

**Citizens' Assembly Secretariat Note:**

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## **Common Misunderstandings of National Income Accounts and the Implications for Public Policy**

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Published national income statistics do not tell the whole story about a country's welfare. Yet, it would appear that many governments, including the European Union, tend to regard Net National Income as a correct indicator of a country's welfare. This suggests a view that work done in the home for the family is not as important as work done in the economy (because it does not appear in the national income accounts).

The '**True**' national income (or national output) of a country consists of all work done in the country during a year, whether paid for or not. It also includes rents, profits, interest on capital, and all voluntary work.

Domestic production intended for consumption by the family, such as the produce of a kitchen garden, is excluded by convention from official national income statistics, though it is part of the True National Income. Likewise with respect to housekeeping work done by the family. This has led many policy makers to conclude, without sufficient reflection, that it would be better for a country if those persons working at home transferred into the labour force instead.

This view lacks support for those women who might wish to stay at home with their children, at least in their early years, whereas the Irish Constitution, as it stands, suggests that the State should be supportive of spouses who wish to stay at home full time to raise their children. In those countries where mothers try to combine a full-time career with the major burden of home duties, the birth rate tends to fall and population reproduction rates become negative.

The people who devised national income accounts were aware that what they proposed did not include all elements of a country's **True** national income: they deliberately excluded those factors mentioned above, because they judged they could not be measured in meaningful money terms. They were not prejudiced – they were being pragmatic.

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## **Model**

Assume full employment; that all mothers who are employed in the labour force leave, and remain at home to look after their children full-time and do other household duties. Let all crèches be closed and assume that their workers find alternative work in the labour force, where they continue to contribute to official national income. (It is probably simpler to think of the national income in terms of Product (or Output) rather than Income, for the purpose of this analysis. (National Income = National Product)).

**Outcome:** there is no change to the True national income in respect of care of children. Childcare as a product remains the same – in both scenarios, children are looked after. There is a loss of output by mothers who have withdrawn from the labour force, (which we call €X); there is a new, different, input to the national product by former crèche workers (which we call €Y).

Therefore, the net effect of the Model on the True National Product is €Y-X, which, of course, could be a positive or negative figure. (There is a further plus on the mothers-at-home side because it is generally accepted that children do best when looked after by their mothers full-time. This may be described as a ‘qualitative’ advantage).

Under the existing paradigm, popular with ruling authorities, the effect of this transformation in the economy would be seen only as an unmitigated loss of €X. This gives rise to misdirection of policy measures in relation to the family, which also may have consequences for the economy.

## **Conclusion**

Under existing taxation policies in Ireland, married couples are penalised if one of them stays at home to look after the children. (An estimate of this differential a few years ago was €6,500.) This is part of the coercive effort to induce more women to enter the labour force, based, in my view, on a false understanding of national income statistics.

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