1. Introduction

The concept of merit goods was introduced into the literature by Richard Musgrave in 1957. As John Head (1988) remarks one should expect after so many years that the profession has reached an agreement on the usefulness and the content of the concept. This is by no means the case. The concept is as controversial today as it used to be at the time of its invention. Musgrave's most recent contribution to the debate - which appeared in the New Palgrave in 1987 - leaves the reader just as uneasy and helpless as his very first discussions of the subject did. No wonder that mainstream economists hesitate to acknowledge the usefulness of the concept altogether.

The debate on merit goods can be reduced to the question of whether there exists an acceptable norm for state intervention that goes beyond consumer sovereignty. Can one think of situations in which the interference with consumer preferences should be allowed? We think that the question is not very fruitful in itself. If it is treated on a logical level then there does not remain much more to say than the exogenous correction of consumer preferences conflicts with the principles of methodological individualism. If the question
is instead treated as one of moral values, then the economist has even less to say.

Our position is, therefore, the following. Instead of fighting for or against value judgements we should concentrate on working out the implications of values. Our task is not seen in defending or attacking merit goods but in making explicit the value judgements that are revealed in this kind of state intervention. This paper is meant to be a first move in this direction.

Musgrave’s concept was originally developed "to characterize a variety of important real-world policy concerns which appeared to lie beyond the scope of a narrow consumer sovereignty or Pareto-efficiency concept" (Head, 1988, p. 4). The invention of merit goods was thus the ad-hoc answer to the attempt of rationalizing an empirically relevant phenomenon. Without doubt, the answer failed to convince the profession. But that does not mean that the observed phenomenon is irrelevant. The taxation or subsidization of specific goods is practised and the intervention can often hardly be justified by accepted reasons of market failure. This paper therefore tries to reverse the logic. We model situations which share all the features of a merit goods-like intervention and we then ask how a welfare function must look if its maximization is able to rationalize the intervention.

Several features of the model have to be stressed. Due to its construction any possible causes of market failure are ruled out. Poll taxes are feasible governmental instruments, differentiating lump-sum taxes are not, however. The welfare function is assumed to be individualistic. There is no scope for an explicit paternalistic valuation of the real consumption of merit goods. Hence, there is nothing in the model that would not be standard in welfare economics.

It turns out that the taxation or subsidization of specific consumption goods is a second-best substitute for non-feasible differentiating lump-sum taxes. The merit-goods-like intervention can be rationalized in this framework if the mar-