Linking Government with Productivity Adjustment Factors

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INTRODUCTION

The 2011 round of the International Comparison Program (ICP) applied adjustment for productivity differentials at the global level. At the regional level, Africa (AFR), Asia and the Pacific (ASI) and Latin America and Caribbean (LAC) applied productivity adjustment, while the Commonwealth of Independent States (CIS), Eurostat-OECD (EUO) and Western Asia (WAS) did not apply adjustments for productivity differentials.

This brief note outlines the steps for applying productivity adjustment in linking. The process for estimating regional and global productivity adjustment factors (PAFs) is covered in a separate note.

LINKING GOVERNMENT WITH PRODUCTIVITY ADJUSTMENT FACTORS IN ICP 2011

The application of productivity adjustment factors in linking entailed the following steps:

- **STEP 1**: Linking factors for the three compensation basic headings\(^1\) (BHs) were calculated using wages of public workers and regional BH purchasing power parities (PPPs) without productivity adjustment\(^2\), following the “standard” approach for estimating linking factors.
- **STEP 2**: Within each region, geometric means of global PAFs and regional PAFs were computed. The regional PAFs were used as applied by the regions; for example, EUO has PAFs as unity in their regional computation.
- **STEP 3**: Regional PAF adjustment for linking were estimated as a ratio of the geometric mean of the global PAFs over the geometric mean of the regional PAFs, both from STEP 2, and the ratios were subsequently normalized relative to EUO.
- **STEP 4**: Regional PPPs, without productivity adjustment, were multiplied by the linking factors from STEP 1, and the linked BH PPPs were subsequently multiplied by the normalized ratio of global and regional PAFs from Step 3.

These steps ensured that regional fixity was maintained.

LINKING GOVERNMENT WITH PRODUCTIVITY ADJUSTMENT FACTORS IN ICP 2017

The ICP 2011 approach for linking government with productivity adjustment is being followed in the ICP 2017, without modifications. However, underlying datasets for estimating productivity adjustment factors have been updated, including for the year 2011.

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1 1302211 Compensation of employees - Individual Govt Health; 1304211 Compensation of employees - Individual Govt Education; 1401111 Compensation of employees - Collective Govt
2 The regions are requested to provide regional BH PPPs with and without productivity adjustment