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Misery index: Economy is even worse than meets the eye

Jay Hancock

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Between now and next year's presidential election, you may hear a lot about the misery index.

No, I'm not talking about the death metal band by that name formed in Baltimore, although you may hear more about it, them, too. (Some of its stuff could be the soundtrack for Occupy Wall Street rallies.)

This is about the macroeconomic indicator conceived by economist Arthur Okun. The misery index became part of 1970s pop culture when Jimmy Carter wielded it to defeat incumbent Gerald R. Ford for the White House. (Carter was attacked by his own weapon in 1980, when the index was even worse and he lost to Ronald Reagan.)

It's a simple statistic, graspable by everyman — and hence a sharp political tool. High unemployment stresses consumers and workers. High inflation makes things worse. High readings for both, Okun reasoned, equal misery.

His index, which adds the unemployment rate to the inflation rate, hit its highest level in three decades this year. Average unemployment of 9 percent for the first half of 2011, plus consumer prices rising at the annual rate of 6.6 percent, equals a misery index of 15.6, according to the Peterson Institute for International Economics. That's the worst reading since the first half of 1981.

"The Obama Misery Index," Republican presidential candidate Mitt Romney calls it.

But here's the really miserable part. The traditional misery index probably under-measures the aggravation, grief and struggle of this economy. It doesn't gauge trends such as falling house prices, long-term unemployment and stagnant income that make 2011 more challenging than, say, 1980.

In the first half of 1980, inflation was 15.6 percent and unemployment was 6.8 percent, yielding a misery index of 22.4. (These are all the Peterson Institute's figures.) That's a much higher reading than today's misery score, but it's very hard to argue that we're better off in 2011.

Inflation was soaring back then, but incomes were rising, too. Unlike today's seniors, retirees in those days could buy bonds and certificates of deposit that paid a decent interest yield. Wages were rising along with prices. And that era's high unemployment — joblessness rose past 10 percent in the early 1980s — was also brief.

These days joblessness is a much more important part of the misery index. Unemployment has been more than 8 percent for more than 21/2 years — a record. It shows few signs of dipping below that point any time soon.

Today's inflation, by contrast, is much tamer than the rising prices of the 1970s. Given a choice, anybody would choose almost any level of inflation over losing her job. But 14 million Americans are dealing with both problems.

And in addition, the value of their homes has been plunging.

"More than 60 percent of American families own their homes," says Gary C. Hufbauer, an economist with the Peterson Institute, which is based in Washington. "They darn well know the current value — after all, for most households, that's the biggest asset. When house prices fall, and fall, and fall, homeowners feel awful, even if they are not facing foreclosure."

Which is why Hufbauer and two colleagues have been calculating what they call the "Augmented Misery Index," which adds changes in house prices to the traditional misery-score components. When house prices go down, the augmented misery index goes up.

In 2008 and 2009, the augmented index hit its highest levels since the early 1960s. It's still near a record, although Hufbauer expects it to fall by the end of the year. Even so, "the augmented misery index says that President Obama is in a very deep hole," Hufbauer says. "If these awful numbers hold for another year, he needs a klutz opponent or magic to get reelected."

Steve Hanke, professor of applied economics at the Johns Hopkins University, has another take on the misery index.

He calculates the change — not the absolute level — in unemployment, inflation, economic growth and interest rates from the beginning of a president's term to the end. Based on this measurement, Obama will probably have the third-worst presidential misery score since the 1950s, Hanke wrote on Cato@Liberty, a blog published by the libertarian Cato Institute.

But the economy is probably even worse than that. In recent decades the Labor Department has changed the way in which it measures unemployment and inflation. Using the older methods, the official jobless rate today would be more than 20 percent and the official inflation rate would be over 10 percent, according to Shadow Government Statistics, a newsletter and data service.

That's another reason to believe today's misery factor has risen to brutally painful levels.

How much Obama should be blamed for the aftermath of a financial crash that preceded his presidency is open to discussion. But history shows that incumbents fare poorly when inflation and unemployment are high.

The most important misery indicator next year will be the one voters feel in their gut.