government to engage in as little economic activity as possible. In terms of welfare, the principle underlying consumer sovereignty argues that monetary payments are better than in-kind transfers of equal value.