

Russia Rising, America Falling Into Despair

By [The Moscow Times](#)

December 01, 2011

The  **Moscow Times**

A catastrophe is unfolding in Western Europe that threatens to wreak havoc on emerging Europe, but there doesn't seem to be any sense of urgency among the politicians of the world's leading economies. What no one in the West seems to grasp is that things have gone so far already that the developed economies of Western Europe have already overtaken the East in terms of the despair among their people.

I am talking about a very specific form of despair. In hard times, the traditional shorthand measure of pain has been the so-called misery index, a the simple addition of inflation and unemployment. And this is clearly rocketing in the West.

In October, the U.S. Census Bureau announced that one in seven Americans, or 49 million people, are now living in poverty — the highest number since records began 53 years ago. Two weeks later, Britain announced that the number of people out of work has hit its highest level in 17 years, and youth unemployment has hit a historic high at well over 20 percent, according

to Britain's Office for National Statistics. Spain capped off the round of bad news saying unemployment is currently 23 percent — its highest level ever and the highest in the EU.

As for inflation, it is currently fairly low thanks to sluggish economies, but the flood of cash that has been pumped into the system through two rounds of quantitative easing is enormous, and economists say that as soon as the economies show any sign of life inflation will also rocket.

Even without the high inflation, the misery index is already running at very high levels: Residual unemployment is about 4 percent, and inflation should be about 2 percent — residual misery should be about 6 percent — but with one in 10 unemployed in most developed economies, misery is already so high the entire region is being swept by riots and protests.

But the misery index doesn't really capture the pain that the peoples of emerging Europe have suffered and especially Russia — at least not any more. What does it matter if the cost of an iPod is rising 10 percent a year, if you can't even put food on the table or heat your apartment? So *bne* has introduced a new index, the "despair index," which adds poverty to inflation and unemployment.

What should shock is not only are most of the states in Central and Eastern Europe doing much better on this metric than the West. And the shocker is that thanks to record low poverty and unemployment in November Russia now has a lower despair index than America, with 25.5 and 28.1, respectively, and the lowest despair level among all the emerging markets bar China.

Russia's result highlights the total transformation the country has been through since the collapse of the Soviet Union in 1991. Life for Russians at the start of the 1990s was truly horrible. The IMF-sponsored "shock therapy" introduced in 1992 freed state controls over prices overnight and sent the prices of staples to the moon: Inflation reached a peak of 2333.3 percent in December of the same year — 6.4 percent a day, more than what most countries endure in a year — with poverty and unemployment running at 30 percent and 10 percent each.

Both Russia's misery and despair indexes were off the scale — into the thousands — whereas most of the other former Communist Bloc countries had despair levels in the low hundreds at worst.

However, as the decade wore on despair fell steady (with a bump caused by the 1998 crisis, which briefly sent poverty back up to 40 percent and unemployment to the record 13 percent). But since 2000, thanks to the oil revenues and ongoing reform, the despair index has fallen from around 90 at the start of the decade to the 25 today — the same level that most of Western Europe have been at for most of the boom time of the last decade. Today most of Western Europe has despair levels of about 30 and rising.

It is easy to blame the rising despair on the current crisis, but the U.S. Census reports that American poverty has actually been rising for more than a decade; this trend started well before the current crisis, which has only catalyzed the trend. American incomes had not fallen this far or fast since the Great Depression, and American families in 2000 found themselves

worst off than they were in 1990, economists say.

There are some problems with comparing poverty across countries, but the point is that in a mature Western society with a social security system there is supposed to be no poverty at all. Yet in October, the U.S. Census office was reporting that 15.1 percent of Americans were living in poverty, against Russia's 12.3 percent.

Most of the attention lavished on emerging markets in the last decade has focused on their spectacular growth. But the GDP numbers and equity returns reflect the top end of the economy — the best a country has to offer. The despair index, on the other hand, describes life in the bottom third of society, the man in the street who hasn't grabbed an oil company or been able to squeeze bribes out of his job in the state's inspectorate.

China may have some \$3 trillion in hard currency reserves (and does best among the emerging markets with a despair index of only 14), but more than 170 million of its citizens live on \$1.25 a day or less. No one in Russia lives on a dollar a day, but 18 million Brazilians and an astonishing 500 million Indians do.

Of course, with a poverty line of \$11,139, America's poor are a lot better off than most Russians who earn an average of \$9,600, but the U.S. Census office says half of those living in poverty live in "deep poverty" with incomes half of the official poverty rate, which would make them poor even by Russian standards. Poverty is a relative concept because people measure their well-being against those who surround them. Nevertheless, even in absolute terms the gap is closing as incomes continue to rise in Russia and fall in real terms in the West.

And it is not just Russia. A study by Eurostat released last year found that the Czech Republic has the lowest poverty rate in all the EU: Only 9 percent of Czechs live at or below the (relative) poverty threshold, compared with the Western European average of 17 percent. Almost all of the countries in CEE have poverty rates below 17 percent and despair levels of about 30 and falling.

The existence of poverty in the "rich" world only underscores the fact that Western democracy is flawed and the rapid rise in the rate of poverty in the West only emphasizes the increasingly desperate need for deep structural reform.

There has been a lot of talk of emerging markets overtaking the West. China's GDP should become larger than that of the United States in 2016 (20 years earlier than Jim O'Neill of Goldman Sachs who coined the BRIC idea, originally predicted). However, for normal people, the BRICs have already caught up. The bottom line is, if you are rich, then you are better off living in America — but if you are poor, then the prospect of life getting better is now brighter in Russia than anywhere in the West.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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