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Kerry's Misleading Index

John Kerry's Misery Index misses the mark

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Presidential hopeful John Kerry recently revealed his version of the "Misery Index" to prove the fortunes of middle-class Americans have deteriorated under the current Bush administration. Sen. Kerry accuses the Bush administration of squeezing the middle class with higher prices while pursuing policies that favor "wealthy" Americans. Unfortunately for Sen. Kerry, his "Misery Index" misses the mark because it is riddled with flaws. In fact, middle-class Americans are doing better under President Bush than any time in history.

The original Misery Index was developed in the 1970s by economists to measure the amount of misery felt by ordinary citizens in the economy. The index is calculated by simply adding the unemployment rate to the inflation rate. The index attempts to capture the fear of unemployment and the loss of purchasing power through inflation, which will have pervasive effects in the lives of ordinary Americans. While not perfect, the index helps judge the economic policies of the government.

Unlike the original Misery Index, Sen. Kerry's middle-class "Misery Index" cherry picks economic indicators and gives a selective analysis of the overall economy. This new index attempts to expand on the original index by including eight different indicators: median family income, college tuition, health premium costs, gasoline prices, homeownership costs, private sector job growth, and personal bankruptcies. However, upon closer inspection, Sen. Kerry's index accentuates the negative and does a much poorer job assessing the economic "misery" of ordinary Americans.

According to Senator Kerry's index, the average middle-class American was better off during the Carter presidency than the Reagan presidency. The Carter administration recorded a positive 6 on the Kerry index while the Reagan administration scored a negative 5. These numbers suggest that middle-class Americans were better off under the high unemployment, high inflation, high energy cost, and low economic growth of the Carter administration than they were under the Reagan administration, which lowered unemployment, lowered inflation, lowered energy costs, and increased economic growth. The index goes even further by reporting middle-class Americans were better off under Carter than the current Bush administration, whose Kerry "Misery Index" score is negative 13. Suspiciously under the Kerry index, every Republican administration posted negative results while the two Democratic Presidents, Jimmy Carter and William Clinton scored positively.

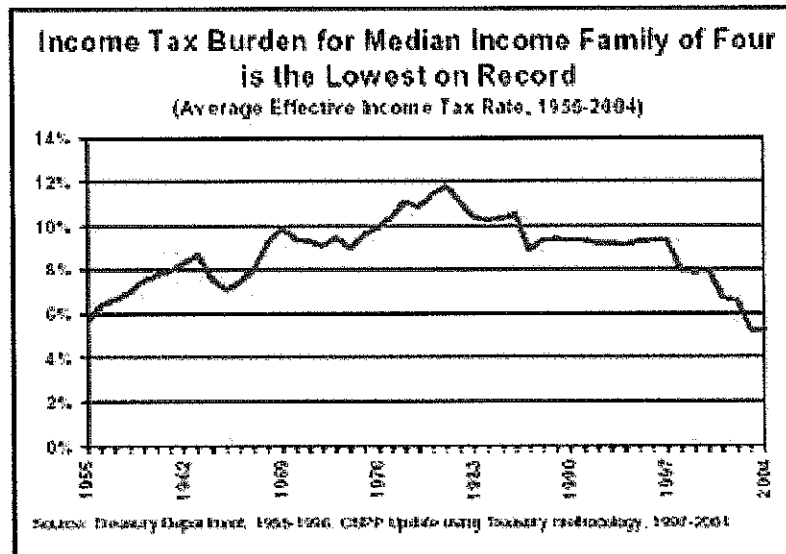
In contrast to Kerry's Misery index, the original Misery Index suggests that the current Bush administration has posted positive economic results. From 1948 through 1976, the average Misery Index was 8.3 percent. The Carter administration's average Misery Index score more than doubled the historic average and was measured at 16.25 percent. The Misery Index dropped to 12.2 percent under President Reagan and fell to a historic low average of 7.8 percent under President Clinton. The Misery Index of President Bush is 7.68 percent, lower than both President Clinton's average and historic averages. President Bush's numbers are even more impressive when they are compared to President Clinton and President Reagan's first terms in office. All three presidents inherited a weak economy and President Bush's Misery Index was lower than either Reagan or Clinton's first term Misery Index.

Even though Sen. Kerry's index is comprised of 8 different indicators, the index is actually a less precise indicator of prices than the original Misery Index. The inflation rate of the original Misery Index uses the Consumer Price Index (CPI) to determine the inflation rate. The CPI measures all expenditure items in more than 200 categories, including hundreds of goods and services broken down into 8 major groups. The CPI uses a broad basket of goods and services so as to best estimate the true rate of inflation throughout the economy. The

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CPI includes literally thousands more goods and services than the scant eight indicators used in the Kerry index. Moreover, the CPI includes the three items used in the Kerry index—college tuition, health care premiums, and gasoline prices— but these variables are just a few of the many tracked by the CPI. Instead of using a broad basket of goods and services, the Kerry index highlights three goods that have increased faster than inflation.

The Kerry index falls also falls short when its own indicators are deconstructed. The Kerry index's median family income indicator fails to accurately judge the financial situation of families. As seen in the chart below, Kerry's median family income indicator does not include the fact that the income tax burden for the median income family of four is the lowest on record. Lower and middle class Americans are facing a lower tax burden now than they were in 1979 during the Kerry-praised Carter administration.



Other indicators in the Kerry index fail as well. The Kerry index claims that gasoline prices are near record highs when data shows that gasoline prices are moderate when adjusted for inflation. The Kerry index's college tuition indicator is sorely lacking as it only includes four-year public university costs and fails to include financial aid. Despite rising college costs, recent statistics show there is more financial aid available now than any time in history. Kerry's homeownership indicator omits the fact that the current home

ownership rate is higher than any time during the previous three administrations. The Kerry index doesn't even include employment numbers. The current unemployment rate of 5.7 percent is below the average unemployment rate of the 1970s, 1980s, and the 1990s. Under President Bush, total employment has increased by 600,000 people and totals 138 million workers.

Rather than a new index of limited scope, consumers need a better understanding of the economy as a whole. A wider index gives a more robust and promising view for economic growth. Looking at the whole economy tells a different story and consumers should be aware of the total picture, not a new index based on a limited set of data.

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