South China Morning Post
南華早報

Measuring the global misery index

Countries with a high misery index need to tackle their populations' unhappiness with a dose of restructuring and more economic freedom

By: Steve Hanke
July 25, 2014

Misery in macroeconomic terms is measured simply by the sum of a country's unemployment, inflation and bank lending rates, minus the percentage change in real gross domestic product per capita.

A higher misery index score reflects higher levels of "misery".

The charts show misery index patterns by major regions over the past decade. Several things are worth noting, particularly that even on an aggregate basis, there are two poles of attraction: one centred at a score of 20 and another at 10.

Countries that gravitate towards the higher pole generally need a heavy dose of structural, or free-market reform. Countries closer to the lower pole have considerably more economic freedom.

Since the financial crisis of 2008-09, Southeast Asia's level of misery declined from a score of about 20 to 11.7, which suggests that there has been positive structural reform in the region.

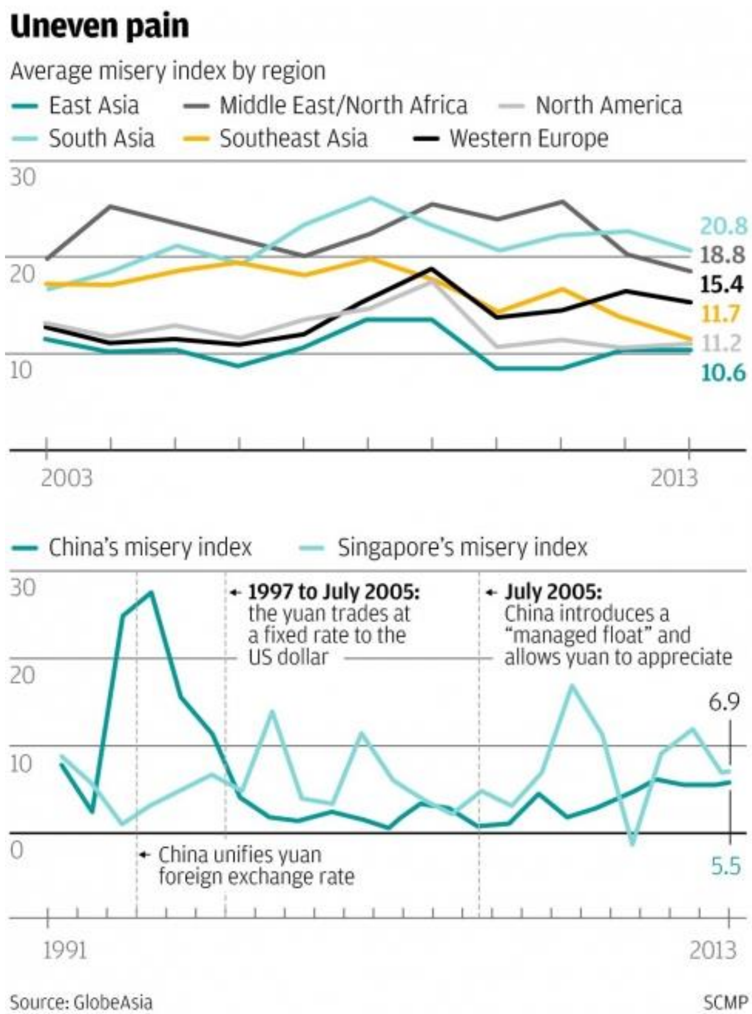
Top performers are China and Singapore, with misery index scores below 10

It should be noted though that quantitative easing by the US Federal Reserve generated significant hot-money flows that positively affected Southeast Asia.

Western Europe's endemic structural problems also show up in the chart. Since the financial crisis, the region's misery score has remained elevated because of pronounced problems in labour markets. To bring the score from its current 15.4 reading down to 10, Europe needs significant economic liberalisation.

Individual countries paint even more interesting pictures.

Indonesia is a good example. Thanks to the disastrous advice of the International Monetary Fund during the Asian financial crisis in 1997, Indonesia floated the rupiah currency that year.



Contrary to the IMF's expectations, the rupiah did not float on a sea of tranquility. Its value plunged from 2,700 per US dollar at the time of the float to more than 16,000 per dollar in 1998.

In consequence, Indonesia's inflation and its misery index score soared and President Suharto was brought down after 31 years in power. Then, the score fell sharply, and since the Abdurrahman Wahid government, it has been drifting downward.

At present, Indonesia's score is 20, putting it right on the upper magnetic pole that signals structural economic reforms are urgently needed.

Meanwhile, Narendra Modi, the newly elected prime minister of India, faces a misery index score of 24.5.

Given the nature of India's political system and bureaucracy, Modi certainly has his work cut out for him.

Asia's two stellar performers are China and Singapore - both have misery index scores below 10. China is noteworthy because its index was well below five between 1997 and 2005. It was then that the yuan was tightly linked to the US dollar.

China's misery index began to steadily climb only after the country allowed the yuan to appreciate against the greenback after pressure from Washington.

By most measures of economic competitiveness, Singapore holds one of the top spots. It is not surprising, therefore, that Singapore's misery index scores are low and even dipped into negative territory in 2010.

A topological trip down the misery index lane reveals two centres of gravity: 20 and 10.

The countries with scores hovering around 10 are simply reaping free-market dividends. Those with scores around 20 are rather miserable and serious candidates for deep reforms. Without them, those countries are destined to stay, well, miserable.

-*Steve Hanke is a professor of applied economics at Johns Hopkins University. He is also a senior fellow and director of the Troubled Currencies Project at the Cato Institute in Washington*