A National Accounting Framework for a Globalised Economy – the Case of Ireland

John FitzGerald, Trinity College Dublin, Ireland

The Irish economy is among the most affected by globalisation trends. This has caused serious distortions in the Irish National Accounts. However, the problems manifested in the Irish data are global in nature and they potentially affect the accounts for many other economies. For example, the appropriate application of the SNA 2008 to the Euro area economy meant that the measured growth rate for the Euro area in 2015 was augmented by 0.25% as a result of the relocation of a very small number of global firms, a relocation which did not result in in change in the labour or physical capital input of the Euro area economy.

National accounts were developed for a range of purposes, including managing monetary and fiscal policy. However, the way the latest SNA 2008 handles the effects of some of the trends in globalisation renders them increasingly problematic, in their published form, for policy-making.

This paper considers the problems with the current SNA 2008 accounting standard from the point of view of users. It then discusses how the changed treatment of contract manufacturing and intellectual capital in the SNA 2008 interacts with the choice of global firms as to their legal structure to produce very different outcomes in terms of the national accounts for individual countries.

Using the example of Ireland, the paper then considers how a more detailed set of data, produced under the SNA 2008 rules, is needed to meet the needs of a range of national accounts' users. This approach would also provide a better understanding of how the economy is affected by globalisation than was available under the previous SNA. In particular more detailed information is required on the output side of the national accounts, separately identifying multinational-enterprises and domestically owned firms.

The effects of globalisation on the expenditure side of the accounts is more difficult to unravel. It affects both trade and investment.

Finally, there are distortions arising from the treatment of financial firms, which do not have a significant physical presence in an economy but are still part of measured Gross National Income. They may make no contribution to the real economic welfare of those living in the economy in which they are legally resident, yet they add to GNI.

The combination of a range of these manifestations of the globalisation process can also cause major distortions to the current account of the balance of payments.

This paper illustrate s the problems with the SNA 2008 using data for Ireland. Using Irish data it goes on to set out an alternative presentation which would allow all users to identify real changes in the economy that directly affect the economic welfare of those resident in the country.