

PPP's for SDR's? Towards a coherent measure of global inflation

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by

Utz-Peter Reich

Mainz University of Applied Sciences

utz.reich@gmail.com

Abstract

If it is a lesson learnt from the current financial-economic crisis that global markets and global money require global regulation then it is also true that global regulation requires global economic data. Purchasing power parities (PPP's) are well suited to meet this new need, because they are being established at regular time intervals, and their scope is world-wide, in principle. So far, their use has been restricted to observing the "real" economy mainly, providing international volume comparisons for products at the elementary level of aggregation, for national industries at a higher level, and finally for GDP and national income for nations as a whole.

Here at the national level of aggregation the bridge to the financial economy is reached automatically, because the general price level, which serves as the measure of national inflation is equal (grosso modo) to the inverse of the purchasing power of the national currency. The paper sets out to develop this track.

The recently aired political proposal to replace the US-dollar in its role as a universal means of payment by some more diversified system such as the Special Drawing Rights employed by the IMF warrants an equally universe measure of monetary variation. Such a measure – so the claim of the paper – may be based on existing PPP's with relatively few adaptations in concept and some extension in data coverage. The paper is essentially of a theoretical nature with some experimental application to SDR data.