



Hanke: Macedonia is an odd case in Cato's Misery Index

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Baltimore, 5 February 2015 (MIA) - American economics professor Steve Hanke, who prepares the Misery Index published by Washington's Cato Institute, where Macedonia has scored particularly badly in the past years, tells MIA that structural free market reforms are the way to improve your standing on the list. The Index, first prepared by economist Arthur Okun in the 1960ies, adds the unemployment rate and inflation to show how "miserable" an economy is. Due to its exceptionally high official unemployment rate, Macedonia ranked 12th in the Cato index, and it was declared the most miserable country in the world in a similar index prepared by the Economist in 2012. The rankings sparked critical comments from the opposition SDSM party.

"If you score above 20 or 25 on the misery index, that means that you have deep structural issues in your economy, in the functioning of free markets. Macedonia has a score of almost 37 which means it has deep structural issues that need to be cleared up. Countries that rank below 20 normally don't have structural issues, even though there are examples, like Italy, which scores 18, but clearly has structural problems with its high unemployment rate", Hanke tells MIA.

In the Cato index, Macedonia ranked 12th, with only Serbia scoring worse from all neighbouring countries, at the 8th place. The top of the list is dominated by Latin American countries. Professor Hanke, who knows the Balkans well with his work as an advisor to Yugoslavia's Prime Minister Ante Markovic and his help in setting up the monetary systems of Bulgaria and Montenegro, says that he was surprised to see Macedonia score so poorly, given the pro-free market reforms that the country has undertaken in the past years.

"Macedonia is an odd case on the misery index, because you have a very good rating for economic freedoms, in the World Bank's Doing Business index, where you rank better than Italy. I was surprised to see your score on the Misery Index, knowing the Doing Business score. I believe that, if you score well on the Doing Business index, over time, you will see that your score on the Misery Index improves. I haven't followed the debate in Macedonia over our results, but I don't believe our results were used in a good faith effort to explain their meaning, but in a polemical way", Hanke adds.

He explains that the index was introduced by Okun as a simple way to let President Lyndon B. Johnson follow the state of the economy during his inflation prone term in office. "The original misery index only used unemployment and inflation. Okun told the President that if the misery index goes down, it is a good indication that his political rating will also go down. In Cato we now use four inputs, the two original negative ones - rate of inflation and unemployment, we add

the bank lending rate which is also a negative index, and then we subtract a positive input - the gross domestic product growth rate", Hanke explains the Cato Misery Index.

As for its political impact, Hanke tells MIA that it is not only the ranking, but the movement of the country along the list that matters. "If unemployment was very high in a country for a long period of time, and this situation doesn't change, it won't affect politics much. It can be bad for the politicians if the index gets significantly worse over the course of a year. In Macedonia, if we measure the misery index since it left Yugoslavia, became independent, take it over a period of time to today, we will see that the rank has improved", Hanke says