

TOPIC 1: PURPOSE AND CONCEPTS OF CONSUMER PRICE INDICES

Chair: Anders Klevmarken (Sweden)

Several papers, each covering different aspects of this topic were presented and discussed during the first day.

The first paper - " UK RPI.- *A Cost of Living Index or an Inflation Indicator?*" - was presented by Marta Haworth. In her presentation, Haworth directed special attention to conceptual issues and the magnitude of bias in the present RPI. One of Haworth's conclusions was that the present British RPI is *not* a cost of living index. Mrs Haworth also outlined a system of indices ("Whole Economy Price Index") that could provide a more complete measure of inflation than the RPI.

Several delegates shared the view that present "multi-purpose" CPIs often are used for purposes, which involve conflicting requirements on the index construction. From a theoretical point of view different indices ought to be constructed for each purpose in such cases. However, it was also acknowledged that the existence of more than one "single-purpose" index may in itself be confusing for the users and negatively affect the credibility of the indices. Several speakers referred to this conflict between relevance and credibility and different opinions were expressed at what point the optimum balance between this conflicting interests was to be struck. Some delegates directed attention to the dangers of reduced relevance if concepts, that originally were defined to meet other requirements than those of a CPI, are uncritically adapted. This was said to be the case concerning, e.g., certain definitions within the systems of national accounts.

The second paper - "*Three Kinds of Monthly CPF*" - was presented by Ralph Turvey. The paper included a treatment of conceptual problems, similar to those that were discussed after the presentation of the previous paper. In his presentation, professor Turvey distinguished between a number of CPIs, each constructed in accordance with the requirements of a specific purpose. Turvey invited opinions on the following three issues:

- How is a "market determined price" to be defined in the context of CPI as a measure of inflation?
- Is there any need for the construction of a CPI as a cohort measure? If so - how is such a measure to be defined?
- Pros and cons concerning the Rothwell-approach for the treatment of seasonal goods?.

Bert Balk presented the third paper; "*The Consumer Price Index and Incomes Escalation*". The starting-point of Balk's paper was that CPIs are frequently used to escalate incomes and transfer payments in situations of price inflation. Balk's conclusion was that the CPI is not an appropriate instrument in this context to protect households from welfare decrease. It was also claimed that no solution to this was offered by replacing the CPI by a cost of living index. Some delegates argued that this conclusion provided support to the earlier acknowledged merits of a single-purpose index.

The fourth paper - "*Handbook of Inflation Accounting; Price and Quantity Measurement*" - was presented by Peter Hill. The handbook has been compiled for OECD.

Erwin Diewert presented the fifth paper - "*Seasonal Commodities, High Inflation and Index Number Theory*". Various alternative methods for the treatment of seasonal price fluctuations were discussed. A widespread opinion was that existing theoretical and practical problems will be difficult to solve and that more research is needed in this area.

Jörgen Dalén presented his paper "*A statistical interpretation of CPI comparability*". Dalén suggests an approach for quantifying differences, rather than errors, between the CPIs of different countries. One objective of such a model is to serve as a measure when establishing rules for harmonised CPIs within the EU. Dalén analyses e.g. the probability of what he ca a *Maastricht error*, i.e. the risk for an erroneous conclusion on the fulfillment of the inflation criterion for the entry of a member country into the EMU.

Participants from Eurostat added some further background and pointed out that the main objective is to identify *where* effort has to be put in to achieve comparability.

There seemed to be a general view that variance calculations and other approaches to detect non-comparability between different CPIs, as well as errors of a specific national CPI, should prove to be helpful tools. However it is not obvious how to identify the reference point: for international comparison as well as to a national ideal index. Given the reference points quantifying differences seemed more feasible than quantifying national bias.