
An Iranian female protestor clenches her fist and covers her face in front of a burning trash bin during an opposition rally in Tehran

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Misery in MENA

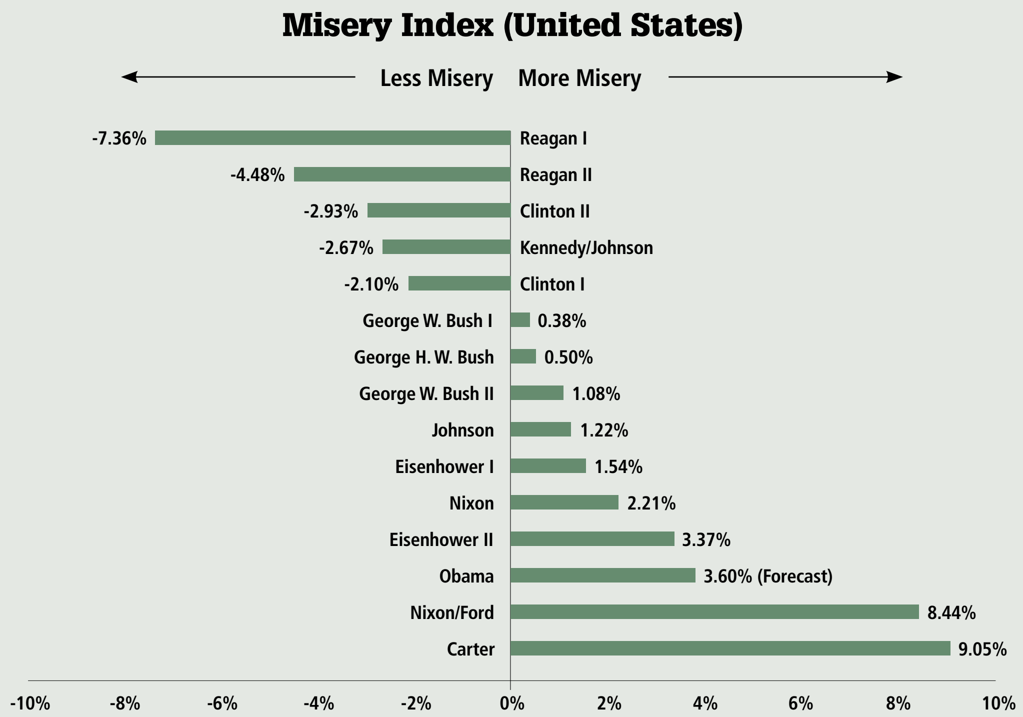
The recent upheavals and regime changes in Tunisia and Egypt have focused the world's attention on the Middle East and North Africa (MENA). Are there other dominos to fall? If we look at the level of "misery" in those lands, the answer is yes, maybe.

But just how do we measure misery? The original misery index was developed for the United States by the late Prof. Arthur Okun, a distinguished economist who served as chairman of the President's Council of Economic Advisers during President Johnson's administration. Okun's index is equal to the sum of the inflation and unemployment rates.

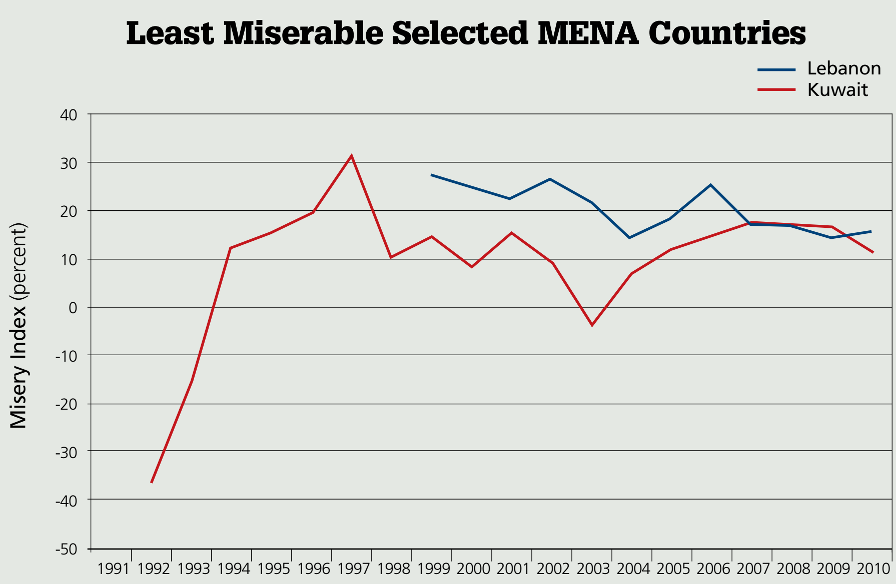
While Okun's index measures the absolute level of "misery" in the economy, it tells us little about whether things are getting better, or worse. In *Getting It Right* (1996), Harvard professor Robert Barro amended the Okun index. Barro's index, which measures the change in misery during a president's term, is the sum of the following four metrics: the difference between the average inflation rate over a president's term and the average inflation rate during the last year of the previous president's term; the difference between the average unemployment rate over a president's term and the unemployment rate during the last month of the previous president's term; the change in the 30-year government bond yield during a president's term; and the difference between the long-term, trend rate of real GDP growth and the real rate of growth during a president's term.

These amendments had several effects: the data were smoother and more comprehensive,

by Steve Hanke



Sources: Bureau of Labor Statistics, CPI-U Index; Bureau of Labor Statistics, Current Population Survey; Bureau of Economic Analysis; U.S. Federal Reserve; International Monetary Fund, World Economic Outlook, October 2010; Congressional Budget Office; Federal Reserve Bank of St. Louis and Author's Calculations.



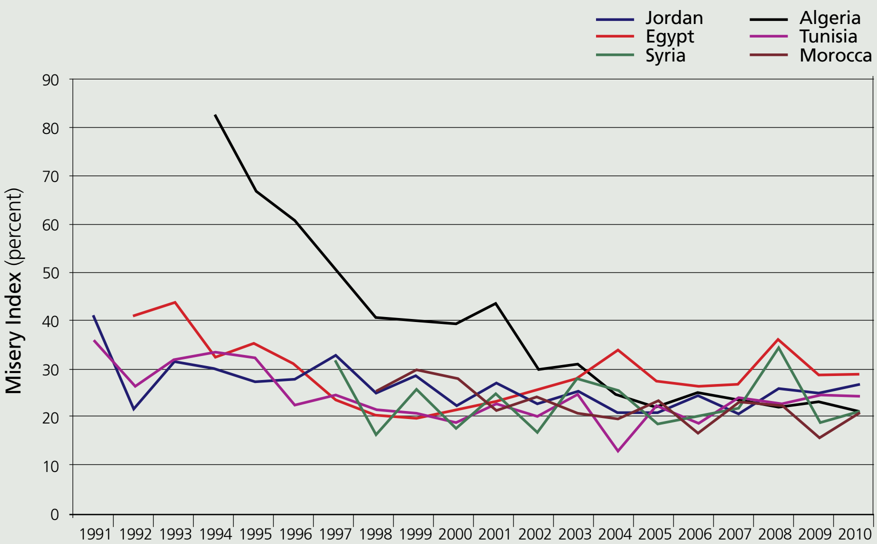
Sources: International Monetary Fund, World Economic Outlook, October 2010; International Monetary Fund, International Financial Statistics, February 2011; CIA World Factbook; Economist Intelligence Unit and Author's Calculations.

painting a more accurate picture of economic conditions experienced by the majority of Americans. They also allowed Barro to measure more accurately the relative change in the economy over the four years of a presidential term.

The data in the misery index chart speak loudly. The Reagan "free-market years," were very good ones. And the Clinton years of Victorian fiscal virtues – when President Clinton proclaimed in his January 1996 State of the Union address: "the era of big government is over" – were also very good ones.

The misery index chart for the U.S. contains an estimate for what President Obama's most likely misery index score will be at the end of his current term. This score is already baked in the cake and can be laid squarely at

Most Miserable Selected MENA Countries



Sources: International Monetary Fund, World Economic Outlook, October 2010; International Monetary Fund, International Financial Statistics, February 2011; CIA World Factbook; Economist Intelligence Unit and Author's Calculations.

the feet of President Obama's own policy errors and the notion that a big interventionist government alleviates misery. For a president whose agenda is designed to overthrow the Reagan Revolution, the misery index should be a sobering reminder that free markets, not big government, generate prosperity.

The misery index pours cold water on the critique of free markets – one that has taken on the characteristics of a "religion" which is embraced without investigation. Indeed, it makes one wonder if the critics tested their ideas and compared them with anything that actually happened.

To obtain an economic reality check, the misery index concept can be applied to any country where suitable data exist. A modified misery index – a simple sum of interest, inflation, and unemployment rates, minus year-on-year per capita GDP growth – is used in the accompanying charts for selected MENA countries.

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Lebanon and Kuwait are examples of the least miserable MENA countries. For the past 10 years, the misery index levels for those two countries have hovered around 15%. This represents a very respectable performance, matching some of the best developed countries' indexes – like Austria's.

When we look at the misery indexes for the most miserable MENA countries, the readings are double those in Lebanon and Kuwait. Moreover, with the exception of Algeria, there has been little, if any, improvement in the indexes for this group of countries. It's not surprising that people in the most miserable MENA countries are, well, miserable.

A large swath of MENA countries suffer from a high level of economic misery and remain ripe for upheaval. The only way out is to introduce dramatic free-market reforms. These will reduce the cost of doing business and restrict the corruptive power of governments. To obtain a sense of just how dramatic the reforms could be and the potential for Big Bang reforms, consider the terrible rankings received by MENA countries in the World Bank's *Doing Business 2011* – a report that measures the vitality of free markets and the ease of doing business (see the accompanying table). MENA countries desperately need to improve these scores. With dramatic reforms, private enterprise will flourish; jobs will be generated; and corruption will plunge, as will MENA's misery indexes.

Ease of Doing Business Rank
Selected MENA Countries

Country	Rank
Tunisia	55
Kuwait	74
Egypt	94
Jordan	111
Lebanon	113
Morocco	114
Algeria	136
Syrian Arab Republic	144
Total Countries Ranked	**183**

Source: The World Bank

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