The Market Oracle

Measuring Misery in Latin America 2014: More Dollarization, Please

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In my misery index, I calculate a ranking for all countries where suitable data exist. My misery index — a simple sum of inflation, lending rates, and unemployment rates, minus year-on-year per capita GDP growth — is used to construct a ranking for 108 countries. The table below is a sub-index of all Latin American countries presented in the world misery index.

2014 Latin America Misery Rankings

Rank (Worst to Best)	Country	Misery	Major Contributing Factor
1	Venezuela	106.03	Inflation
2	Argentina	68	Lending Rate
3	Brazil	42.79	Lending Rate
4	Uruguay	28.37	Lending Rate
5	Honduras	28.07	Lending Rate
6	Dominican Republic	27.98	Unemployment
7	Paraguay	27.01	Lending Rate
8	Costa Rica	26.87	Lending Rate
9	Nicaragua	25.06	Lending Rate
10	Guatemala	21.21	Lending Rate
11	Peru	20.09	Lending Rate
12	Colombia	19.61	Lending Rate
13	Bolivia	18.38	Lending Rate
14	Chile	14.42	Lending Rate
15	Ecuador	13.72	Lending Rate
16	El Salvador	12.56	Lending Rate
17	Mexico	10.5	Unemployment
18	Panama	9.39	Lending Rate

Sources: The World Bank, The International Monetary Fund, The Economist Intelligence Unit, and calculations by Prof. Steve H. Hanke, The Johns Hopkins University.

Note: Cuba, French Guiana, Guadeloupe, Haiti, Martinique, Puerto Rico lacked the data necessary to calculate their 2014 misery indexes.

Methodology: Misery Index = Inflation Rate (End of Year) + Bank Lending Interest Rates + Unemployment Rate - Actual % Change in GDP per capita

A higher score in the misery index means that the country, and its constituents, are more miserable. Indeed, this is a table where you do not want to be first.

Venezuela and Argentina, armed with aggressive socialist policies, end up the most miserable in the region. On the other hand, Panama, El Salvador, and Ecuador score the best on the misery index for Latin America. Panama, with roughly one tenth the misery index score of Venezuela, has used the USD as legal tender since 1904. Ecuador and El Salvador are also both dollarized

(Ecuador since 2000 and El Salvador since 2001) – they use the greenback, and it is clear that the embrace of the USD trumps all other economic policies.

The lesson to be learned is clear: the tactics which socialist governments like Venezuela and Argentina employ yield miserable results, whereas dollarization is associated with less misery.

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