ICP 2011 International Comparison Program

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Governance Meetings

9th Executive Board Meeting, Washington, DC (October 30, 2013)

9th ICP Executive Board Meeting

The 9th meeting of the ICP 2011 Executive Board took place on October 30, 2013, in Washington, DC to address the critical stage of finalizing the computation process and publishing results. Meeting discussions related to the ICP 2011 progress report; communication strategy; revision policy; and evaluation of the ICP 2011 round.

The Board stressed the critical stage of reviewing estimates and finalizing the computation process. Preliminary results were computed by the PPP Computation Task Force through parallel and independent processes. The metadata underlying all computation steps is being documented for transparency purposes.

For quality assurance, the Board formed a Special Task Force to review the global results with a special emphasis on the economic consistency of the results of the largest economies.

Results Review Group Meeting

The Results Review Group, made up of several prominent Technical Advisory Group experts, was formed to provide adept review of the ICP 2011 results and to ensure the highest quality is achieved. The experts of the Results Review Group met on November 19, 2013 in Washington, DC.

The meeting was attended by the World Bank Senior Vice President and Chief Economist. The meeting specifically covered poverty issues arising from the current set of preliminary results; the comparison of 2011 benchmark results with 2011 extrapolated PPPs and volume measures in the World Development Indicators; and the consistency between 2005 and 2011 ICP results.

Special Task Force Meeting, Washington, DC (November 21-22, 2013)

Special Task Force Meeting

The Special Task Force, created by the ICP Executive Board, met from November 21-22, 2013 in Washington, DC to discuss and thoroughly review the quality assurance issues surrounding the results of economically large countries. Specifically, the meeting focused on item representativity, the treatment of outliers, as well as housing and construction approaches.

PPP Computation Task Force Meeting

The PPP Computation Task Force met in Washington, DC from December 2-3, 2013 to ensure that their parallel and independent processes of global computation converged to the same results. They thus harmonized their approaches and methods and reviewed the preliminary results generated through the fourth round of computation of results. The sessions were productive and led to an agreement on detailed guidelines for the subsequent rounds of computation and a strict timetable to produce the results.

ICP Blogs

Updates including the upcoming release of the ICP 2011 results, as well as information on updating the PPP time series published in the World Development Indicators will be provided via the Open Data blog website *http://blogs.worldbank.org/opendata*.

Special Interview with Alan Heston, professor emeritus in the Department of Economics at the University of Pennsylvania

Professor Heston at the WSS Seminar, Washington, DC (November 6, 2013)

Q1. Considering the evolution of the ICP, which you have witnessed firsthand since the ICP's first year in 1968, do you find the methodological improvements to be heading in the right direction?

The broad framework of the ICP that was formulated around 1960 by Irving Kravis and Milton Gilbert for binary comparisons in the OEEC (predecessor of the OECD) has been retained. An important component of their work was to estimate PPPs from the expenditure side of national accounts. A major expansion of their vision was to develop a multilateral framework by modifying the Geary proposal for cross-country agricultural price indexes as supplemented by Salem Khamis. The appeal of this Geary-Khamis aggregation technique was its additivity across time and space at a time when non-additive indexes were less commonly used. Other non-additive aggregations were also reported in early ICPs and were regularly used later in the EU and OECD.

An important change in the ICP was moving to a regional organization of the comparisons in the 1980 ICP. This has posed many methodological problems that are gradually being resolved. The biggest improvement in the ICP has been in the methods and quality of price comparison and validation occurring at the regional and global level. In terms of aggregation, moving to other methods like GEKS (Gini, Eltetö, Köves, and Szulc) have been useful, particularly in linking the regions. In the 1980 ICP a method was developed to aggregate to world GDP that could be in turn divided between the regions, and further allocated to countries within a region to preserve 'fixity' of regional relationships. This is the CAR method that is being used in the 2011 ICP.

When the ICP was initiated, several of the initial ten participating countries did not have detailed breakdowns of GDP from the expenditure side and this early attempt to improve the national accounts has increasingly become a focus of subsequent ICP rounds. The ICP has been important agent in helping countries move their national accounts from the 1968 to the 1993 SNA.

Q2. What do you propose should be done to further improve the ICP going forward, especially regarding the consistency between results of two different benchmarks?

Linking issues include choices of comparable items to price across some or all countries in different regions. Before 1980, all country price data were at the Global Office (at the UNSO or Penn University) and were checked in one place. The cost of this was that often it was not feasible to interact with countries on whether their submitted prices matched product descriptions that were often too generic. In contrast to earlier ICPs, growth of the internet and the face-to-face validation within regions have very much improved the price comparisons. In 2005, a set of 18 ring countries were used to link the regions analogous to what was available to link regions in 1980. Because of questions raised by the 2005 linking through Ring countries, the approach in 2011 was to use a core price list from which all countries would price as many items as were available in their country. It is too early to assess the overall success of the core list approach. What is clear is the heterogeneity within and across regions will continue to pose issues for future ICPs.

It has been recognized from the inception of the ICP that the conversion of net exports by the exchange rate is an ad-hoc procedure adopted mainly because it is a major task to estimate PPPs for exports and imports. As world trade has grown along with the number of participating countries where exports plus imports in relation to GDP exceeds 50%, it is more pressing to find a better method of handling trade.

Estimation of PPPs from the production side of GDP is more difficult than from the expenditure side because one needs prices or unit values for both finished goods and raw materials and other inputs. The cost of not including the production side is that comparisons of productivity by sector are not possible unless very questionable assumptions are made about mapping expenditure PPPs to PPPs for productive sectors. Even expanding price collection within the present ICP framework to a number of raw materials, chemicals, and the like would be helpful. These additional prices when combined with the many construction items and wage data already collected by the ICP would provide a rough basis for providing PPPs for many productive sectors.

Q3. As one of the founders of the Penn World tables, what would you recommend so that the ICP benchmarks and the extrapolation of PPPs could be more consistent?

At this stage two changes, both of which have been developed by the EU, can be made to improve extrapolations between benchmark ICP results. The first is to carry out extrapolations at the most detailed level provided by countries for their time to time price indexes. The second is to reduce the time between benchmark comparisons by undertaking some new surveys each year if possible, or finding readily available prices that allow for some updating of PPPs, perhaps for summary expenditure headings.

The easiest improvement in extrapolation of GDPs is to add together separate updates of domestic absorption and exports and imports. This is especially important because simple extrapolation at the GDP level ignores changes in the terms of trade that for some countries is very large even from year to year.

Q4. What is it about PPPs that make you happy to work on the topic? As one of the "fathers" of PPPs, how would you define your legacy?

The UK made in kind contributions to the 1975 ICP in the form of the time of retired statisticians. One of these was Angus Fell who by chance I had met 15 years earlier in a Bombay bar on route to assist in the tabulation of the Malayan census. I met Angus again in the 1980s in Hong Kong where I was visiting the statistical office and he was a consultant. After work in a pub, Angus asked me what was the latest with the Mighty Genghis Khan method, which, after initial surprise, realized this was his term for the Geary-Khamis method. I looked at him and asked whether when I was retired 15 years I would still be thinking about ICP problems. He took another drink and just smiled and his smile

Special Interview cont'd

told it all in terms of whatever it is that keeps one involved with ICP type problems.

As to legacy, mine is to have participated in a major intellectual shift in perspective on the structure of the world economy. By way of background, Paul Samuelson informally drew up a list of earlier economists who predated creation of the Nobel prize in economics. Gustav Cassel was on the list for a seminal article published in 1918 in the Economic Journal, whose then editor was Keynes. There Cassel said, "*I propose to call this parity "the purchasing power parity". As long as anything like free movement of merchandise and a somewhat comprehensive trade between two countries take place, the actual rate of exchange cannot deviate very much from this purchasing power parity."*

Cassel was writing at a time when many countries were returning to the gold standard after its suspension during World War I, and his advice to the Swedish government was to set the value of the Kroner near its then purchasing power. The context of Cassel's message became lost and there emerged the so-called Cassel Doctrine, that Samuelson termed "a misleading and pretentious doctrine." The international trade and finance group of economists moved from Cassel's insight to the "law of one price", a very powerful assumption on which to base trade theories and models.

Thus, Cassel's PPP doctrine entered international trade textbooks as the PPP doctrine of Cassel in its absolute one price version and the relative version. The relative version said that PPPs and relative prices will move together in the short and long run. Like Samuelson, Kravis knew that in the world we live in, the law of one price rarely held, and the relative version of the PPP doctrine may hold in the long run but the deviations in the short run could exist for many years. The PPP doctrine informed many of the economists recruited to the World Bank and particularly the IMF. The initial ICP did not gain friends at these institutions by labeling the inverse of what we now call the price level as the exchange rate deviation index.

Ironically, when the fixed exchange rate system broke down in the early 1970s, the law of one price for expected return from short term investments has been slowly approximated in the international financial sector. With the IT and internet revolution, it has become possible for financial markets to generate capital movements between a significant group of countries that greatly dwarf in size the trade in tangible goods and services. The large increase in short-term capital movements and rise in the share of non-tradeables in GDP has given way to a very different world than 1918. These developments help account for a persistent ICP finding that price levels across participating countries rise with the level of per capita GDP. Large short-term capital movements can be much more important in influencing exchange rates than changes in PPPs often leading to differences in price level for countries at the same level of per capita GDP for a number of years.

What has been gratifying for all of us involved with ICP work since the early rounds is that PPPs are now common in textbooks in international trade and development and have been more generally accepted in the media, in research and by national governments and international institutions. Quoting Keynes, *"The real difficulty in changing any enterprise lies not in developing new ideas, but in escaping from the old ones."* A major legacy of the ICP has been to move thinking away from the Cassel doctrine to the more useful task of measuring PPPs that originally inspired Cassel.

African Statistics Day, Washington, DC (November 18, 2013)

African Statistics Day: Promoting Quality Data for Africa's Progress

The World Bank Africa Statistics Practice Group celebrated African Statistics Day in Washington, DC on November 18, 2013 with the theme "Promoting Quality Statistics for Africa's Progress". One of the event's parallel sessions was on the "International Comparison Program for measuring Africa's progress". Nada Hamadeh, ICP Team Leader, made a presentation on the ICP and its application within Africa, the upcoming release of the results of the 2011 round of the program, and the way ahead.

Seminars

Washington Statistical Society Seminar

The Washington Statistical Society (WSS) held a seminar titled "Measuring the Real Size of the World Economy-Methodology and Challenges" at the Bureau of Labor Statistics on November 6, 2013 in Washington DC. Michel Mouyelo-Katoula, ICP Global Manager, Fred Vogel, ICP Technical Advisory Group co-Chair, and Alan Heston, Professor at the University of Pennsylvania, briefed participants on the conceptual framework of the ICP and presented an overview of the statistical methods used to estimate Purchasing Power Parities, changes made from the ICP 2005 round, and the possible impact on the final ICP 2011 results.

Michel Mouyelo-Katoula at the WSS Seminar, Washington, DC (November 6, 2013)

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