Abstract

This paper shows that the labour intensity of home production of a final consumption good affects national income and income multiplier effects of public expenditure financed by taxation. A reduction in labour intensity increases the level of national income but decreases the magnitude of the balanced budget multiplier effect. This result holds whether the tax instrument is distortionary or non-distortionary. It follows that the recent diffusion of labour-saving innovations such as washing machines and vacuum cleaners may have the effect of decreasing the effectiveness of fiscal policy.