



Special Interview 6 - Quarterly Update Issue 17 March 31, 2013 - Full Interview

Mr. Paul McCarthy, ICP Technical Advisory Group Chair and Mr. Fred Vogel, ICP Technical Advisory Group Deputy Chair

Q1. The role of the Technical Advisory Group (TAG) involves providing guidance to the Global Office and regional coordinators to resolve methodological problems inherent in the program regarding the estimation of PPPs. As Chair and Deputy Chair of the TAG for the 2011 ICP, what do you think about the objectives set forth for the TAG to achieve and do you believe those objectives were met? For those not yet met, what do you think the likeliness is of meeting those objectives and what remains in order to do so?

Paul: Broadly speaking, the TAG's role in the 2011 ICP was to provide advice and recommendations to the Global Office on ICP technical issues. One of the key issues the TAG examined was how to enhance the consistency between the prices underlying the values in the national accounts and the prices collected for calculating the PPPs. Associated with this issue was how to improve the consistency of the basic heading values across countries. The TAG was also asked to look into ways of upgrading the methods used to price some of the comparison-resistant components, such as construction, government final consumption expenditure (particularly on health and education), and imputed rents. The objectives were based on an assessment of the 2005 ICP, with the above components being identified as important.

Research into these problem areas identified ways to improve the ICP estimates (e.g. construction, rents, productivity adjustments for government final consumption expenditure) but some of them were not able to be implemented because of the lack of data in many countries (e.g. health and education, for which output measures are ideally required). The important point to emerge, though, was that countries now know the areas in which they need to improve their national accounts and prices statistics and the types of methods that are potentially available. Any such improvements will not only impact on their ability to participate better in any future ICP rounds but will also play a role in improving their time series national accounts and prices statistics.

It is difficult to assess the likelihood of countries being able to improve their data in these comparison-resistant areas because the situation of individual countries differs so much. However, they at least have an indication of where the additional work is needed and the types of details required.

Fred: I would like to add that the use of the 2005 research data set containing PPPs and expenditures for 129 basic headings and 146 countries for analysis by TAG members contributed significantly to the TAG discussions.

Q2. Are you pleased with the composition of the TAG in regards to the skills, regional backgrounds, and technical diversity represented in the group? For example, when dealing with prices of National Accounts, is the balance of price experts and National Accounts experts sufficient?

Paul: The 2011 TAG is much larger than that in the 2005 round. The main reasons were to introduce a larger share of national accountants and broader regional representation. Overall, I think these objectives were met. The nature of the ICP is that the results are very dependent on the quality of both the national accounts and the prices underlying the PPPs. However, the key issues facing the TAG tend to relate to prices and so a higher proportion of prices statisticians than national accountants is reasonable.

Fred: There is more than one way to categorize TAG membership. For example, the TAG also included data users, most importantly those using the PPPs to provide the measures of poverty so important to international efforts to improve the living standards of the poor. The TAG also included people from National Statistical Offices, International statistical agencies, and academia; each with their view of the ICP world.

Q3. In terms of the ICP governance bodies, is there anything that could be improved going forward? Would you recommend bringing in people from more economies or do you believe a certain expertise is needed?

Paul: My view is that the governance structure is appropriate. It is identical to that used so successfully in the 2005 ICP round, although the composition of some of the governance bodies has been broadened (e.g. TAG and the Executive Board) and the number of members increased. One innovation in the 2011 round was to establish two sub-groups within the TAG (Validation Expert Group (VEG) and the PPP Computation Task Force (CoTaF)) to assist the TAG with some aspects of its charter.

I think that the current governance structure should not be changed but that some tweaking of the membership could be useful in the next ICP round. Membership of the TAG is on an individual basis, based on each person's expertise, rather than country or region. I see no problems in expanding the regional representation on the TAG, provided that the person(s) concerned have the technical expertise required and that the membership is expressly for a specific individual rather than a representative from a particular agency or region.

Fred: I would only add that some of the most significant changes in methodology were the result of in-depth analysis of the 2005 results done by some of the TAG members. We need to make sure the future TAG includes more of those doing research and analysis.

Q4. Were enough meetings organized for the TAG over the ICP 2011 round? Please elaborate on the frequency, number of meetings, quality, and context.

Paul: The TAG has met seven times since October 2009, which is twice a year on average. The meetings were timed to meet the ICP requirements for technical advice so, following the inaugural meeting in October 2009, three more meetings were held in 2010 because of the broad range of issues involved in developing the data requirements for the 2011 collection. The TAG met twice in 2011 (April and October) and then only once during 2012 (in September) because less input was required during the data collection and compilation phases. Two TAG meetings are currently scheduled for 2013 – in May and around Sep-



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tember/October – to check preliminary results and to ensure that the TAG recommendations on issues such as aggregation have led to the expected improvements in data quality.

Fred: TAG members were also very generous of their time between meetings via numerous emails with supporting analysis on issues not brought to closure during the TAG meetings themselves. Given the short timetable remaining before publication, I suggest a subset of the TAG be identified to work virtually to provide the Global Office guidance on assessing the quality of the data as first results become available.

Q5. Reflecting back on the objectives of the TAG, what has been improved by meeting those in respect to technical, theoretical, and methodological aspects of the ICP?

Paul: I have already mentioned a number of individual components that the TAG considered and recommended ways of improving the estimates. Probably the most important change from the 2005 round was the emphasis placed on the national accounts. In particular, the TAG asked the Global Office to encourage countries to improve their GDP estimates by ensuring complete coverage of everything within the theoretical “boundary of production”. The methodological documents for the national accounts were expanded and two of the four regions coordinated by the Global Office collected basic heading expenditures for 2009 as a preliminary to the 2011 collection.

Fred: There are many different ways that PPPs can be estimated. Chapters 4-6 in the ICP Book examine the statistical properties of each method both in theory and by providing numerical examples. These chapters evolved from papers on the various topics prepared for the TAG by TAG members. The changes being implemented in ICP 2011 are based on

sound research and analysis of data.

Q6. Where were the most important improvements from the 2005 round? Is there any area where improvements were expected but not achieved? If so, why and what could have been done differently? What are your suggestions for the future to deal with those aspects?

Paul: The most significant change between the 2005 and 2011 rounds came from the analysis of 2005 regional results. The so-called “ring comparison” was used to link the six sets of regional results in the 2005 ICP. The ring comparison was based on between two and four countries from each region pricing an additional product list (the “ring list”), common to all six regions, to provide links between regional PPPs. An analysis of the 2005 results revealed that the outcomes were sensitive to the number of countries involved in the linking. As a result, the regional linking in the 2011 ICP is based on prices collected by all countries from an additional product list, called the “global core list.” In addition to their use in the regional linking process, the prices from the global core list will also be used as part of the input to within-region results (the ring list was not used in this way).

Another enhancement in the 2011 ICP has been additional editing devices, partly suggested by members of the Validation Expert Group and partly made possible by the availability of the 2005 data to provide an element of time series editing that was not possible in the 2005 round.

I have already mentioned that some of the comparison-resistant services (such as health and education) have remained comparison-resistant, due to lack of data, even though the conceptual way forward has been established. The ICP is almost completely dependent on data provided by national statistics offices so I cannot see any way in which the TAG could have achieved a better outcome via a different approach.

Fred: The use of the global core list means that countries will be pricing many items which may be available to consumers, but not widely purchased. Therefore, the concept of “importance” is being applied to the national average prices so that weights can be applied to those prices most widely purchased. A more complicated process (representativity) was attempted in 2005, but was not used because the data were not consistent across countries. While the “importance” classification is a major improvement, its success remains to be seen.

Another pending improvement is the method used to aggregate (average) basic heading PPPs to the GDP. The Country Approach Redistribution (CAR) was an outcome of a review of the statistical properties of different methods and considerable analysis of the 2005 results; both described in several chapters in the ICP Book.

While average prices are extensively reviewed and validated using the Quaranta and Dikhanov methods, in the past that was the end of data validation. In ICP 2011, tools to validate PPPs at all levels of aggregation have been prepared.

Q7. Although there are no results from the ICP 2011 yet, are you confident that the data will be of better quality than the previous round? What is the basis of your comment?

Paul: I have worked with statistics for too many decades to be caught out by confidently forecasting that a new set of data will be better than the previous one. However, as I have already indicated, the TAG has identified a number of technical improvements, new methodological procedures and some extra editing techniques, all of which should lead to better data in 2011.

The Global Office has actively encouraged countries to improve their documentation of ICP processes, particularly national accounts issues such as deriving basic heading expenditures. Missions to several countries in early 2010 revealed that, in most cases, the 2005 procedures had been so poorly documented that countries could not replicate their 2005 basic heading expenditures so it would be difficult to use similar processes to derive 2011 basic heading details. The Global Office developed a framework to assist countries to document their data sources and the adjust-



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ments they made to source data in deriving basic heading expenditures.

Fred: I am even older than Paul, so am also careful about forecasting success. Having said that, several actions were taken that will surely improve the results. For example, in 2005, each region published their results, then the global office linked them to the global currency. The problem was that the regional data had to be taken “as is” even though some problems became evident when country data were compared across regions. So, in 2011, regional data will not be final until preliminary global results have been reviewed. This will greatly improve the consistency of data across the regions. Another point mentioned above is that the validation process is being expanded to include PPPs at every level of aggregation.

Q8. There are two specific groups established, the Validation Expert Group (VEG) and the PPP Computation Task Force (CoTaF), to ensure the ICP processes are transparent. What more could have been done to show transparency so that it is no longer perceived as a black box?

Paul: I consider that the Global Office and the various groups associated with the 2011 ICP (Executive Board, TAG, Regional Coordinators) have been very transparent. Their deliberations have been recorded and these reports are readily available on the ICP website. In addition, the Global Office has actively encouraged countries to document their procedures more fully and provided some frameworks to assist in this regard. The VEG will ensure that the overall results can be derived by any user from the detailed input data (basic heading PPPs and expenditures).

The ICP involves very complicated statistical collection and compilation processes so it will always be a black box to many people, at least to a certain extent. The improved documentation and the ability of analysts to simulate outcomes based on alternative methodologies (e.g. different aggregation formulas) will assist in reducing the impression of the ICP being a black box. In addition, having two rounds (2005 and 2011) for a large number of countries will result in much more analysis and commentary on the ICP, which will lead to a better understanding of how the ICP works and the implications of using PPPs for international comparisons. As a result, we can expect many more research papers, which will assist a more widespread understanding of the ICP.

Fred: I think the “black box” is a thing of the

past. The ICP book provides the most comprehensive accounting every presented by the ICP about the theory and methods underlying the estimation of PPPs. Most of the chapters were authored by TAG members who also made use of the research data set. A major hurdle remaining to add transparency would be for countries to share the price data collected.

Q9. While Chair and Deputy Chair of the TAG, you also assisted some regions in their work as an expert; is that something that you would recommend for TAG experts to do so that there is greater synergy between the TAG and Regional Coordinators at the regional level?

Paul: Definitely. Interacting with the Regional Coordinators and being able to see firsthand the problems they are facing helps in working out how to handle the various issues that arise during the five years that an ICP round requires.

Fred: I think more could be done to help countries advocate on the importance of the ICP at the national level. A country cannot produce a PPP with other countries by itself. Therefore, there is no other statistical program that requires as much cooperation and trust across countries as does the ICP. Countries have to agree on a common set of specifications of products to price and trust that all will carry out the price surveys the same way. The interaction needs to foster the sense of cooperation and trust. That is also why the TAG in its September 2012 meeting tackled the difficult issue about countries/economies that provide results with unexplainable variations between 2005 and 2011 by considering estimation methods that reduce their impact on the global linking process. The TAG will also provide support to the high level missions, if needed, to these countries.

Q10. In the 2005 round, there were 146 countries whereas this round has nearly 200 countries/economies; could this be viewed as a success of the program or does the number not matter in a program like this?

The number of participating countries is one indicator of the success of the ICP. However, more important indicators are the level at which countries participate and the quality of the data they provide. One of the main aims of the ICP is to provide comparable estimates of real expenditures on GDP (and their per capita equivalents). Some of the additional countries involved in the 2011 round will be supplying data for household final consumption ex-

penditure rather than for GDP. I fully support this approach because it provides those countries with the experience of participating in an international comparison, particularly pointing out those areas of their statistics that they need to improve, both for ICP-type purposes but also for their own domestic uses.

Fred: I want to add to Paul’s point about the level at which countries participate. It is critical that the prices reflect national annual averages to be consistent with those underlying the national account values. It is critical that large countries especially, cover both the urban and rural domains. It is also critical that all countries follow the same methodology and share meta data and prices.

Q11. How would you suggest that ICP results be better disseminated to users? What do you recommend as the way forward for the ICP to be implemented on a more regular basis now that there is a second round?

Paul: Electronic dissemination is my preferred method, although I think there is still a need for a paper publication containing the main results for each country, details of methods, some analysis and technical details about PPPs and real expenditures. The methods of providing data electronically are evolving fairly quickly and there may be a need to update dissemination methods after the first data release to take advantage of new technologies.

Eurostat has shown the way in which PPPs can be updated regularly using the so-called “rolling benchmark approach” in which prices are collected once every three years for components of household final consumption expenditure. These prices are then extrapolated using prices indexes that are closely related to each product group. However, Eurostat has the advantage of standardized prices data for its member states from the Harmonized Indices of Consumer Prices. The key challenge for the Global Office will be to obtain consistent price indexes for the various product groups from the diverse range of countries included in the ICP.

Fred: The “way forward” needs to include an examination of how to make the ICP sustainable over time without the huge peaks and valleys in time and cost with the benchmark surveys every 6 years. The next step is to expand on the core list concept by harmonizing national efforts to produce their CPI indexes and update PPPs on a more continual basis over time. The current dilemma about how to compare benchmark results with extrapolations points to the need to harmonize the methods. ■