



Venezuela's No. 1 for misery, and it's getting worse

By Rob Nikolewski

February 16, 2015

Collapsing global oil prices have hit a number of energy-producing countries hard, but the worst may be yet to come for Venezuela.

“I think things will steadily deteriorate and get worse,” [Steve Hanke](#), professor of applied economics at the Baltimore, Maryland-based Johns Hopkins University, told Watchdog.org.

That's a pretty bleak assessment from a man who makes bleak assessments for a living.

Hanke is also the director of the [Troubled Currencies Project](#) at the Cato Institute, a free-market think tank based in Washington, D.C. He recently released his annual World Misery Index of 108 countries.

For the second straight year, Venezuela is No. 1 and it was wasn't even close as it finished nearly 40 points worse than its South American neighbor and overall second-place finisher, Argentina:

What's worse for Venezuela is that Hanke compiled the data from 2014 figures, before the full effects of the crash in global oil prices.

Since it's been estimated that oil accounts for a staggering [96 percent of Venezuela's hard currency revenue](#), it's safe to say that updated numbers would show an even worse misery index score for Venezuela.

“It's deteriorated further,” Hanke said. “The economy has been so mismanaged and so corrupt for so long that there's no real resiliency there, no safety net ... They've never saved anything for a rainy day.”

Last week, the ratings agency [Standard & Poor's slashed Venezuela's long-term credit rating](#) amid the country's chronic economic problems and warned inflation could reach 100 percent or more this year.

But by Hanke's calculations, Venezuela's inflation rate is actually much higher — more like 125 percent.

“Venezuela has the highest inflation rate in the world right now,” Hanke said in a telephone interview. “It’s such a big number, it just swamps everything else.”

Venezuela joined Argentina and Brazil as South American countries finishing in the top six in the World Misery Index, something Hanke attributes largely to their unstable national currencies.

By contrast, Hanke says other Latin American countries such as Panama, Ecuador and El Salvador have fared much better by [dollarizing](#) their currency — that is, [substituting their national currencies](#) for or pegging them to the U.S. dollar, something Hanke says can help enforce fiscal discipline.

By contrast, Hanke said other Latin American countries such as Panama, Ecuador and El Salvador have fared much better by officially [dollarizing](#) their economies — that is, dumping their local currencies and replacing them with the U.S. dollar, something Hanke said can help enforce fiscal discipline.

But there also appears to be an energy connection to the misery numbers as well.

While fourth-ranked Ukraine is not an oil producer, it is heavily dependent on Russia for its natural gas supply. That reliance has been exacerbated by its fight with Russian President Vladimir Putin over the Crimea and eastern Ukraine. Last year, [Russian energy giant Gazprom hiked its gas price](#) to Ukraine from \$268.50 per 1,000 cubic meters to \$485.50.

Iran finished fifth-most miserable and, like Venezuela, is a member of OPEC and has been badly damaged by the drop in oil prices. It’s [estimated that Venezuela needs](#) the price of a barrel of oil to be at \$117.50 for the country to make money, while Iran’s “break even point” is even higher — [\\$130.70 a barrel](#).

The government of Venezuelan President Nicolas Maduro has been under intense pressure to turn around the country’s economic fortunes.

Earlier this month, the Maduro government had to resort to [nationalizing a giant chain of the country’s grocery stores](#) as shelves have gone bare.

Last Thursday, anti-government protesters [clashed with riot police](#) throughout the country. In the town of San Cristobal, demonstrations left five people injured.

Hanke, who served as an economic adviser for the government in Ecuador, urges the Venezuelan government to change its “socialist, interventionist, leftist” economic model, but he’s not holding his breath.

“In my view of Venezuela, they’ve been down the wrong road for a long time,” Hanke said, “and they might stay on the wrong road for a lot longer and things will get worse if they do.”

And that may lead to a third consecutive No. 1 finish when next year’s misery ratings come out.

Which country finished as the least miserable? The oil-rich nation of [Brunei](#).

The U.S. finished 95th.

[Click here](#) to see the rankings of all 108 countries.