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The Logic of Accounts

Introduction

In Chapters 1–3, we saw how production processes add value to inputs using labour productivity to generate surpluses, out of which interest, rent and profits are paid. In this chapter we discuss how financial account is taken of the processes involved. We begin by looking at the accounts of the economy as a whole. These may be divided into personal, corporate and government sectors. We also make reference to the international sector.

The logic of national income accounts is reflected in our model of company accounts. Both use the same structure of production, followed by appropriation, followed by capital, and finally financial accounts. We comment on the income, output and expenditure methods of calculating national income, in order to place construction and the property sector in context and to view them in later chapters in proportion to the rest of the economy.

National accounts and company accounts in part measure the flows of income, output or expenditure per annum. We conclude this chapter by examining the relationship between these flows and the stock of wealth, and consider the relationship between flows and stocks of the built environment.

The structure of national accounts

Almost all real assets are owned either by households, firms or government. These assets represent a grand total of the stock of wealth available to an economy. Each year that stock of wealth is affected by the incomes and expenditure of its various owners. For example, when income exceeds expenditure there is an addition to the stock of wealth. Investment and saving, the differences between consumption and
output, and between income and expenditure, are therefore flows into the stock of a country’s assets. Investment represents additional real assets. Saving represents ownership of this stock of wealth.

Firms use their assets to produce outputs. When these outputs are sold the net revenues, distributed as wages and dividends, become the income of the household sector as well as one source of tax revenue for government. The government sector also owns real assets and produces outputs, such as health care, education services and defence. National Accounts are published annually by central government to provide information on output, income and expenditure in the whole economy.

More exactly, the three ownership sectors of the economy, to which all assets belong, are the personal sector, the corporate sector and the government sector.

The personal sector comprises households, businesses such as partnerships and sole proprietorships that are not corporations, private non-profit making bodies, such as charities, and finally life assurance and pension funds. Life assurance and pension funds are treated officially as part of the personal sector, because they are deemed to be simply the sum of the savings of their policy holders.

Households are the most important component of this sector. Unincorporated businesses are included in this sector essentially because it is impractical to distinguish, in the absence of limited liability, between the assets and income of a business and its owner, and because, unlike corporations, they are not legal economic entities with a separate existence from that of their owners.

Although life assurance and pension funds are financial institutions, they are included in the personal sector. Whereas other financial institutions, like banks, other insurance companies and building societies, are put in the corporate sector, life assurance and pension funds are put in the personal sector on the grounds that all their funds come from persons, their liabilities are to persons, and that, in a sense, they are merely agents for those persons whose pension contributions and life assurance premiums they receive. For some purposes, however, a comprehensive account, which includes life assurance and pension funds, is made for all financial institutions. As participants in the development process and property owners, life assurance and pension funds are of great significance to the construction sector.

The corporate sector is made up of industrial and commercial companies, financial companies and institutions, and public corporations. Financial institutions are distinguished from other companies because