SOME SPECULATIONS ON MEASURABILITY WITH WERY (WAR ECONOMIC RECOVERY INDEX)

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ABSTRACT

The paper proposes and conceptually outlines an author's composite indicator for measuring from political risk perspective the economic recovery after the current Russian-Ukrainian war. The core assumption is that the economic recovery is inevitable according to the general law of systems and the cyclicality. The aim is by combining and amending available measuring tools to propose new derivative which gives a different prospective economic recovery measurement. As a measurement tool, WERI is not yet complete and will be subject to future refinement and development. It should be perceived as a kind of manifestation of the author's passion for measurement and the construction of measuring tools.

Keywords: war, economic recovery, compose indicators, index, political risk, geopolitical risk, Covid-19
JEL: C430, F510, H560, O190, O570

INTRODUCTION

The world pandemic of Covid-19 and the war in Ukraine are perfect examples of political risk manifestation of "grey swans"[2] that put a new impetus to the measurability strive. Only few soothsayers were able to foresee them, for the others rest the temptation to foresee at least the aftermath of these overlapping crises and eventually to measure somehow their impact.

Long before happening they appeared in many forecasts[3], thus raising the suspicions of a hidden global agenda (conspiracy), or at least for self-fulfilling prophecy. These "black swan"[4] derivatives altered the entire global economic and political order and cleared the way of the "new" one – comprehensive and multidimensional in its implications. Many efforts are put of estimating the impact (economic, social, and political) of Covid-19 pandemic and the Ukrainian war (Ruta,

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[2] "events that are possible and known, potentially extremely significant but considered not very likely to happen" https://www.investopedia.com/terms/g/grey-swan.asp https://www.investopedia.com/terms/g/grey-swan.asp

[3] Some of the most accurate of them are: George Friedman's "The Next 100 wars" book, issued 2009 for the war in Ukraine, and The Global Risk Report 2006 of the World Economic Forum for the pandemic.

[4] The term was popularized by **Nassim Taleb** (former Wall Street trader, professor in finance, and writer) in his book ***The Black Swan: the importance of highly improbable"***, issued 2007, just before the financial crisis that hit the world in 2008. In short, Taleb describes "**black swan**" phenomenon as an event that Is unexpected, unknown and unpredictable. For more details, see: Taleb, N. (2007).

2022). Another direction of research interest is the delineation of the possible economic recovery and it eventual measurement. That is the point in the present paper. The recovery of the world economy is not just a wishful and desired – according to general law of systems it's inevitable, whenever it happens.

Objectives: This paper stets the following objectives: (1) to sketch theoretically an index for capturing and quantifying the degree and the speed of world economic recovery after the Ukrainian war; (2) to draw the attention of professional audience on the measurability issues of economic recovery.

Indexes significance: The indexes are the most common composite indicators. They are useful in identifying trends and drawing attention to particular issues. They can also be helpful in setting policy (or research) priorities and in benchmarking or monitoring performance. They are employed in the social sciences for several reasons: (1) they enable several variables to be represented by a single score that reduces the complexity of the data; (2) provide quantitative measures that are amenable to greater precision and statistical manipulation; (3) increase the reliability of the measurement (Nachmias and Nachmias, 1987:465). Among the limited number of analytical tools for assessing and forecasting the political risk (such as war f.ex.), the composite indicators are the most flexible and sensitive ones. They provide researchers with the opportunity to display on a large scale their imaginations and intentions.

Some stipulations: In order to avoid misunderstanding and any expectations exceeding stated objectives, the following stipulations have to be done: (1) the proposed index – WERY – has to be considered only as an initial research intention, and request for authorship; (2) the paper covers only the conceptual framework development and possible items selection of the index, which delineate only the main pillars of study and which will be a subject to future refinement and complementation.

WAR ECONOMIC RECOVERY INDEX (WERY)

WERY is meant to be a two-dimensional composite indicator expressing: (1) the degree to which the countries in the world, divided in several groups by the level and type of involvement, overcome the Ukrainian war impact and gain economic recovery; (2) the speed of the economic recovery correlated with new political risks impetus. In addition and after further refinements, the index might be set to measure the **"rate of recovery"**, "**speed of recovery**" (how fast the process is going) and **"directions of recovery"** (tracing the path of relocation of resources and investments from failed businesses to new ones). There is a possibility to correlate WERY with another composite indicator I'm working on, and that is the International Political Conformity Index (IPCI).

Grounds of the idea for WERI: I came up with the idea of WERI, re-reading and back-warding the George Friedman's next 100 years forecast were he amazingly predicts or prescripts the Russian-Ukrainian war in 2020 (only 2 years of deviation) and were he states that "wars - or at least those that do not lead to the destruction of the respective country - actually stimulate its economic development" – (Friedman, 2009:15). So my first endeavor was to

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construct a measurement tool for capturing the specific economic stimulus triggered by the war (in general not only the current one). But at the second glance this proved to be a hard effort for many reasons, so I gave up and looked away searching for some approximations and I found them in WERY. Another research trigger was the wishful thinking about the faster ending of the war and rapid restoration of the status quo. In other wards – instead of steering at war impact – trying to reconsider the desired economic restoration.

Theoretical framework: WERI lays into the theoretical patterns of *Keynesianism*, *economy of destruction* and *systems theory*.

Similar measurement tools: The worst thing for an academic researcher when camming up with an inspiring idea, is to find it already done by someone other. Almost it was the case with WERI. An index measuring the economic recovery, but from the Covid-19 pandemic - CERI, is already put to life by Horizon Group[5]. The Covid-19 Economic Recovery Index (CERI) assesses how 122 countries are positioned to weather the economic impact of the pandemic and recover from the crisis. It is the first global assessment of its kind. CERI has three equally weighted and overarching elements: (1|) **health resilience**, (2) absorptive capacity of economy and (3) **economic agility**. These elements are measured through 15 sub-categories that allow users to analyze the performance of each country in detail (see Table 1).

Table 1.CERI composite indicators

COVID Economic Recovery Index		
Health Resilience	Absorptive Capacity of the Economy	Economic Resilience
1. Health system capacity and access 2. Pandemic preparedness 3. COVID health risk factors	1. Industrial strength and diversity 2. Debt levels 3. Labour market performance 4. Reliance on international markets 5. Social resilience 6. Food Security	1. Labour market adaptability 2.Governence & social capital 3. Market size & prosperity 4. Digital economy prevalence 5. Education & skills 6. Financial system resilience

Source: https://www.covidrecoveryindex.org/methodology

Over 100 indicators from renowned sources including the IMF, ILO, WHO, World Bank, and the World Economic Forum were used to compile the index. CERI can be used for identifying countries at risk of a prolonged recession, informs exit and investment strategies, and helps countries takes measures to strengthen resilience to future shocks. It is supplemented by country profiles for each of the 122 economies.

Bulgaria is also in the rank list and performed pretty well with its 55 rank of 122 and a score of 54.50 from maximus 100. The lowest score the country receives for its health resilience. The first in range is Finland with 79.03 points and the last one is Chad with 31.16 points. Romania is on 41st place with 59.19 points and Greece takes 53 ranks with 55.04 points.

Basic assumptions: War in Ukraine (similar to Covid-19 pandemic) has strong destabilizing and destructive impact on world economy and investments. Initial estimates

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[5] A think-tank the originated from the communities of the World Economic Forum and the United Nations and based in Geneva, Switzerland, see https://www.covidrecoveryindex.org/ceri.

suggest that the war will cost the global economy up to $950 billion in 2022 (Raga and Pettinitti, 2022). Forecasts on when the war will end differ widely – between several months to several years. Definitely a recovery will occur after the world political negotiation of the new conditions and structure of the new world order.

Economic recovery notion: For the purposes of the WERY, we borrow the definition of "economic recovery" from Investopedia. According to it, economic recovery is the "business cycle stage following a recession that is characterized by a sustained period of improving"[6]. The economic recession can be caused by different factors, including war, revolutions, financial crises, global influences and etc. The recovery period is a **self-healing process** from the damage done, expressed in: **adaptation** and **adjustment** to new conditions, and **reallocation** of resources. This process is usually help by governments and central banks policies. The essence of economic recovery is the process of sorting capital goods into new combinations, under new ownership, at new prices after they have been released from failed businesses or business cutbacks in the recession.

STRUCTURE OF WERI

The main challenge for researchers when constructing a measurement tool is to identify the most appropriate indicators. This always matter of subjective judgement and the possibility of latest improvements is permanently open. As mentioned in the beginning, the current index just roughly outlines its structural content which combines three basic items (see Table 2). The first component is highly developed and put into the practical approbation, the two others are in different stages of the development process.

Table 2. WERI composite indicators

War (in Ukraine) Economic Recovery Index		
Economic Vulnerability to the Russian-Ukrainian War Index (EVtoRUWI)	International Political Conformity Index	Political Intervention Propensity in the Economy
1. Direct economic exposure to Russia and Ukraine 2. Indirect economic exposure to the global effects of the war	1.Tendency to follow recommendations and instructions issued by global powers and supranational structures 2. Degree of compliance with the imposed sanctions against Russia	1. Level of economic regulations. 2. Size of the state in the economy

Source: the author

Economic Vulnerability to the Russian-Ukrainian War Index (EVtoRUWI). The reason to take in consideration and as a component another composite indicator is the preposition that the economic recovery strongly depends on the rate of the economic vulnerability to the war. The main assumption is that the countries with highest vulnerability rate will recover slowly than that with low vulnerability rate. The EVtoRUWI, developed by Sheryllin Raga and Laetitia Pettinotti, quantifies the economic vulnerabilities of 118 Low and Medium Incomes Countries (L&MICs) to the economic effects of the Russia–Ukraine war through different impact channels. The economic vulnerability to the war at country level is

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measured as the combination of direct economic exposure to Russia and Ukraine (e.g. through bilateral trade and investment, migrants), and indirect exposure to the global effects of the war (e.g. through levels of commodity imports, trade and investment openness, tourism), minus resilience (e.g. quality of economic governance, capacity for energy transition, food security) to manage the negative impact of shocks that may emerge from the war) (Raga and Pettinotti, 2022).

International Political Conformity Index. A two-fold composite indicator expressing: (1) the degree to which the sovereign countries are incline to follow recommendations and instructions issued by global powers, supranational structures (international organizations and/or alliances), concerning the war; (2) the tendency of duplicating the measures and policies undertaken by other countries toward Russia and Ukraine. In general, **conformity** is "the act of matching attitudes, beliefs, and behaviors to group norms and politics or being like-minded" (Cialdini and Goldstein, 2004:591). The concept of conformity comes explains why people choose to conform to society rather than to pursue personal desires (because it is often easier to follow the path others have made already, rather than creating a new one). The conformity tendency occurs in small group and/or society as a whole and may result from subtle unconscious influences (predisposed state of mind), or direct and overt social pressure (Cialdini and Goldstein, 2004:593). Conformity follows the logic that –"if everyone is doing it, then it must be good and right" (Ashfold and LeCroy, 2010:465). Research in social psychology has focused primarily on two varieties of conformity – *informational* and *normative*. *Informational conformity*[7] occurs when one turns to the members of one's group to obtain and accept accurate information about reality. A person is most likely to use informational social influence in certain situations: when a situation is ambiguous, people become uncertain about what to do and they are more likely to depend on others for the answer; and during a crisis when immediate action is necessary, in spite of panic. Looking to other people can help ease fears, but unfortunately they are not always right. The more knowledgeable a person is the more valuable they are as a resource. Thus people often turn to experts for help. But once again people must be careful, as experts can make mistakes too. Informational social influence often results in *internalization* or *private acceptance*, where a person genuinely believes that the information is right (Ashfold and LeCroy, 2010). *Normative conformity* occurs when one conforms to be liked or accepted by the members of the group. This need of social approval and acceptance is part of our state of humans. In addition to this, we know that when people do not conform with their group and therefore are deviants, they are less liked and even punished by the group. Normative influence usually results in *public compliance*, doing or saying something without believing in it.

Political Intervention Propensity in the Economy. Measures the degree to which the governments tend to interfere the economy. In the field of political psychology, the political propensity refers mainly on the political leaders risk propensity. Researchers tempt to explain

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[7] In social psychology **conformity** is explained through another related concept – that of **social influence**. It is developed by the Harvard social psychologist **Herbert Kelman**, who is identifying three major types of social influence: (1) **compliance** (when people appear to agree with others but actually keep their dissenting opinions private); (2) **identification** (when people are influenced by someone who is liked and respected, such as a famous celebrity), and (3) **internalization** (when people accept a belief or behavior and agree both publicly and privately). For more details, see: Ashfold and LeCroy (2010).

the decision of political leaders (mainly of presidents) to intervene interstate conflicts. Some researchers "examine the link between US presidents' risk propensity and the frequency with which they intervene internationally" covering the period 1946–2001 (Keller, Grant, Forter, 2020). Taking grounds for this idea, we propose to estimate the propensity to intervene in economy for political purposes. Some possible sub-categories of this indicator might be the level and scope of economic regulations, and the size of the state in the economy.

CONCLUDING REMARKS

We don't know how long the Russian-Ukrainian war will last, but at least one thing is sure – it will keep provoking research quests in all scientific fields for a long time ahead. Political risk analysts and consultants will continue to adjust their tools for assessment and forecasting in strive to measure the unmeasurable. No matter how rough or precise are the tools, they all are in some extent important. The here proposed index when completed, could provide up-to-date and reliable information to the business, policy makers, civil society organizations, academics, citizens, and others.

There is a lack of consensus among academics and practitioners about the efficiency of composite indicators elaboration and use. The adepts ("aggregators') believe there are two major reasons for combining indicators in some manner to produce a bottom line. They believe that such a summary statistic can indeed capture reality and is meaningful, and that stressing the bottom line is extremely useful in garnering media interest and hence the attention of policy makers and business. The opponents, the so called "non-aggregators", believe one should stop once an appropriate set of indicators has been created and not go the further step of producing a composite index. Their key objection to aggregation is what they see as the arbitrary nature of the weighting process by which the variables are combined (Sharpe, 2004).

Of course we must be aware that composite indicators sometimes can send misleading policy messages if they are poorly constructed or misinterpreted. Their "big picture" results may invite users (especially policy and business decision-makers) to draw simplistic analytical or policy conclusions.

It is hard to imagine that the debate on the use of composite indicators will ever be settled. Official statisticians may tend to resent composite indicators, whereby a lot of work in data collection and editing is "wasted" or "hidden" behind a single number of dubious significance" (Saisana *et al,* 2005:307). On the other hand, the temptation of stakeholders and practitioners to summarize complex and sometime elusive processes *(e.g.* sustainability, single market policy, etc.) into a single figure to benchmark country performance for policy consumption seems likewise irresistible. (Saisana *et al,* 2005:308)

All composite indicators should be seen as a "live" product, which requires successive refinements and supplementations as long as new developments are taking place. An index is a very good instrument for drawing attention to the issue being investigated. Thus for example, the exercise of computing an index of resilience may itself make decision makers and stakeholders more aware of the factors that lead to resilience building. Such an exercise may also generate academic discussion and enhance awareness amongst scholars and practitioners on the issues involved.

ACKNOWLEDGMENT

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