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

Topic: Prices and inflation
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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 need, because they are being established at regular time intervals, and their scope is world-wide, in principle. Their use has so far been restricted to the real economy, providing international volume comparisons for products, at the elementary level of aggregation, for national industries, at a higher level, and finally for domestic product and national income, at the level of countries as a whole. At this highest level of aggregation the bridge from the real to the financial economy is reached, 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 develops 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 (SDR's) employed by the IMF warrants an equally universe measure of monetary dynamics. Such a measure – so the claim of the paper – may be based on the existing sytem of PPP's, adding to it an appropriate rule of normalisation which places the measure of world inflation within a world accounting framework in a coherent way. The paper explains this rule in theory, and by means of a small black-board example, for purpose of illustration. The rule proposed says a measure of universal inflation must be invariant to the real exchange rates existing between actual national currencies, assuming that a unit of product incorporates one, and the same, value independent of where it is produced.