

APPENDIX

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THE INSTITUTIONAL APPROACH TO ESTIMATES OF THE HOLDINGS OF FINANCIAL CLAIMS BY THE PERSONS AND UNINCORPORATED BUSINESS SECTOR

Information on the financial assets and liabilities of the persons and unincorporated business sector are based on the records of those who deal with persons—business and government entities—rather than on the records of persons themselves. In this approach the personal sector is derived residually, and the quality of the estimates for the sector depends on the quality of the data available for the other sectors.

Balance sheet data are generally available for business and government with relatively small gaps. However, the quality of some of the estimates requires improvement. In particular, some categories are not consistently defined, and are at book value rather than market value.

It is planned to produce national balance sheets on a regular basis and research is being initiated in some of the problem areas. Once publication starts on national balance sheets, *ad hoc* efforts such as this one to measure the financial assets and liabilities of the personal sector will be superseded by the official estimates. Unfortunately, it will be some time yet before this occurs.

The institutional approach, as applied in Canada, covers a larger universe than does the survey approach. In addition to private households, it includes people in institutions, non-profit organizations serving persons and the assets of unincorporated business. (In the 1970 household survey, questions were asked on the business assets owned by the proprietors of unincorporated companies.)

The institutional approach provides estimates for the claims of the personal sector on life insurance companies and on trustee pension funds. These amount to about one-quarter of the financial claims of households, and cannot be measured through the household survey approach. The institutional approach also provides a more complete picture of the financial claims of persons held by trustees in estate and trust funds.

The most fruitful approach to better estimates appears to lie in obtaining more detail from the business and government entities supplying data, and in making better use of all the information available.

The basic need is for governments and business to provide to-whom—from-whom information for those assets and liabilities which result, in part, from transactions involving the personal sector. The classification system must be uniformly applied and the individual transactions carefully coded.

Considerable to-whom—from-whom information is now being collected, but it loses much of its value because of a lack of consistency and quality. Definitions of the sectors have not been made consistent and the classification is often incomplete so that even those who are knowledgeable make serious errors.

Despite these obstacles, progress is being made in obtaining more and better information on the persons and unincorporated business sector through this approach.

Preliminary estimates of financial claims held or owned by persons and unincorporated business are presented for December 31, 1969 in Table 10. When compared with the totals of financial assets obtained by survey in the spring of 1970, they show the same pattern, but with a considerably higher level. Part of this difference will result from the broader universe of the residual estimates, but the largest portion results from the problems discussed in the main part of this report.

TABLE 10
PRELIMINARY ESTIMATE OF FINANCIAL CLAIMS HELD OR OWED BY THE
PERSONS AND UNINCORPORATED BUSINESS SECTOR, DECEMBER 31, 1969

	Assets	Liabilities
	(\$ billions)	
Canadian currency and bank deposits	22.8	
Other Canadian deposits	11.4	
Payables, including consumer credit		15.1
Chartered banks' loans		4.0
Other loans		3.6
Government of Canada treasury bills and other short term instruments	1.1	
Bonds		
Government of Canada	9.6	
Other bonds	3.0	
Mortgages	6.2	26.4
Stocks	25.0	
Life insurance and trustee pension plans	28.1	
Other assets and liabilities	5.0	
Balance of financial claims		63.1
	112.2	112.2

Source: Unpublished estimates. The persons and unincorporated business sector has been estimated residually, using available balance sheet data on corporate business, governments and the rest-of-the-world sector. Private non-profit institutions are also included in this residual estimate.

The estimates are subject to considerable error. A mixture of book values and market values were available for the government and business sectors so the residual estimate for persons is also a mixture of book and market values.

By far the greatest problems were met with in the attempt to obtain a value for corporation shares held by persons. There are three main approaches which might be used:

- (a) To apply an average rate of return to dividends received by persons.
- (b) To estimate the total value of shares outstanding, and to deduct the value of shares held by business, government and foreigners. For companies whose shares are traded, the shares are valued at market. For privately-held companies, lacking other information, shares are valued at net worth.
- (c) To value the shares of all companies at the net worth of the companies.

Lacking the information to use approach (b), it was approach (c) that was actually used. A check using approach (a) gave a result within 20 percent.