LABOR-CONSUMPTION ACCOUNTING (LCA): A SUGGESTION FOR A HOUSEHOLD-ORIENTED NATIONAL ACCOUNTING SYSTEM

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Introduction

National accounting has increasingly attracted the interest of professional economists in recent years, as indicated by the number of publications in the field. Debate has centered on the relevance of the system of national accounting to economic welfare. Arguments critical of current SNA were raised by different groups claiming, for instance, that it included too many items in one respect, too few in another, that individual items did not correctly represent the categories of consumption, investment, and intermediate goods, that the system of evaluation by way of market prices is inadequate, and so on.

The critics have not confined themselves only to certain aspects of current SNA, but have developed complete alternative systems, such as that suggested by Nordhaus and Tobin (1972), or the wealth approach of Juster (1973). Since the empirically oriented theoretician generally also works with the concepts provided by the current accounting system, such alternative systems are quite useful. They direct the attention of economists to circumstances and questions which are excluded by the current system of national accounting and accordingly play a secondary role in the awareness of the users of this system. This effect of suggested reforms must not be underestimated. On the other hand, however, the suggestions made to date contain two severe disadvantages, which prevent them from becoming viable alternatives to current SNA and relegate them to being non-committal supplementary systems.

(1) The suggestions for reform have relinquished the concept of a closed cyclical system; they are essentially no more than additions and subtractions in tabular form. But since Quesnay, Marx and Keynes,
theoretical economics is inconceivable without the idea of a closed cyclical system. Indeed, it was this concept which promoted the success of theoretical economics, because it made it possible to deduce interdependencies and unknown flows, and develop unambiguous definitions.

(2) Most suggestions for reform, particularly that of Nordhaus and Tobin, have explicitly placed the private household sector at the centre of their calculations (Nordhaus and Tobin, 1972, p. 4). In doing so, they have relied on the flows and sectors used in current SNA. This system is, however, directed towards the measurement of market demand flows and the determination of a market-oriented total income. Its flows reflect an effort at national business accounting rather than a profit-and-loss statement for the private household sector. For example, changes in inventory, investment, and depreciation are taken into consideration only for the business sector, even though it is acknowledged that the private household sector also creates real wealth. Also, intermediaries are conceded only to the business sector, a situation which Nordhaus and Tobin sought to correct with their “instrumental expenditures” (Nordhaus and Tobin, 1972, p. 7). Corrections to an accounting system which is directed principally to the measurement of demand flows, in the direction of a system which is adequate for the private household sector, merely lead, however, to the dilution of the original goal. The result is a hybrid, since an accounting system “cannot serve two masters”.

If the activities of the private household sector are to be represented in an economically satisfactory alternative system, it follows that: (1) such a system must be presented in the form of a cyclical system; and (2) this cyclical system requires new sectors and flows specially designed with the private household sector in mind.

This radical change in economic inquiry, from a market-oriented measurement of demand to a social profit-and-loss calculation for the private household sector, requires an equally radical alteration of the accounting scheme. By contrast to current SNA, the economic process is seen in labor consumption accounting (LCA) as a labor-trading process; that is, LCA is directed towards the distribution of labor in the economy. The reproduction of real capital is replaced by the reproduction of labor, which leads to the question: how much labor do the (yet to be classified) household categories receive in return for their own labor, and to what end is the rest of their labor used?

A reasonably consistent response to these questions necessarily leads, among other things, to the specification of services provided by the government with respect to the types of households which benefit from