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Chapter Author: Alfred Franz

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7 Comparisons for Countries of Central and Eastern Europe: An Informal Report

Alfred Franz

The subsequent summary deals with a group of countries that have a relatively long history of participation within the ICP (International Comparison Programme) framework, some of them being among the real pioneers of this exercise.¹ Since those early days, major political, economic, and social changes have taken place. All those well-known changes have affected the structures and arrangements of the ICP work in that area. While, in the past, the basic socioeconomic differences between the then centrally planned economies and the market economies were immediately reflected in their ECP (European Comparison Programme) patterns, these divergences have now somewhat receded. However, it would be only naive misunderstanding to ignore the still substantial differences on all levels affecting all features of the comparison. This is true for the weighting structures and the particular circumstances of sector delimitation as well as for the availability and the properties of the individual items, the outlets and other concomitant elements of supply, and so forth.

To understand these particular peculiarities of Group II, a brief review of the surprisingly varied ECP *history* may be most useful first. Then, and on that basis, a few most significant features may be added, throwing light on *peculiarities*, such as the scope of the information basis and the classification structures actually used or the use of quality-adjustment techniques. A major change toward the establishment of a general *multilateral* framework over all

Alfred Franz is presently head of the Social Statistics Department of the Austrian Central Statistical Office and also teaches at the University of Vienna.

1. In the course of the European ICP work, the term *Group II* has been established for this group of countries. The actual comparison work going on under the auspices of the ECE (Economic Commission for Europe) is termed the European Comparison Programme (ECP), encompassing OECD countries also (Group I). For a listing of the countries in each group, see the notes to fig. 7.2 below.

Europe is the most recent achievement in this context. The paper is organized accordingly, drawing on diagrammatic and/or tabular presentation for easier explanation.²

7.1 The History of Group II in Brief

Group II dates back to 1980. Since its beginning, the basic structure was a “star” of bilateral comparison relations, with Austria serving as the “base” or “reference country” in the center of this star. The actual star shape changed from round to round, owing to changing (mostly increasing) participation (see fig. 7.1). Most spectacular, the participation rate doubled from 1990 to 1993. For 1993, the “Moldova appendix” might be mentioned, compared indirectly (via Romania). The Baltic group (three Baltic countries and Austria), which was also a part of ECP’93/II (see fig. 7.2), has been compared multilaterally.

The jump from the 1993 shape to the 1996 shape is decisive in two respects: (a) In terms of membership, Hungary, Poland, the Czech Republic, and the Slovak Republic are no longer in Group II since it was felt that they would be better suited to Group I now; the Baltic group (Estonia, Latvia, Lithuania), compared in a separate subgroup related to Finland in 1993, joined Group II directly; and Albania and Macedonia joined Group II as newcomers. (b) In terms of methodology, the *multilateral approach* of price observation and further data processing, always used in Group I, has been extended to Group II, too.

By 1996, membership remained similar in size but changed in composition so that more requirements for taking care of less-experienced countries must be expected. On the whole, there is almost no experience with multilateral methodologies to be used in an area like Group II, so expectations of their suitability/applicability are mixed at best (see Rittenau 1995).

The transition to multilateral methods is tantamount to a major change of the role of Austria in that it acts no longer as the center of a star but as an *equal partner* among others. However, in the “joint venture”³ represented by Group II, it is likely that not much will change in terms of practical work; the main responsibility to look for comparable prices will continue to fall on Austria. In perspective, the transition to the multilateral approach is a clear progress toward achieving greater uniformity of the whole procedure, of comparison philosophies as well as of horizontal integration; it may also gradually result in decreasing resource requirements, depending on the convergence of markets.

To get a better idea of the overall complexity of the ECP framework, see figure 7.2, which reflects the overall group structure in 1993. Country participation in 1996 is represented in figure 7.3.

2. This part has largely benefited from preparatory work done by S. Sergeev, presently working as ECP consultant in the ACSO (Austrian Central Statistical Office).

3. This term is used to indicate the close cooperation of the ECE, Eurostat, the OECD, the World Bank, and the ACSO in this group, in terms of common conceptual work, shared data processing, and financial resources.

7.2 Some Peculiarities of Group II

7.2.1 Magnitude of Price Observations

Owing to the obvious (although decreasing) market limitations, the number of observations may be expected to be generally lower than in Group I. For example, since the beginning, a clear tendency of increasing numbers can be seen in both private household final consumption expenditures (PHFCE) and in gross fixed capital formation (GFCF). However, these were consistently lower than in Group I, mostly reaching not more than half (see table 7.1).

However, a smaller number of price observations does not necessarily mean lesser representativity, which depends only on the homogeneity (variation) of market structures. Indeed, the problems rest not so much with representation as with comparability.

7.2.2 The Quality-Adjustment Issue

Quality-adjustment techniques have always been used in Group II and with increasing intensity (see table 7.2).⁴ Most striking are the relatively evenly spread cases of quality adjustment across countries and the relative preponderance in producer items. Admittedly, the methods used are still far from being "scientific." However, given recent developments to establish more advanced methods to render CPI more comparable, a "renaissance" of quality adjustment on that level may be diagnosed, which throws interesting light on this continuing practice.

7.2.3 Classification Structures

As regards classification, the general standards have always been used without significant change. In the past, however, this meant that the MPS (material product system) design had to be transposed into system of national accounts (SNA)-type structures, not always an easy task. The problems of redoing still largely existing statistical anomalies as regards market/nonmarket distinctions (health, education, social services, dwellings) are far from being resolved. However, control of these problems is more quickly achieved than on the part of representative commodities thanks to the progress in establishing official SNA-type accounts. Another, less promising area is the "hidden economy," where, according to recent reports, the size and the extent of actual observations are still extremely varied.⁵

4. In this table, no further distinction is made between different subcategories of quality adjustment. These are extensively documented elsewhere (see Auer 1995, 5; and Franz 1995). A distinction between more "quantitative" and more "qualitative" or "mixed situations" is of importance in practice.

5. Particular information on this will be given in United Nations (in press). More thoroughgoing description of the Group II peculiarities is regularly found in the respective ECE documents (see United Nations 1994, in press). A most useful and up-to-date description of the numerous peculiarities of and requirements for Group II has been given in OECD (1995).

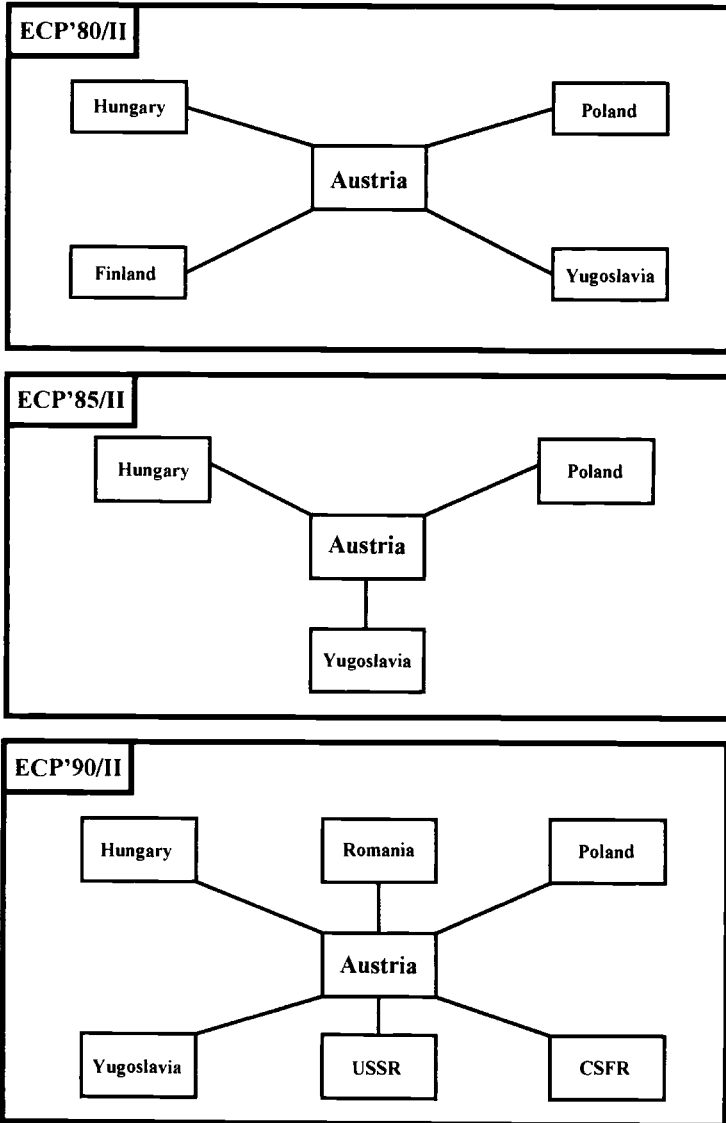
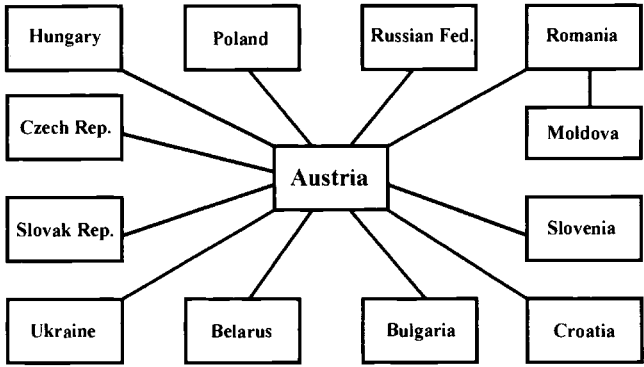


Fig. 7.1 Shape of Group II in different rounds of ECP

Note: The arrows in the shape for "ECP'96/II" indicate the multilateral potential, here exemplarily shown for two countries (Austria and Albania). CSFR = Czechoslovak Federal Republic.

ECP'93/II



ECP'96/II

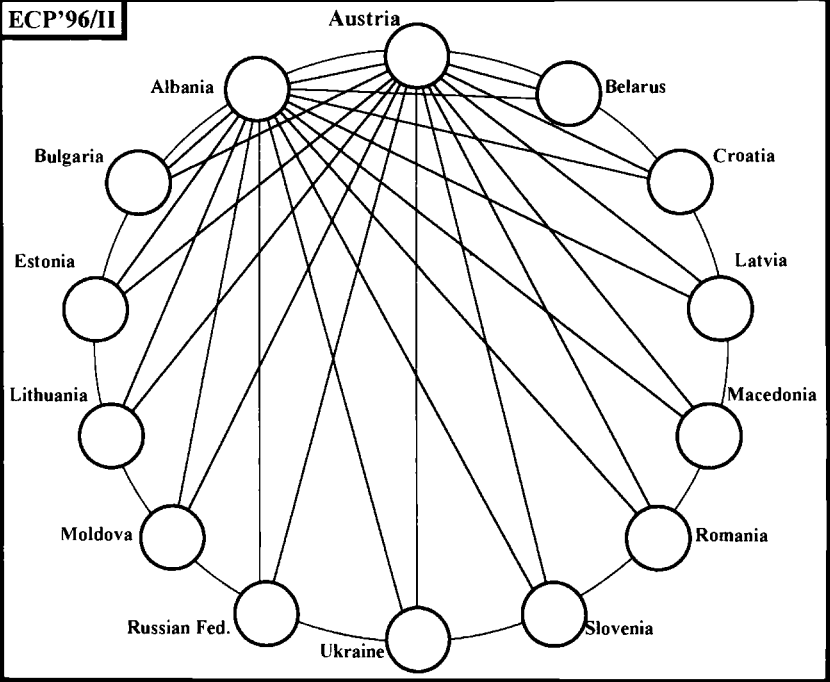


Fig. 7.1 (cont.)

ECP 1993

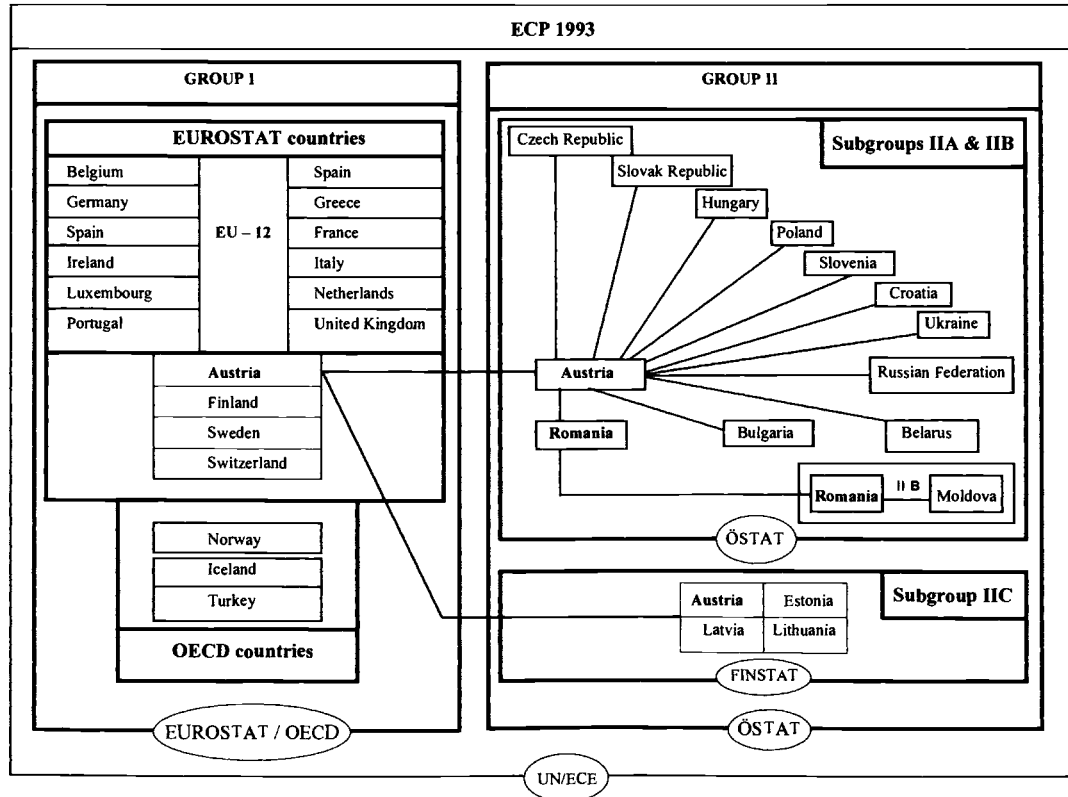


Fig. 7.2 Shape of the European Comparison Programme (reference year 1993)

Note: Rectangles indicate a country or group of countries. Ovals indicate the office or organization responsible.

The thirty-four countries have been involved with the ECP since reference year 1993. They were divided in two groups.

Group I was organized by Eurostat and the OECD within the framework of the Eurostat-OECD PPP Programme, including nineteen European countries. Eurostat coordinated the data collection in twelve EU (European Union) countries and also in Austria, Finland, Sweden, and Switzerland. These sixteen countries are referred to as *Eurostat countries*. (Poland also joined the Eurostat comparison on an experimental basis; however, its data were incorporated into the overall ECP through its participation in the Group II comparison, i.e., bilateral comparison with Austria.) The OECD coordinated the data collection in the remaining three Group I countries—Iceland, Norway, and Turkey (i.e., OECD countries)—and ensured that the two sets of data could be combined so that results could be calculated for all nineteen Group I countries. In Group I, a multilateral approach involving the collection and processing of basic data was used.

Group II consists of three subgroups: Group II A: Austria, Poland, the Czech Republic, the Slovak Republic, Hungary, Slovenia, Croatia, Romania, Bulgaria, Belarus, the Russian Federation, and Ukraine; Group II B: Romania and Moldova; Group II C: Finland (as country coordinator only), Austria, Latvia, Lithuania, and Estonia. The ACSO coordinated the general work within Group II and assisted in all subgroups. Group II A has been organized in a “star” shape with Austria as the center of the star and direct bilateral comparisons with each of the eleven countries. Moldova was bilaterally compared with Romania (Group II B) and in this way was indirectly linked with Austria. Coordinated by Statistics Finland, the Baltic group (Group II C) has been compared multilaterally (Baltic countries and Austria).

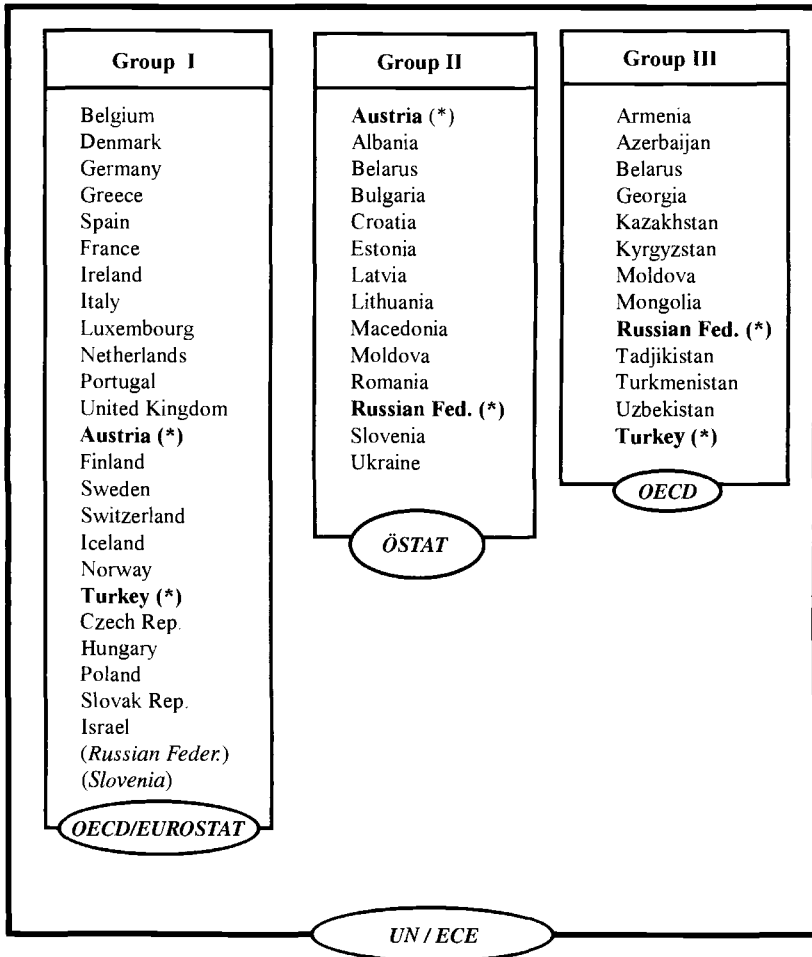


Fig. 7.3 Shape of the European Comparison Programme, 1996

Note: Rectangles indicate groups of countries. Ovals indicate the leading office or organization responsible. An asterisk indicates expected linking countries. The Russian Federation and Slovenia participate in Group I on an experimental basis only. ÖSTAT = ACSO.

Table 7.1

ECP Group II: Number of Items Used in Bilateral Comparisons, 1980-93

Country	Items Used											
	ECP 1980			ECP 1985			ECP 1990			ECP 1993		
	Total	Of Which:		Total	Of Which:		Total	Of Which:		Total	Of Which:	
		PHFC	GFCF		PHFC	GFCF		PHFC	GFCF		PHFC	GFCF
Austria	1,353	1,005	348	1,425	1,049	376	2,862	1,714	1,148	2,965	1,419	1,546
Hungary	764	638	126	864	714	150	910	690	220	899	699	200
Poland	691	554	137	776	580	196	847	634	213	992	706	286
Romania	...	...	...	...	...	...	524	414	110	752	590	162
Belarus	...	...	...	...	...	...	...	...	...	849	630	219
Bulgaria	...	...	...	...	...	...	...	...	...	852	709	143
Croatia	...	...	...	...	...	...	...	...	...	784	611	173
Czech Republic	...	...	...	...	...	...	...	...	...	937	746	191
Russian Federation	...	...	...	...	...	...	...	...	...	1,061	774	287
Slovak Republic	...	...	...	...	...	...	...	...	...	1,043	771	272
Slovenia	...	...	...	...	...	...	...	...	...	932	744	188
Ukraine	...	...	...	...	...	...	...	...	...	714	625	89
Finland	436	275	161	...	...	...	...	...	...	...	...	...
Former CSFR	...	...	...	...	...	...	878	661	217	...	...	...
Former Soviet Union	...	...	...	...	...	...	842	623	219	...	...	...
Former Yugoslavia	601	436	165	824	683	141	931	726	205	...	...	...
Average (excluding Austria)	623	476	146	821	659	162	822	625	197	892	691	201
Group I (for comparison)	1,275	1,000	275	3,101	2,751	350	2,500	2,150	350	3,436	3,200	236

Note: CSFR = Czechoslovak Federal Republic.

PHFC = private household final consumption.

GFCF = gross fixed capital formation (producer durables only).

Table 7.2

ECP Group II: Number of Items with “Quality Adjustments” Used in Bilateral Comparisons, 1980–93

Country	Items Used											
	ECP 1980			ECP 1985			ECP 1990			ECP 1993		
	Total	Of Which:		Total	Of Which:		Total	Of Which:		Total	Of Which:	
		PHFC	GFCF		PHFC	GFCF		PHFC	GFCF		PHFC	GFCF
Hungary	92	79	13	267	218	49	453	381	72	285	256	29
Poland	125	110	15	328	210	118	529	368	161	477	223	254
Romania	...	...	...	...	...	...	345	228	117	382	223	159
Belarus	...	...	...	...	...	...	...	...	...	599	381	218
Bulgaria	...	...	...	...	...	...	...	...	...	339	207	132
Croatia	...	...	...	...	...	...	...	...	...	300	141	159
Czech Republic	...	...	...	...	...	...	...	...	...	420	244	176
Russian Federation	...	...	...	...	...	...	...	...	...	673	392	281
Slovak Republic	...	...	...	...	...	...	...	...	...	506	245	261
Slovenia	...	...	...	...	...	...	...	...	...	353	177	176
Ukraine	...	...	...	...	...	...	...	...	...	462	376	86
Finland	0	0	0	...	...	...	...	...	...	...	...	...
Former CSFR	...	...	...	...	...	...	519	337	182	...	...	...
Former Soviet Union	...	...	...	...	...	...	601	374	227	...	...	...
Former Yugoslavia	131	126	5	212	204	8	231	219	12	...	...	...
Average per country	116	105	11	269	211	58	447	318	129	436	260	176

Note: CSFR = Czechoslovak Federal Republic.

PHFC = private household final consumption.

GFCF = gross fixed capital formation (producer durables only).

7.3 Conclusions

In spite of clear and generally welcomed tendencies of adaptation and convergence toward Western standards, Group II still represents a specific identity in the overall comparison framework. This is true with regard to both price observations and weighting. It is, therefore, legitimate to keep this group separate within the overall framework.

Recent developments may even suggest the use of Group II structures as a sort of “training camp” leading to equal participation in the ICP.

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