



THE 2009
**LEGATUM
PROSPERITY INDEX™**

An Inquiry into Global Wealth and Wellbeing



THE 2009 LEGATUM PROSPERITY INDEX™



Overall Rank	Country	Economic Fundamentals	Entrepreneurship & Innovation	Democratic Institutions	Education	Health	Safety & Security	Governance	Personal Freedom	Social Capital
1	Finland	10	9	9	3	7	2	2	7	6
2	Switzerland	2	13	1	22	3	6	3	11	2
3	Sweden	16	3	7	4	15	7	5	5	3
4	Denmark	15	6	12	2	12	4	1	2	13
5	Norway	18	17	8	1	10	1	7	1	10
6	Australia	7	15	5	6	21	14	10	4	4
7	Canada	6	4	6	16	22	9	9	3	9
8	Netherlands	3	5	19	14	8	15	8	10	8
9	United States	14	1	2	7	27	19	16	8	7
10	New Zealand	27	18	4	10	19	13	11	6	1
11	Ireland	5	12	13	18	2	5	12	25	12
12	United Kingdom	13	2	11	21	23	22	13	19	11
13	Belgium	4	20	3	11	5	16	15	9	26
14	Germany	23	8	21	19	6	21	17	17	19
15	Austria	12	19	10	13	1	10	14	36	23
16	Japan	8	7	20	20	9	12	20	22	40
17	France	17	14	14	15	14	23	18	15	48
18	Hong Kong	1	10	60	39	18	11	6	67	33
19	Spain	11	25	15	12	17	28	21	13	71
20	Slovenia	31	36	16	8	24	8	24	33	44
21	Italy	25	26	23	17	11	31	35	40	37
22	Portugal	28	31	22	29	20	17	25	26	64
23	Singapore	9	11	86	26	4	3	4	64	76
24	Taiwan	19	21	29	9	26	20	43	30	73
25	Czech Republic	20	27	25	31	16	29	28	23	74
26	South Korea	21	16	32	30	31	36	27	70	31
27=	Israel	22	23	17	25	25	74	26	41	78
27=	Hungary	26	22	26	23	30	30	29	48	92
29	Poland	33	35	24	27	32	25	32	45	68
30	Greece	42	43	40	5	13	32	30	65	51
31	Estonia	30	24	34	35	35	33	19	43	94
32	Costa Rica	55	33	28	61	37	44	38	12	47
33	Uruguay	67	53	35	43	28	26	31	14	60
34	Slovakia	35	30	18	36	36	34	33	69	69
35	Croatia	41	34	41	40	34	39	42	28	46
36	Chile	36	47	27	49	48	27	22	31	85
37	Latvia	32	32	31	24	38	38	34	76	99
38	Argentina	53	48	45	38	39	45	69	27	56
39	Malaysia	24	28	69	52	40	48	37	83	52
40	Trinidad and Tobago	48	58	43	73	49	54	52	18	34
41	Brazil	54	37	38	58	64	79	53	16	62
42	Panama	46	73	39	48	57	41	50	54	50
43	Mexico	34	29	61	60	51	72	51	73	45
44	Thailand	37	39	81	54	66	58	40	74	22
45	India	43	55	36	86	88	87	41	47	5
46	Bulgaria	40	45	30	37	43	46	45	81	101
47	United Arab Emirates	38	44	98	47	29	18	39	72	77
48	Romania	52	40	33	41	47	40	64	78	102
49	Jamaica	71	51	56	71	55	57	73	24	61
50	Mongolia	57	70	44	53	76	35	86	59	42
51	South Africa	58	46	47	69	82	96	47	50	30
52=	Belize	74	49	50	79	61	61	55	58	58
52=	Kuwait	62	71	83	33	33	24	44	87	79
54	Dominican Republic	85	90	59	76	77	77	62	21	20
55	Philippines	63	41	67	70	75	78	66	20	81
56	Botswana	56	92	37	80	95	68	23	32	29
57	Paraguay	87	67	65	74	65	50	76	29	53
58	Sri Lanka	81	82	71	77	72	97	59	39	17
59	Macedonia	86	68	42	57	41	55	63	71	88
60	El Salvador	73	74	68	83	69	71	58	35	59
61=	Indonesia	68	63	58	75	78	63	61	100	14
61=	Ukraine	60	59	55	32	67	69	92	68	89
63	Namibia	69	64	53	85	83	86	46	46	27
64	Peru	49	61	51	51	81	73	68	62	104
65	Colombia	61	57	70	62	63	104	49	44	75
66	Honduras	76	88	63	78	80	62	71	63	55
67	Guatemala	84	75	74	87	71	82	70	42	49
68	Tunisia	66	54	94	50	54	37	36	86	96
69=	Russia	39	42	85	28	46	99	85	88	84
69=	Turkey	50	56	49	68	56	83	48	94	103
71	Ecuador	78	72	77	65	58	89	87	61	65
72	Nicaragua	96	91	46	82	84	66	72	38	57
73	Bolivia	90	78	54	63	85	76	84	53	66
74	Venezuela	83	85	72	66	60	93	101	57	54
75	China	29	38	100	64	53	65	93	91	70
76	Kazakhstan	59	62	96	42	45	49	97	75	87
77	Vietnam	47	60	97	81	68	42	75	80	63
78	Moldova	82	52	57	45	79	75	89	85	93
79	Ghana	94	103	48	93	93	53	54	34	24
80	Jordan	64	77	84	46	59	47	57	103	83
81	Saudi Arabia	44	81	101	56	42	56	67	98	43
82	Mali	92	99	52	102	101	43	80	37	15
83	Morocco	51	50	82	84	73	59	65	90	91
84	Senegal	100	89	62	99	96	51	56	52	28
85	Belarus	45	76	102	34	44	52	98	89	98
86	Lebanon	75	66	80	44	52	90	79	99	90
87	Bangladesh	80	86	75	89	90	80	60	56	72
88	Egypt	72	65	90	55	50	64	91	95	100
89	Zambia	102	101	64	98	97	85	77	60	21
90	Nepal	91	93	89	91	86	91	94	77	18
91	Mozambique	95	98	73	104	100	60	78	49	38
92	Uzbekistan	89	87	104	72	62	67	96	82	80
93	Cambodia	65	102	88	96	98	70	82	51	67
94	Iran	79	69	93	59	70	88	102	101	82
95	Kenya	101	83	66	95	91	100	88	84	25
96	Algeria	77	95	87	67	74	95	83	97	95
97	Tanzania	97	100	76	100	102	84	74	66	41
98	Nigeria	99	94	78	94	92	98	99	92	16
99	Pakistan	70	79	79	101	87	101	81	104	36
100	Cameroon	88	96	95	92	99	94	103	79	35
101=	Central African Republic	98	104	92	103	104	92	100	55	39
101=	Yemen	103	97	91	88	94	81	90	93	86
103	Sudan	93	80	103	97	89	103	95	96	32
104	Zimbabwe	104	84	99	90	103	102	104	102	97

● Indicates strong rank ● Indicates average rank ● Indicates weak rank



Dr. William Inboden **Dr. Ryan Streeter**

Dear Reader,

Welcome to the 2009 Legatum Prosperity Index™, the world's only global assessment of wealth and wellbeing. Now in its third year, this edition builds on the previous versions with expanded data and refined analysis.

The Prosperity Index™ uses a holistic definition of prosperity to include both material wealth and quality of life. Rather than replicating other measurements that rank countries by their actual levels of wealth, life satisfaction, or development, the Prosperity Index produces rankings based on the foundations of prosperity. These are the factors that help drive economic growth or produce happy citizens in a given country.

The Prosperity Index™ assesses 104 countries, accounting for 90 percent of the world's population, and is based on 79 different variables, each of which has a demonstrated effect either on economic growth or on personal wellbeing. This report provides the country rankings, a number of key findings, and background on how the Index was created. More information on the Prosperity Index™, including data sources, profiles of each country, and interactive tools for further exploration, can be found at www.prosperity.com.

Our hope is that the Prosperity Index™ findings will be of use to policymakers, journalists, business leaders, scholars, and interested citizens around the world. While there appear to be some common foundations shared by prosperous countries – such as economic liberty, accountable government, human rights, healthy citizens, and strong communities – it remains a fact of history that each nation needs to find its own path to success. Moreover, while governments by themselves cannot create or mandate prosperity, they can help create an environment that is conducive to entrepreneurship, earned success, and human flourishing. Ultimately, it is citizens and their leaders who must choose to take ownership of the foundations that will drive their nation's long-term prosperity and their personal fulfilment.

The Prosperity Index™ is the signature annual report of the Legatum Institute and is central to our ongoing inquiry into the nature of prosperity and the pathways of successful countries. The Legatum Institute is a London-based global think tank that promotes political, economic, and individual liberty around the globe, with a special focus on developing and transitioning countries. We very much hope that you find the 2009 Prosperity Index™ to be engaging and thought provoking. For the Legatum Institute, the quest to understand the foundations of prosperity and the pathways of successful countries is an enduring investigation that we will seek to improve with every edition. We would welcome any comments or feedback that may help improve our understanding. Please visit us at www.li.com for more information about our research, products, events, and initiatives.

Yours Sincerely,



Dr. William Inboden

Senior Vice-President
Legatum Institute



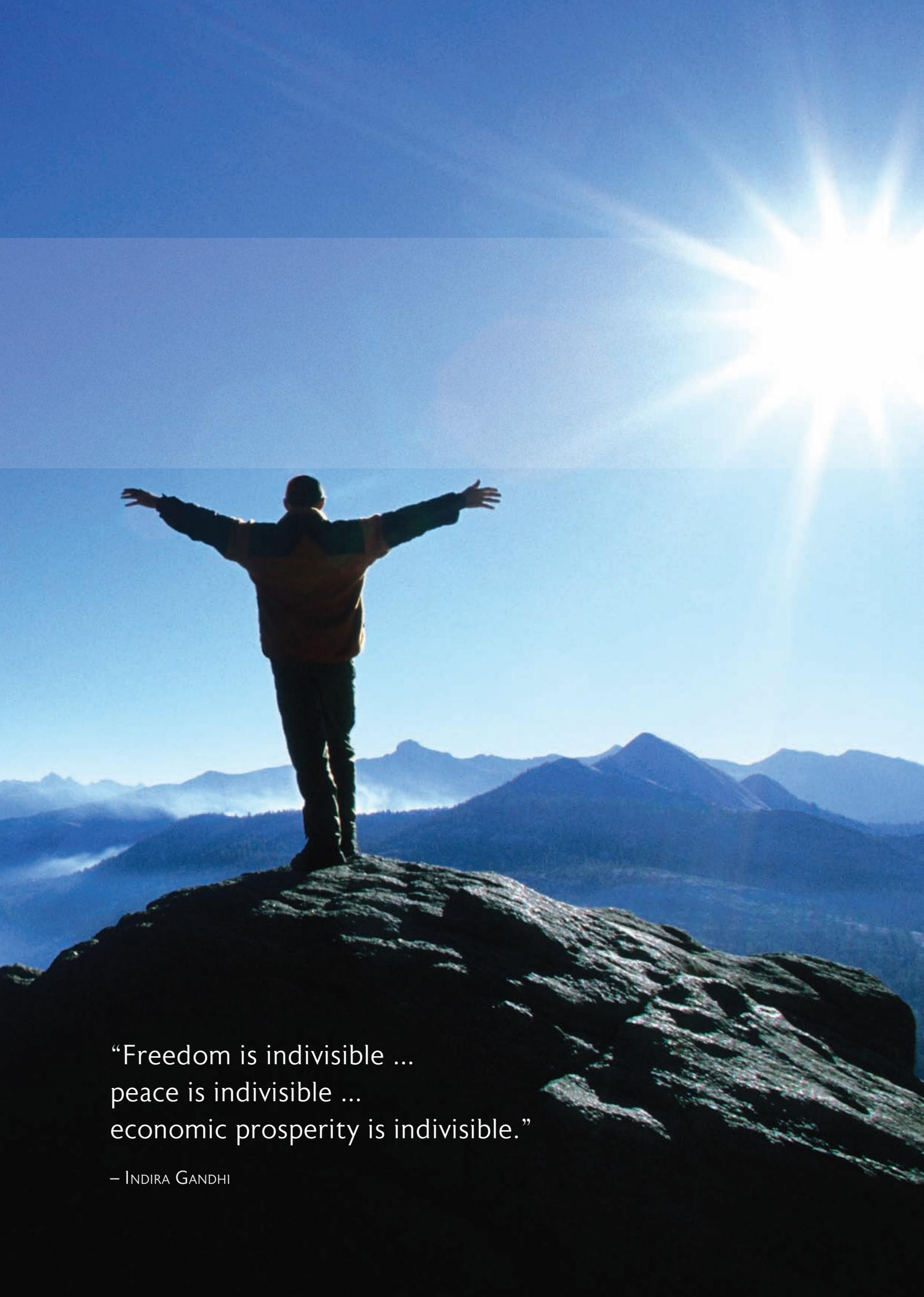
Dr. Ryan Streeter

Senior Fellow
Legatum Institute

The purpose of the Prosperity Index is to encourage policymakers, scholars, the media, and the interested public to take a holistic view of prosperity and understand how it is created. Holistic prosperity extends beyond just material wealth, and includes factors such as social capital, health, opportunity, security, effective governance, human rights and liberties, and overall quality of life.

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“Freedom is indivisible ...
peace is indivisible ...
economic prosperity is indivisible.”

– INDIRA GANDHI

SECTION ONE

THE 2009 LEGATUM
PROSPERITY INDEX™

Executive Summary

What is prosperity, and how is it achieved?

Following a turbulent year marked by a global economic crisis, the Legatum Prosperity Index seeks to answer these two fundamental questions. It defines prosperity as both wealth and wellbeing, and finds that the most prosperous nations in the world are not necessarily those that have only a high GDP, but are those that also have happy, healthy, and free citizens.

Creating the Index

Now in its third year, the 2009 edition of the Prosperity Index ranks 104 nations according to nine building blocks of prosperity, which we have identified through extensive research and analysis:

- Economic Fundamentals
- Entrepreneurship and Innovation
- Democratic Institutions
- Education
- Health
- Safety and Security
- Governance
- Personal Freedom
- Social Capital

Each building block corresponds to a *sub-index*. A country's position in the overall Prosperity Index is produced by equally weighting and averaging its nine sub-index scores. The scores are then ranked to produce the overall ranking.

Rankings

Finland tops this year's Index, with the United States ranking ninth, ahead of large European nations such as Britain, Germany and France, which all still make the top 20. Finland is narrowly ahead of Switzerland, Sweden and Denmark. Zimbabwe ranks last, following Yemen and Sudan.

Top 10 countries

1	Finland
2	Switzerland
3	Sweden
4	Denmark
5	Norway
6	Australia
7	Canada
8	Netherlands
9	United States
10	New Zealand

Bottom 10 countries

95	Kenya
96	Algeria
97	Tanzania
98	Nigeria
99	Pakistan
100	Cameroon
101	Central African Republic
102	Yemen
103	Sudan
104	Zimbabwe

Key Findings

What does the Prosperity Index tell us? Its value is found not only in its global rankings but also in what it can tell us about how prosperity is created. The following are ten key findings of the Prosperity Index:

1. Prosperous countries are strong across the board. Prosperous countries which lead the Index do well in all nine sub-indexes, indicating that the foundations of prosperity reinforce each other.

2. Entrepreneurs at the micro level need good economic policies at the macro level. Innovation and entrepreneurship are more strongly related to economic fundamentals than any other factor in a society. Aspiring entrepreneurs will often hit a “ceiling” limiting their success if a nation’s economy is not fundamentally strong.

3. Freedom cannot be divided. While some nations seek to allow one aspect of freedom while restricting other aspects, prosperous nations respect freedom in all of its dimensions: economic, political, religious, and personal.

4. Prosperity is concentrated in the North Atlantic – for now. Sixteen of the top 20 most prosperous countries sit in North America and Europe.

5. History is not destiny. Highly ranked nations include those with a long history of productive economies, effective and limited government, and social capital. Yet several other nations rank high that not long ago were afflicted with poverty, oppression, and unhappiness.

6. Good governance is central to life satisfaction and economic progress. Countries in which sound governance creates satisfied citizens are also the most likely to have the healthiest economic fundamentals and the most entrepreneurial societies.

7. Prosperity means security. Security and safety function as both a cause and an effect of overall prosperity. A secure nation enables its citizens to flourish without fear of attack or harm, and prosperous citizens provide the financial resources and social capital to maintain safety and security.

8. Happiness is ... opportunity, good health, relationships, and the freedom to choose who you want to be. The highest levels of overall life satisfaction are reported in countries which score best in the areas of health, safety, personal freedom, and social capital.

9. Strong communities are better than weak governments. Some countries with ineffective governments still score well on social capital, indicating that healthy networks of families and friends play an essential role in helping a nation function.

10. It’s true that money can’t buy happiness ... unless you are poor. Only in the poorest countries do increases in income have a significant effect on people’s life satisfaction.

The Index rankings are available in the fold-out chart in the front cover to this document. Results for each of the nine sub-indexes are available on pages 21–31.

The full rankings of all 104 countries, together with country profiles and the full Prosperity Index Report, are available online at www.prosperity.com. Visitors to the interactive site may also view and manipulate the data and create custom reports.

THE GROWING DEBATE: HOW DO WE MEASURE WHAT MATTERS?



While Gross Domestic Product (GDP) remains the most widely used measure of a nation's progress, there is a growing consensus that better measures are needed. Going back at least as far as Robert Kennedy's famous 1968 speech lamenting that GDP "measures everything, in short, except that which makes life worthwhile", political leaders and scholars have recognised the inadequacies of GDP as a measure of true prosperity. But what should take its place? Since 2007, the Legatum Prosperity Index has attempted to provide a comprehensive measurement of prosperity using a combination of variables based on economic wealth and quality of life. More recently, high profile figures such as French President Nicolas Sarkozy have joined the debate. He created a commission of 25 eminent scholars, including five Nobel Laureates, to reassess according to the Commission's official title, the "Measurement of Economic Performance and Social Progress". The Sarkozy Commission's report, issued on September 14, 2009, concluded that while there is no single "holy grail" statistic which can quantify everything meaningful in a single number, a range of new variables should be included in measuring a nation's progress. While the Sarkozy Commission report gives perhaps too much weight to government regulation and social welfare spending as intrinsic goods, it is overall a welcome contribution to an important discussion.

SECTION TWO

KEY FINDINGS

What does the Prosperity Index tell us?

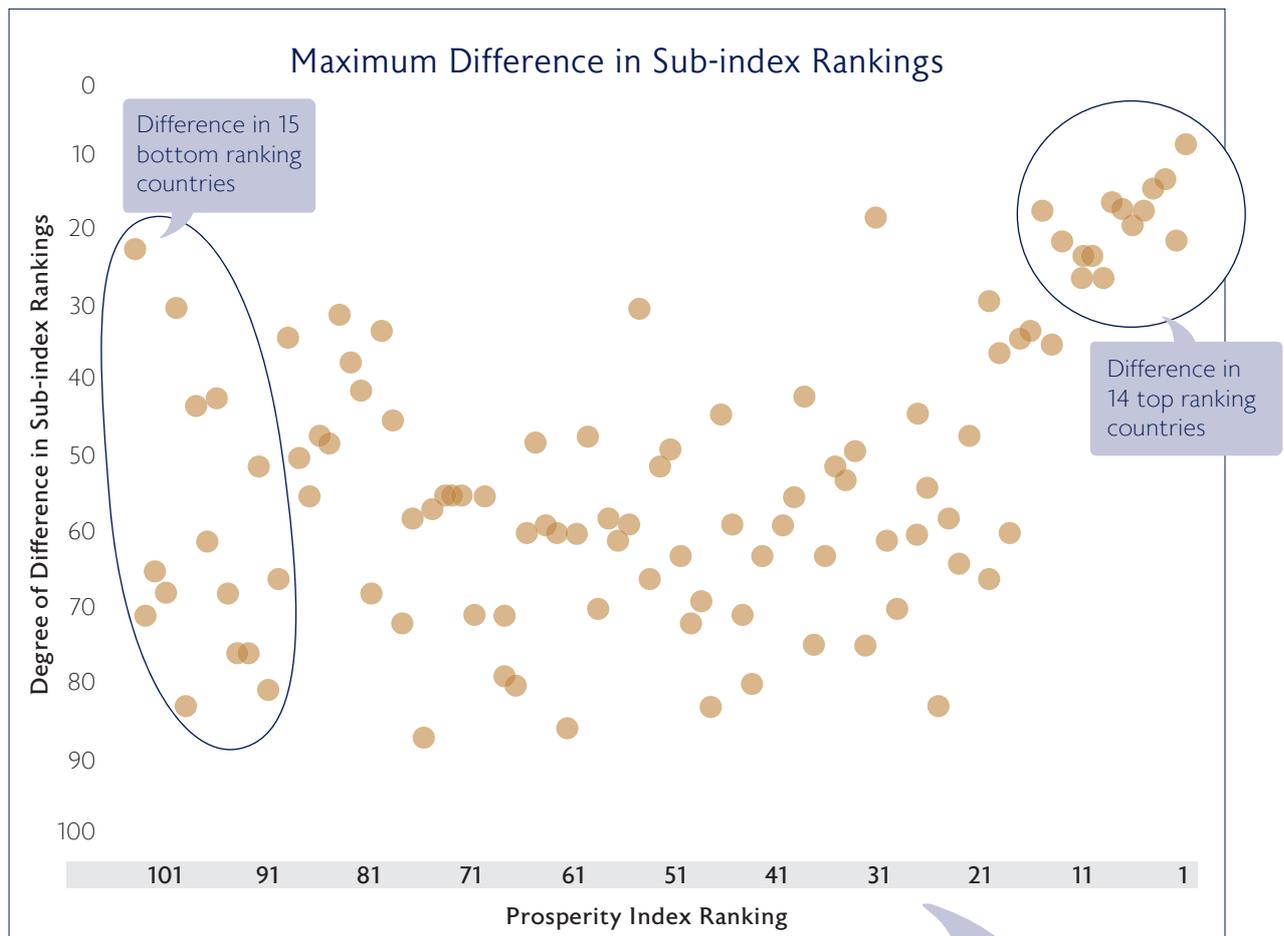
Its value is found not only in its global rankings but also in what it can tell us about how prosperity is created. Following are ten key findings of the Prosperity Index:

1. Prosperous countries are strong across the board

The world's most prosperous countries are successful because they have strong and broad foundations and are generally doing well across all nine areas of prosperity with very little variation between each area. For example, Finland ranks first overall despite not having the highest score in any of the sub-indices.

Sixteen of the top 20 countries in the Prosperity Index rank in the world's top 20 countries with the highest per capita GDP as well as the highest average life satisfaction scores in the Gallup World Poll.

INSIGHT: Middle and low income countries have much wider variances in their sub-index scores. The less prosperous the country, the more it will be subject to large differences between its performance in one area, such as social capital, and another, such as governance.



Prosperous countries in the upper right corner have little variance in their scores. One might expect poor countries to cluster similarly on the left-hand side due to consistently bad scores, but they don't. Such variance in performance is a consistent trait of almost all less prosperous countries.

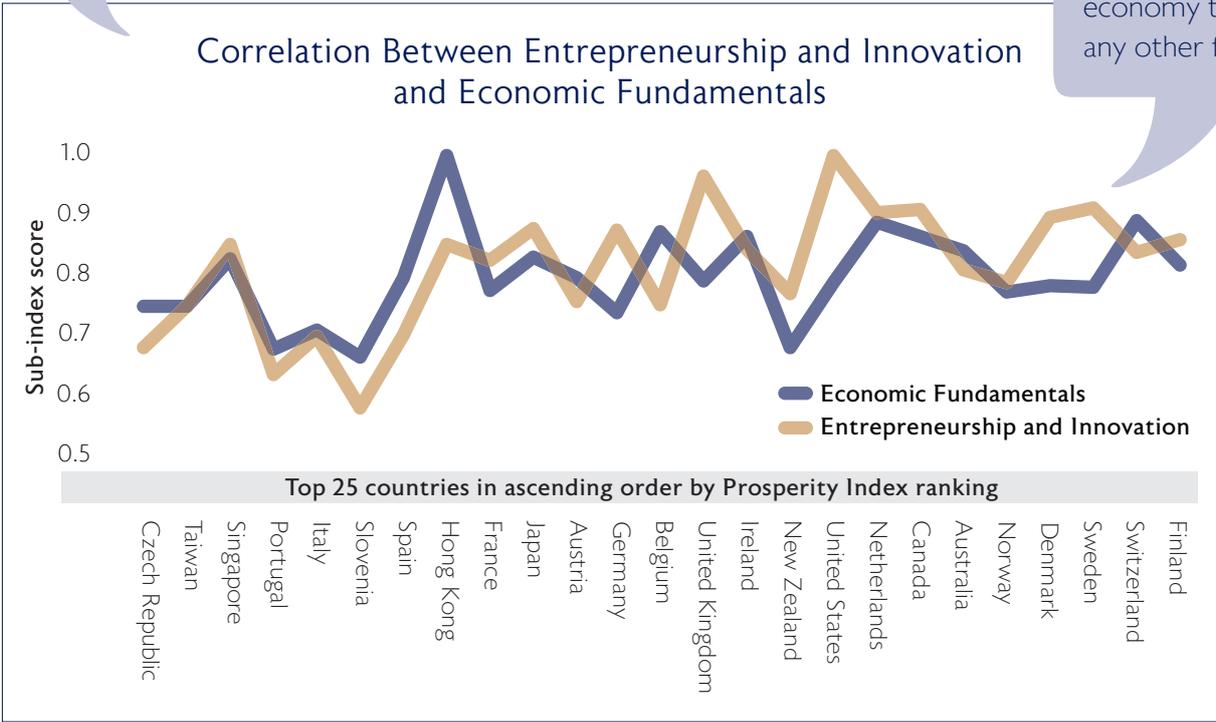
2. Entrepreneurs at the micro level need good economic policies at the macro level

The sub-indexes measuring Economic Fundamentals and Entrepreneurship and Innovation are more highly correlated with each other than they are with any other sub-indexes. We know this by comparing their scores, which are shown in the graph below. Of the top 20 most entrepreneurial and innovative countries in the Index, 17 are also among the top 20 countries with the strongest economic fundamentals.

INSIGHT: When countries create environments ripe for business start-ups and friendly to innovation, they are also doing the kinds of things that engender stability and growth in the overall economy. Without sound economic policy, entrepreneurship may very well hit a “ceiling”. Countries may be innovative without having the highest health standards, for example, but they generally will never be innovative with a perpetually unsteady economy.

All scores in this graph, and others to follow, are between 0 and 1, with the higher number indicating a stronger score

The ability of a nation’s people to innovate is more strongly related to the soundness of its economy than any other factor



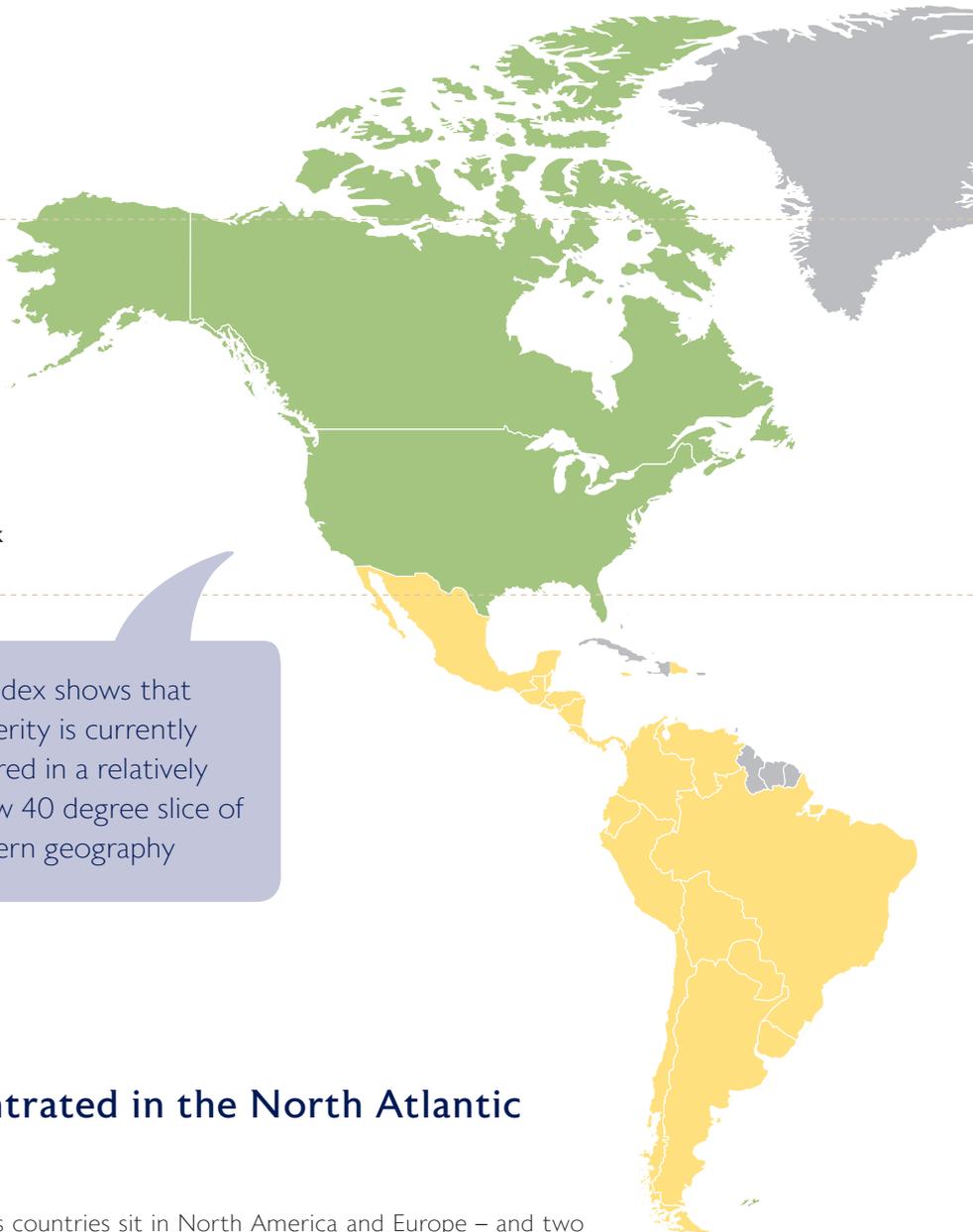
3. Freedom cannot be divided

One third of the 79 factors that make up the nine sub-indexes are indicators of freedom, including the freedom to start a business, the ability to access medical care and education, the freedom to worship or engage in political activity, and others reflected in each of the sub-indexes. The factors essential to free societies are positively correlated with prosperity, no matter which aspect of prosperity one measures.

INSIGHT: The Prosperity Index makes a unique contribution to our understanding of freedom. Freedom is not something that can be measured by only assessing government regulatory policies or freedom of speech and worship. Rather, freedom is essential to all aspects of a healthy, successful, prosperous nation and when a country fails to protect and advance the political, civil, and economic liberties of its citizens, its prosperity will be negatively affected in the long run.

- Indicates strong rank
- Indicates average rank
- Indicates weak rank
- Insufficient data to assign a rank

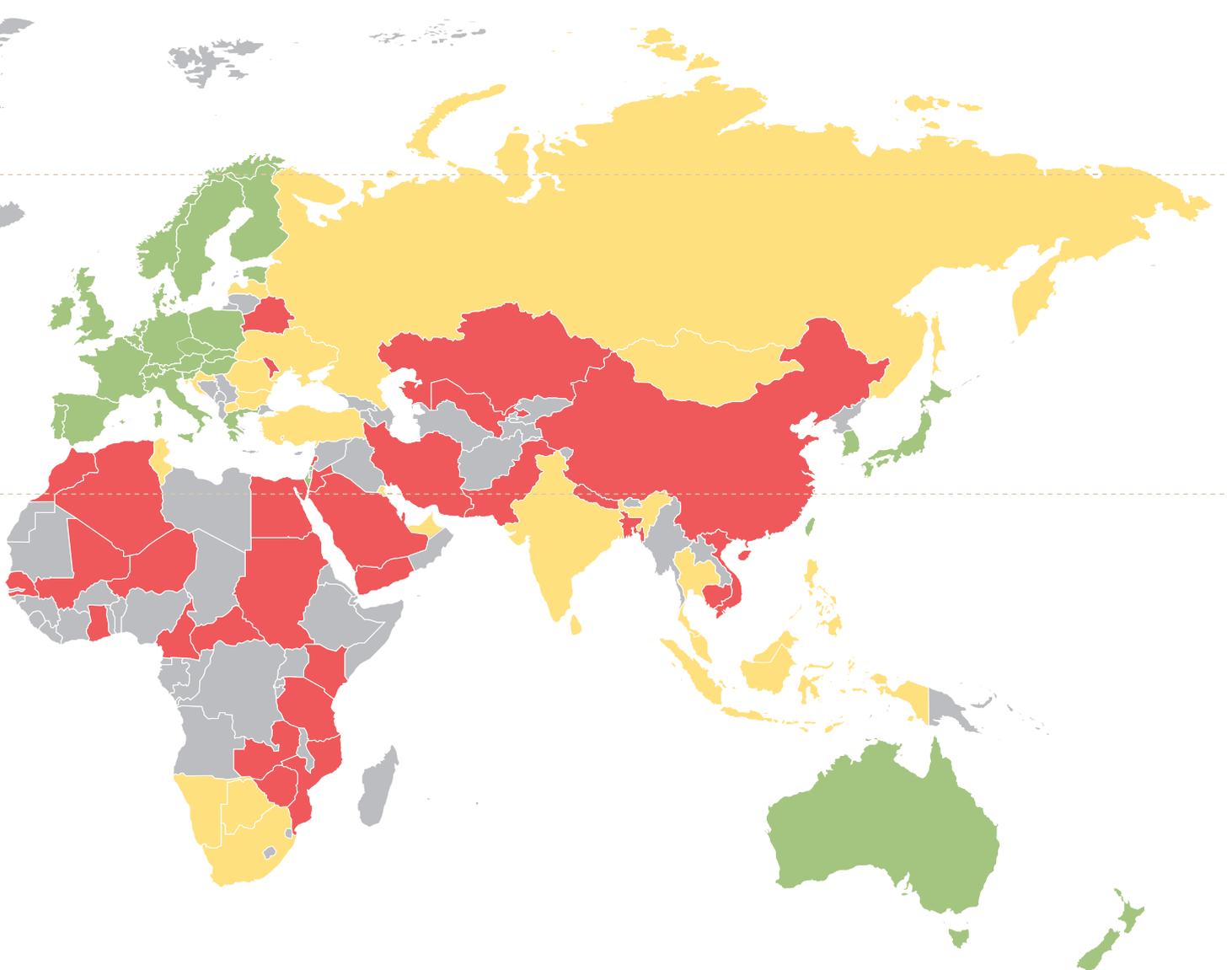
The Index shows that prosperity is currently clustered in a relatively narrow 40 degree slice of northern geography



4. Prosperity is concentrated in the North Atlantic – for now

Sixteen of the top 20 most prosperous countries sit in North America and Europe – and two others (Australia and New Zealand) are the Pacific heirs of British commercial and political institutions. These 16 nations account for only 10 percent of the world’s population but 40 percent of world GDP.

INSIGHT: Expanding to the top 25 countries in the Prosperity Index, the group becomes only slightly more diverse and accounts for just 14 percent of the world’s population. India and China, by contrast, make up 40 percent of the world’s population yet are ranked 45th and 75th respectively. The highest-ranked sub-Equatorial country in the Index – excluding Australia and New Zealand – is Uruguay at 33rd, and 10 of the bottom 20 countries are concentrated in sub-Saharan Africa.



5. History is not destiny

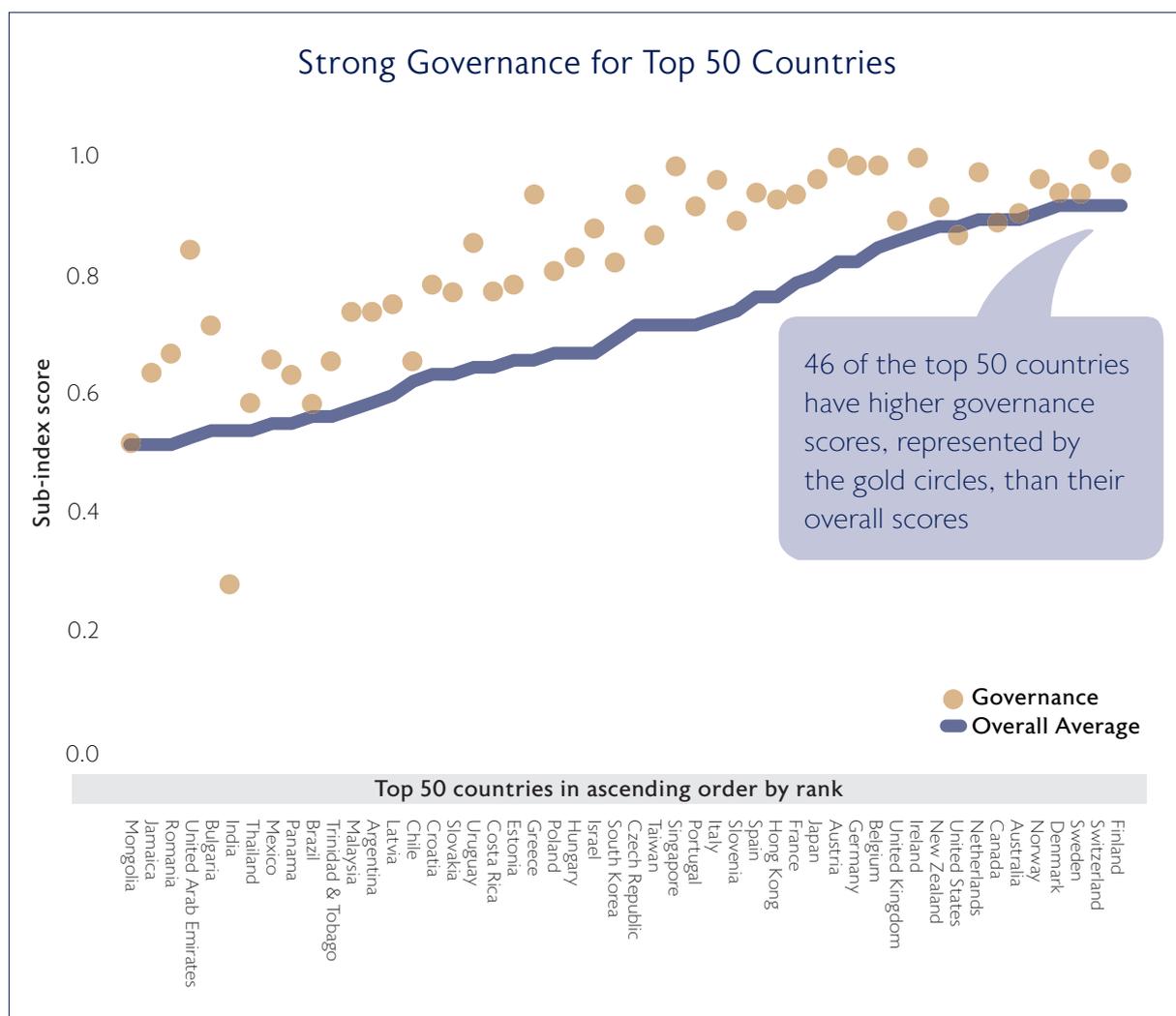
The highly ranked nations include not only those with a long history of productive economies, effective and limited government, and social capital, but also several others which have even recently been afflicted with poverty, oppression, and unhappiness. The top 40 spots in the Index include countries that only 40 years ago had stagnant economies or dysfunctional governments, and often both. In Asia, Singapore, Taiwan, and South Korea were barely distinguishable from developing countries just a generation ago. In Europe, nations such as Croatia, Estonia, the Czech Republic, Hungary, and Slovakia were controlled by communist governments, knew little of wealth or freedom, and some, of course, did not even exist. In Latin America, Chile and Brazil were just beginning to find their way to economic growth.

INSIGHT: Nations which become prosperous do so through a mutually reinforcing combination of wise economic policies, democratic governance, and enterprising and trustworthy citizens. For example, amidst considerable geographic and cultural diversity, all but two of the top 40 countries in the Index – Hong Kong and Singapore – are electoral democracies.

6. Good governance is central to life satisfaction and economic progress

Citizens – not governments – are ultimately responsible for the creation of wealth and the realisation of happiness. Yet governance is indispensable. Countries in which sound governance leads to satisfied citizens are also most likely to have the healthiest economic fundamentals and the most entrepreneurial societies. Accountable political institutions, protections for civil liberties, predictability in contracts, and reliable regulatory structures all help promote prosperity.

INSIGHT: Governance is a key source of a country’s overall prosperity. Of the top 50 countries in the Prosperity Index, 46 have higher scores for governance than their overall scores, meaning that this main factor has given them a higher ranking than they would have otherwise achieved.



WHAT MATTERS MOST?

The Prosperity Index generates its final rankings by equally weighting and averaging its sub-indexes. Some observers may believe that one particular sub-index matters more than others in terms of its contribution to a country's prosperity. For instance, if you believe that Economic Fundamentals and Entrepreneurship and Innovation are more significant drivers of national prosperity, then you might want to double the weight you assign to them.

To interact with the Prosperity Index data and assign different values to the sub-indexes, visit www.prosperity.com.

This chart shows what the results look like when the Economic Fundamentals and Entrepreneurship and Innovation sub-indexes are double weighted

PI rank	Country	New rank	Change in rank
2	Switzerland	1	1
1	Finland	2	-1
3	Sweden	3	0
4	Denmark	4	0
8	Netherlands	5	3
7	Canada	6	1
9	United States	7	2
5	Norway	8	-3
6	Australia	9	-3
11	Ireland	10	1
12	United Kingdom	11	1
10	New Zealand	12	-2
13	Belgium	13	0
14	Germany	14	0
15	Austria	15	0
16	Japan	16	0
18	Hong Kong	17	1
17	France	18	-1
19	Spain	19	0
23	Singapore	20	3
24	Taiwan	21	3
21	Italy	22	-1
20	Slovenia	23	-3
25	Czech Republic	24	1
22	Portugal	25	-3

7. Prosperity means security

Security – from domestic crime, oppressive government, or foreign attack – seems to function as both a cause and an effect of overall prosperity. Basic levels of safety allow citizens to be productive and enjoy their lives; in turn, wealthy and happy countries are also able to devote the necessary resources to maintaining safety and security.

The countries at the very top of the Index are quite similar when it comes to their relative levels of safety and security. For example, six of the 10 safest countries also rank in the top 10 overall rankings, and no country in the overall top 10 ranks below the top 20 on security.

INSIGHT: A poor security environment hurts a nation in many ways. None of the countries that rank in the bottom 10 on security make it into the top 50 in the overall rankings. And sadly, the benefits of safety and security are not enjoyed by much of the world. Only nine percent of the world's population lives in the world's 20 safest countries, whereas 31 percent of the world lives in the 20 most dangerous countries.

8. Happiness is ... opportunity, good health, relationships, and the freedom to choose who you want to be

The highest levels of overall life satisfaction are reported in countries which score best in the areas of health, safety, freedom, and social capital. The Prosperity Index is able to determine which factors influence people’s happiness more than others. The results show that being able to choose the course of your life is the most important ingredient of happiness – along with your good health and relationships.

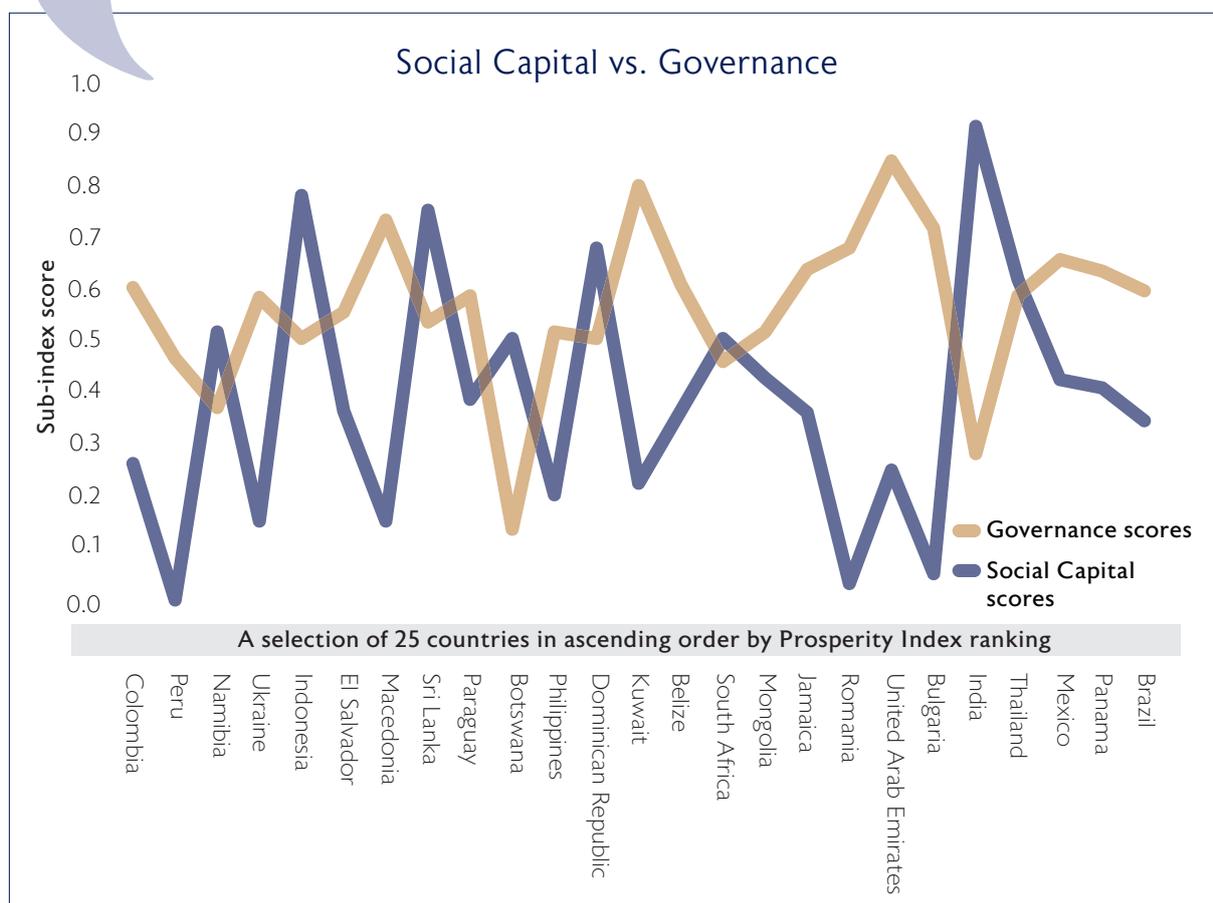
INSIGHT: The ability to freely move, worship, and choose one’s way in life matter more to people’s sense of satisfaction than how tolerant they feel their country is. People’s capacity to participate in their political systems affects their levels of personal wellbeing more than how much corruption they perceive in their local government and businesses. The ability to build trusting relationships and participate in social networks contributes more to life satisfaction than being helped by a stranger through donations or volunteering. Personal safety has a greater effect on one’s sense of wellbeing than the protection of material possessions. All in all, countries in which people can freely pursue opportunity amidst high levels of trust and safety are also the happiest, most prosperous countries.

9. Strong communities are better than weak governments

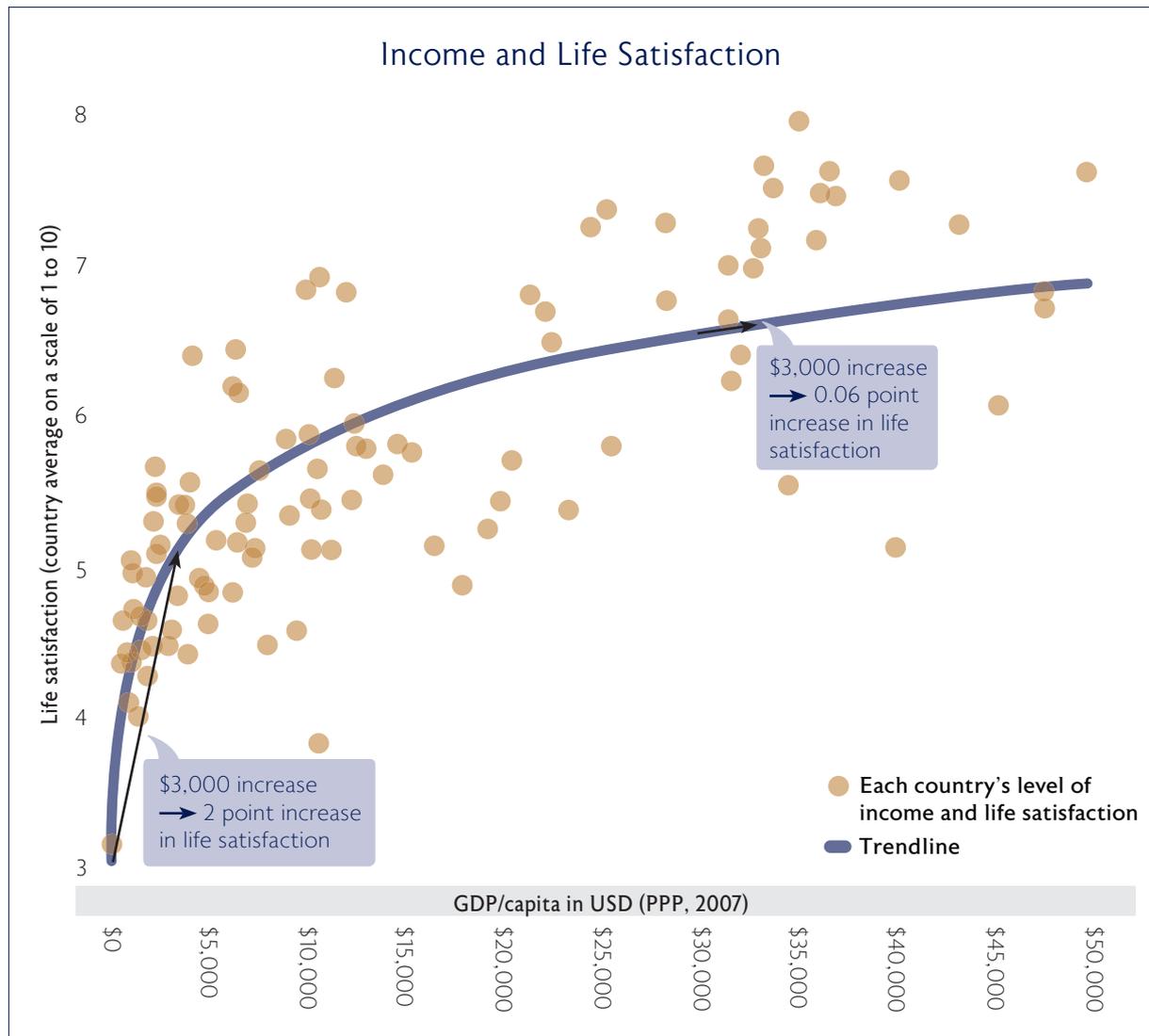
Levels of social capital are unusually diverse throughout the Prosperity Index rankings. In particular, countries in which good governance adds to people’s overall wellbeing frequently have low levels of social capital. In the graph below one can see that a country’s low social capital score is often counterbalanced by a high governance score, and vice versa.

INSIGHT: People in poorly governed countries often rely more heavily on their families, communities, and other trust-building networks.

The gold and blue lines illustrate the occasionally inverse relationship between social capital and governance



10. It's true that money can't buy happiness ... unless you are poor



The notion that money doesn't make people happy is more than a truism. It is rooted in the evidence. Only in the poorest countries does money have a significant effect on people's satisfaction. This makes sense, given its direct and positive impact on life's most basic needs. On a scale of 1 to 10, an increase in a country's per capita income from \$0 to \$3,000 leads to a 2 point increase in life satisfaction among its residents – a huge effect. However, once a nation rises from extreme poverty, money begins to diminish fairly quickly as a source of happiness. By the time a country grows rich, money has an almost negligible effect. An increase from \$30,000 to \$33,000 in per capita income only leads to a 0.06 point increase in a nation's happiness.

INSIGHT: For the poorest countries, raising people's incomes is the surest route to improving their quality of life and increasing their levels of happiness. As countries develop, however, the rule of law, good health, strong relationships, and other quality of life factors matter more than money.



SECTION THREE

CREATING THE INDEX

Creating the Index

The Prosperity Index accounts for 90 percent of the world's population, providing a reliable guide to the world's most and least prosperous countries. Based on years of statistical analysis and research into the most important ingredients of economic growth and wellbeing, the Index uses a combination of objective data and subjective responses to surveys.

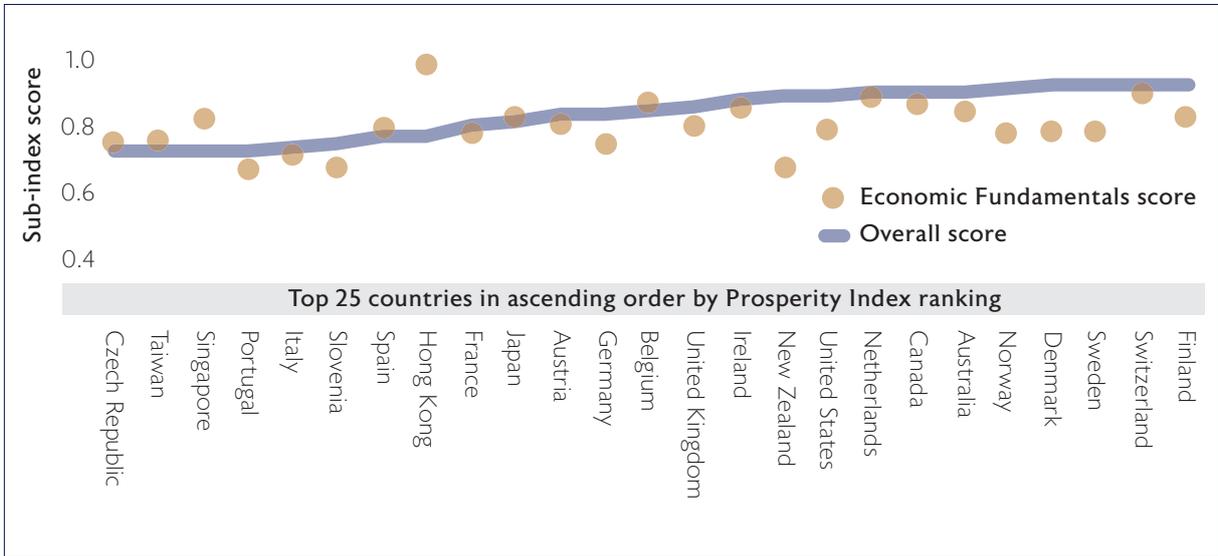
This data comprises 79 different variables, distilled into nine different sub-indexes, each of which has been identified as a foundation of prosperity. The variables have varying degrees of influence in each sub-index which is portrayed in the bar graphs in the pages to follow. A country's performance in each sub-index is given a score, and the overall Prosperity Index rankings are produced by averaging the scores of the nine sub-indexes for each country. Those countries that perform well across each sub-index do best in the overall rankings. The nine sub-indexes are:

- **Economic Fundamentals** – a growing, sound economy that provides opportunities for wealth creation
- **Entrepreneurship and Innovation** – an environment friendly to new enterprises and the commercialisation of new ideas
- **Democratic Institutions** – transparent and accountable governing institutions that promote economic growth
- **Education** – an accessible, high-quality educational system that fosters human development

- **Health** – the physical wellbeing of the populace
- **Safety and Security** – a safe environment in which people can pursue opportunity
- **Governance** – an honest and effective government that preserves order and encourages productive citizenship
- **Personal Freedom** – the degree to which individuals can choose the course of their lives
- **Social Capital** – trustworthiness in relationships and strong communities

The first four sub-indexes are measures primarily of economic growth, measured in per capita GDP, and the following five sub-indexes are measures of wellbeing, measured in life satisfaction. Each sub-index, therefore, shows which drivers of economic progress or wellbeing matter most, and each ranks the world accordingly.

Economic Fundamentals



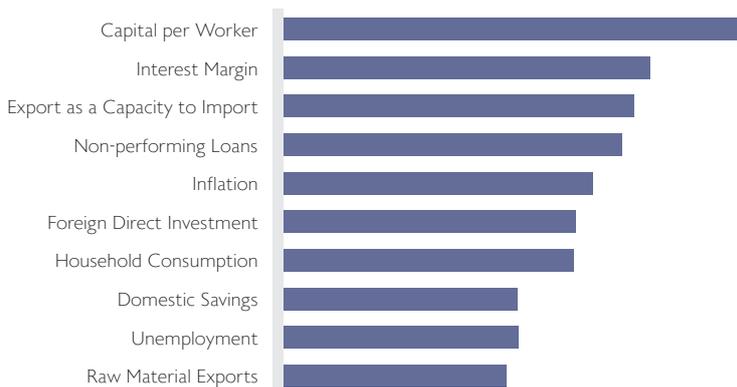
The Economic Fundamentals sub-index measures how well the countries in the Prosperity Index produce the elements necessary for economic growth and stability. Increased investment, trade, low unemployment, and solid levels of growth without inflationary or credit excess are all critical for nations to grow more prosperous over time. The Economic Fundamentals sub-index, therefore, accounts for factors such as capital investment, unemployment, inflation, trade, savings, and additional measures of productivity and stability. It also takes into account factors such as nonperforming loans and overreliance upon natural resource exports as threats to productivity and stability.

This sub-index attempts to account for economic wellbeing in the wake of the worst global financial crisis since the 1930s. As many observers have noted in the past year, measures of economic health that focus too heavily on growth without considering the role of excess credit present a skewed perspective. At the same time, an over-reliance on stability at the expense of growth and progress will also reduce the prospects of prosperity for a nation. The Economic Fundamentals sub-index strives to achieve a balance that rightly reflects the best set of indicators for a healthy economic environment.

Economic Fundamentals Sub-index Rank Order

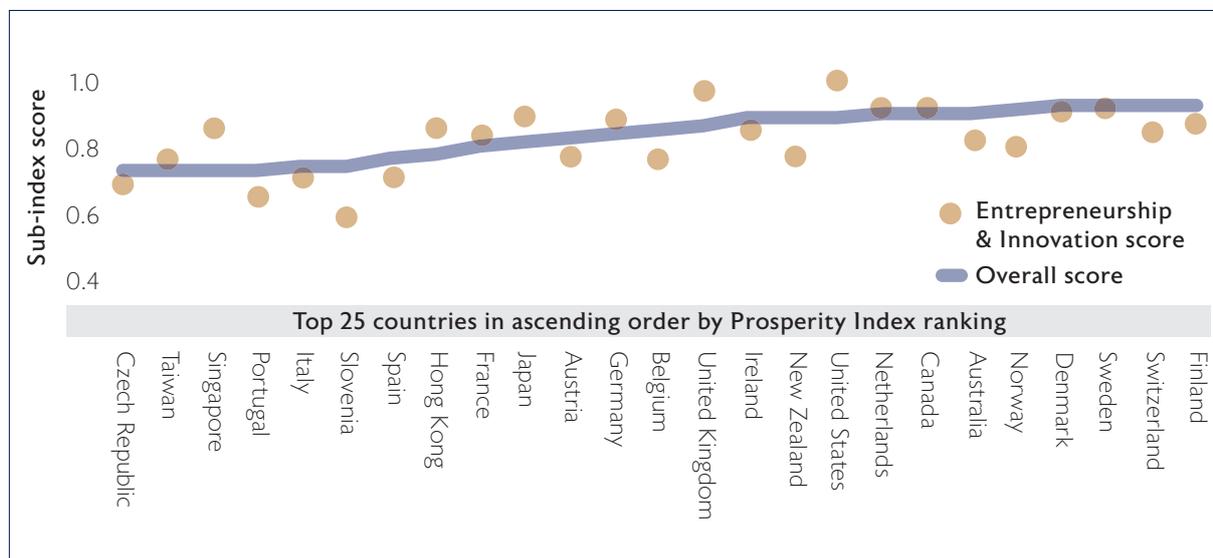
Rank	Country
1	Hong Kong
2	Switzerland
3	Netherlands
4	Belgium
5	Ireland
6	Canada
7	Australia
8	Japan
9	Singapore
10	Finland
11	Spain
12	Austria
13	United Kingdom
14	United States
15	Denmark
16	Sweden
17	France
18	Norway
19	Taiwan
20	Czech Republic
21	South Korea
22	Israel
23	Germany
24	Malaysia
25	Italy

Variables by degree of influence on per capita income





Entrepreneurship and Innovation



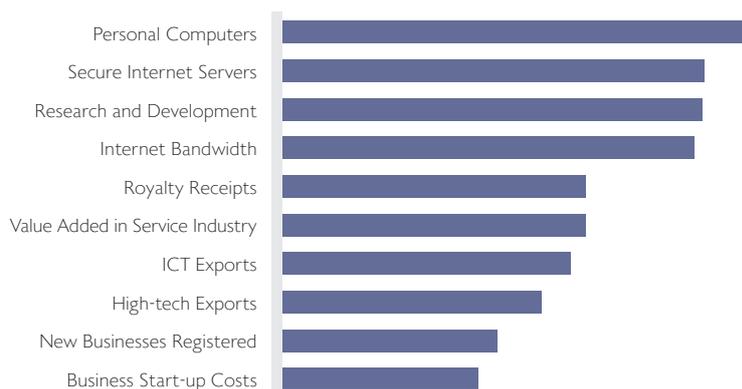
The Entrepreneurship and Innovation (E&I) sub-index measures how well the countries in our study build upon key drivers of innovation. As pointed out earlier, E&I correlates most closely with the Economic Fundamentals sub-index, which suggests that sound macroeconomic measures foster innovation, and vice versa. A key part of a country's capacity for entrepreneurship is its ability to commercialise new ideas and create markets for innovative products. The ability to start and run new enterprises is an obvious, important aspect of a country's approach to fostering innovation. The E&I sub-index therefore assesses the nations in the Prosperity Index by indicators such as business start-ups, technological capacity, royalties on inventions, and other key measures of entrepreneurial activity.

This means that the E&I sub-index gauges which countries possess the greatest ability to commercialise ideas and launch new enterprises. It is not a simple ranking of the numbers of small businesses or some other relatively simplistic measure of entrepreneurship. Such outcome-oriented measures would miss the underlying capacity of a country to innovate. The E&I sub-index can be regarded as a good measure of who will be producing the most innovative products and starting new businesses in the near future.

Entrepreneurship and Innovation Sub-index Rank Order

Rank	Country
1	United States
2	United Kingdom
3	Sweden
4	Canada
5	Netherlands
6	Denmark
7	Japan
8	Germany
9	Finland
10	Hong Kong
11	Singapore
12	Ireland
13	Switzerland
14	France
15	Australia
16	South Korea
17	Norway
18	New Zealand
19	Austria
20	Belgium
21	Taiwan
22	Hungary
23	Israel
24	Estonia
25	Spain

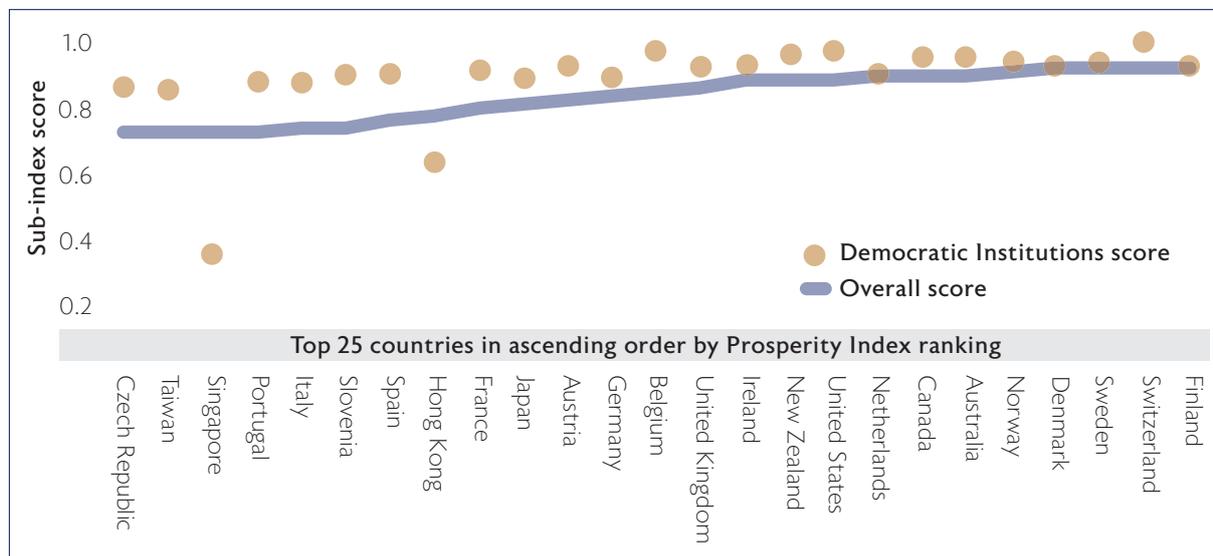
Variables by degree of influence on per capita income



HAPPINESS AND INCOME



Four of the sub-indexes in the Prosperity Index are created by correlating variables with per capita GDP, and five are created by correlating variables with subjective wellbeing, or happiness. Together, they give a comprehensive view of how well a nation is doing. The chart above is a scatterplot that places countries on a continuum by how economically competitive they are and how happy they are. One goal of national policy would be to move as far into the upper right quadrant as possible!



The Democratic Institutions sub-index is one of two sub-indexes in the Prosperity Index that take account of how governance affects prosperity. The Democratic Institutions sub-index relates governance measures to economic performance. The Governance sub-index, which follows later, relates governance measures to life satisfaction. Measures of democratic governance are important because they indicate whether or not a nation is fostering institutions that are conducive to the expansion of political and economic liberty, both of which are important to success over time.

The Democratic Institutions sub-index, as an indicator of the relationship of governance to economic progress, includes variables that measure political participation among citizens, the degree to which civil liberties are protected, constraints on the executive branch of government, the independence of the judiciary, and other measures critical to expanding opportunity among the country's population as a whole.

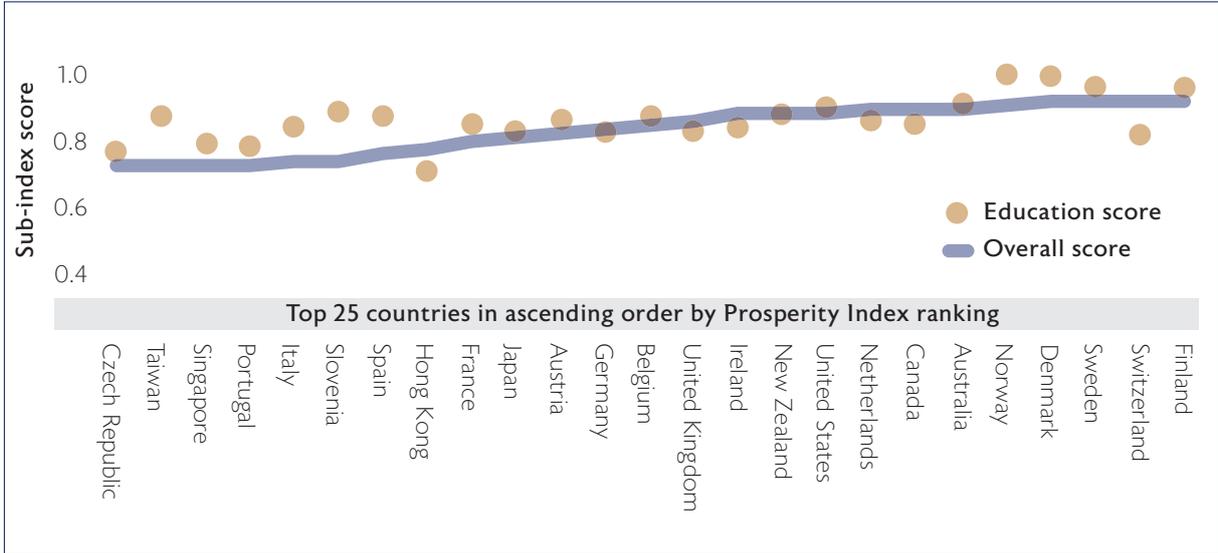
Variables by degree of influence on per capita income



Democratic Institutions Sub-index Rank Order	
Rank	Country
1	Switzerland
2	United States
3	Belgium
4	New Zealand
5	Australia
6	Canada
7	Sweden
8	Norway
9	Finland
10	Austria
11	United Kingdom
12	Denmark
13	Ireland
14	France
15	Spain
16	Slovenia
17	Israel
18	Slovakia
19	Netherlands
20	Japan
21	Germany
22	Portugal
23	Italy
24	Poland
25	Czech Republic



Education

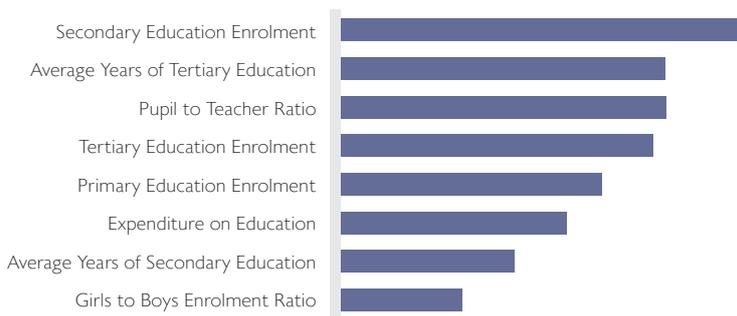


The Education sub-index takes account of the way in which a country’s educational institutions and practices contribute to its economic performance. It has become common wisdom that in today’s growing services economy, which is fuelled largely by knowledge and its applications, education is critical to economic progress and opportunity. Education has also long been an important growth factor in productive economies and it is just as important in regions and countries dependent on manufacturing and agriculture. Along with the economic opportunities education affords, it is also a critical – some might say the critical – driver of opportunity for women and minority populations.

The Education sub-index assesses a country’s educational performance primarily by measuring the years of schooling that a nation’s citizens complete, combined with expenditures on education and other factors that help gauge educational quality. Finding global coverage of educational performance measures, as represented in test scores, is virtually impossible and, therefore, we rely on years of schooling and related factors as close approximations. Of all the variables in the sub-index, secondary enrolment rates and average years of tertiary education have the strongest relationships with economic growth. In addition, the sub-index includes measures of female educational participation, which is an important indicator of how widely opportunity is expanding in a given country and is inescapably essential to a nation’s overall economic success over time.

Education Sub-index Rank Order	
Rank	Country
1	Norway
2	Denmark
3	Finland
4	Sweden
5	Greece
6	Australia
7	United States
8	Slovenia
9	Taiwan
10	New Zealand
11	Belgium
12	Spain
13	Austria
14	Netherlands
15	France
16	Canada
17	Italy
18	Ireland
19	Germany
20	Japan
21	United Kingdom
22	Switzerland
23	Hungary
24	Latvia
25	Israel

Variables by degree of influence on per capita income

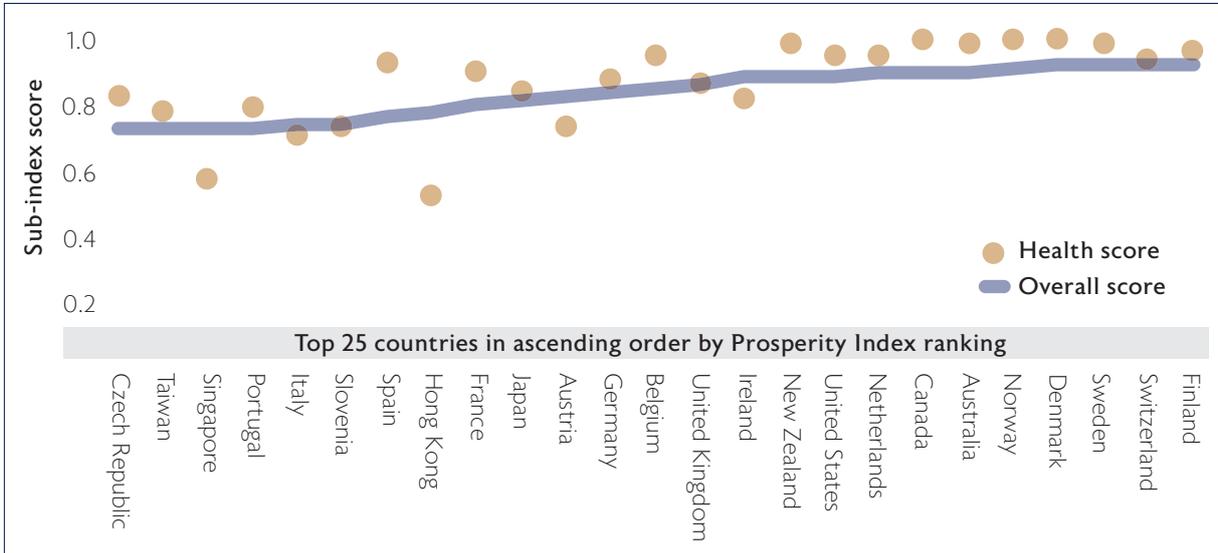


COMPARING PROSPERITY, PER CAPITA INCOME, AND HAPPINESS

The Legatum Prosperity Index measures the factors that create prosperity over time. It looks at which countries are doing the most to foster prosperity through a range of factors such as education, entrepreneurship, governance, freedom, and social capital. But what about simpler measures such as per capita income or happiness? If we were to take a snapshot of the world, which countries are the richest or have citizens who are most satisfied with their lives *right now*? The chart on the right compares each of these two simple measures with the Prosperity Index rankings. The advantage of the Prosperity Index is the way that it indicates which countries have underlying fundamentals most likely to sustain and increase their wealth and wellbeing over time, even if they may not be the richest or happiest countries at the present moment.

Country	PI Rank	Happiness*	Income
Finland	1	2	15
Switzerland	2	8	8
Sweden	3	6	14
Denmark	4	1	12
Norway	5	3	1
Australia	6	13	17
Canada	7	7	10
Netherlands	8	3	9
United States	9	11	5
New Zealand	10	9	26
Ireland	11	5	6
United Kingdom	12	17	18
Belgium	13	15	16
Germany	14	29	19
Austria	15	14	11
Japan	16	32	20
France	17	16	22
Hong Kong	18	70	7
Spain	19	10	23
Slovenia	20	40	25
Italy	21	23	24
Portugal	22	44	32
Singapore	23	20	3
Taiwan	24	50	13
Czech Republic	25	27	29
South Korea	26	59	28
Israel	27	12	27

*Data taken from Gallup World Poll

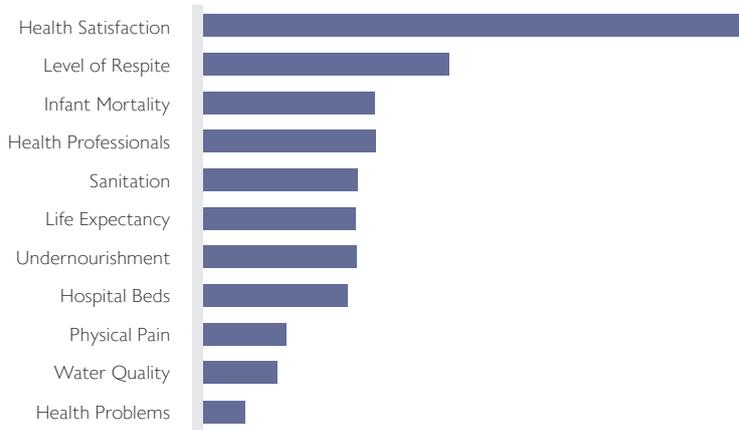


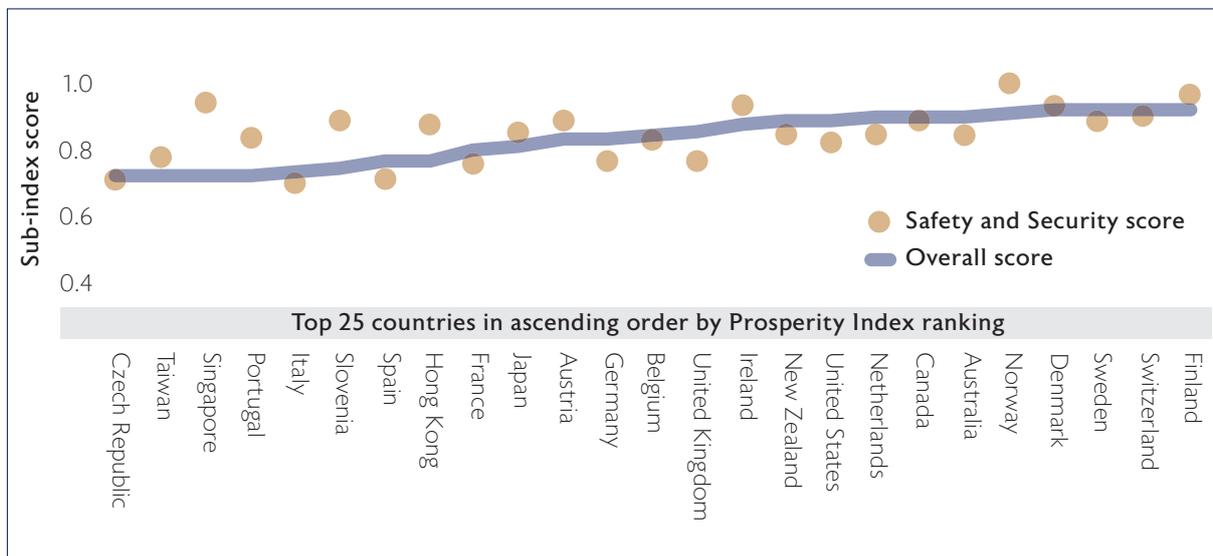
The Health sub-index measures how well the citizens of countries in the Prosperity Index are physically capable of living healthy, fulfilling lives. People expecting to live long lives are better able to pursue their own path and contribute to the overall economy. The Prosperity Index provides a wide-ranging evaluation of a nation’s health by assessing the existence of preventive measures, child health and infant mortality, proper access to health care, and the general physical wellbeing of citizens.

Empirical evidence shows that health affects other aspects of prosperity. The Health sub-index is most highly correlated with overall life satisfaction and also has a strong relationship with the Education, Entrepreneurship and Innovation, and Economic Fundamentals sub-indexes, demonstrating that a healthy population is also one that is educated and part of a strong, flourishing economy.

Health Sub-index Rank Order	
Rank	Country
1	Austria
2	Ireland
3	Switzerland
4	Singapore
5	Belgium
6	Germany
7	Finland
8	Netherlands
9	Japan
10	Norway
11	Italy
12	Denmark
13	Greece
14	France
15	Sweden
16	Czech Republic
17	Spain
18	Hong Kong
19	New Zealand
20	Portugal
21	Australia
22	Canada
23	United Kingdom
24	Slovenia
25	Israel

Variables by degree of influence on life satisfaction





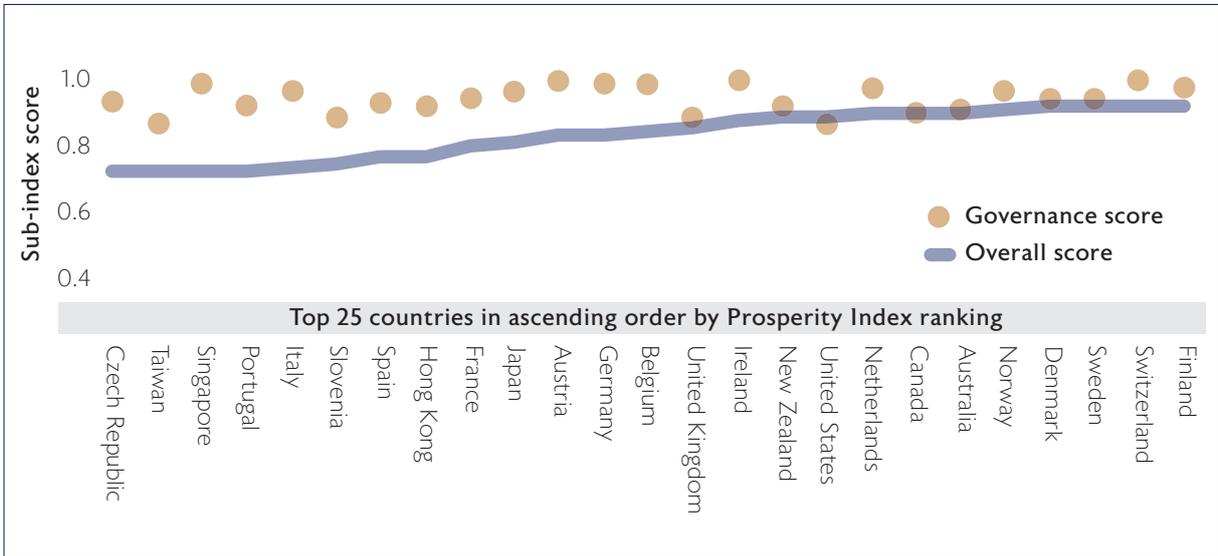
The Safety and Security sub-index takes account of a fundamental element of prosperity. When people and basic institutions are unsafe, then capital, investment, and most importantly, people, begin to flee. History is filled with examples of once-prosperous nations falling into economic and social decay as a result of the insecurity that proceeded from government corruption, the erosion of civil liberties, internal factions, and war. This sub-index provides an important measure of the degree to which the safety and security of a nation contributes to its citizens' overall wellbeing.

This sub-index combines objective measures of security with subjective survey responses to questions about personal safety. Along with standard measures of violence such as homicides and assault, the sub-index considers measures of human flight, such as refugees and "brain drain" among middle class professionals and intellectuals, to capture the full effects of instability resulting from safety and security problems. Together with additional measures of civil war and ethnic violence, the sub-index includes responses to survey questions about factual events such as theft as well as perceptions such as whether people feel safe walking alone at night. Altogether, this sub-index presents a solid indicator of the overall safety environment within nations and its relationship to the wellbeing of the citizenry.

Safety and Security Sub-index Rank Order	
Rank	Country
1	Norway
2	Finland
3	Singapore
4	Denmark
5	Ireland
6	Switzerland
7	Sweden
8	Slovenia
9	Canada
10	Austria
11	Hong Kong
12	Japan
13	New Zealand
14	Australia
15	Netherlands
16	Belgium
17	Portugal
18	United Arab Emirates
19	United States
20	Taiwan
21	Germany
22	United Kingdom
23	France
24	Kuwait
25	Poland

Variables by degree of influence on life satisfaction

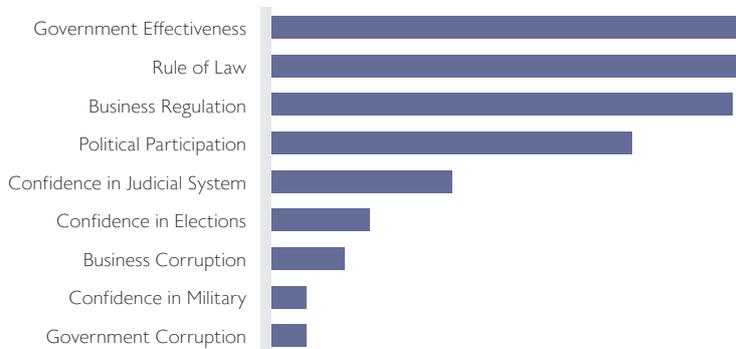




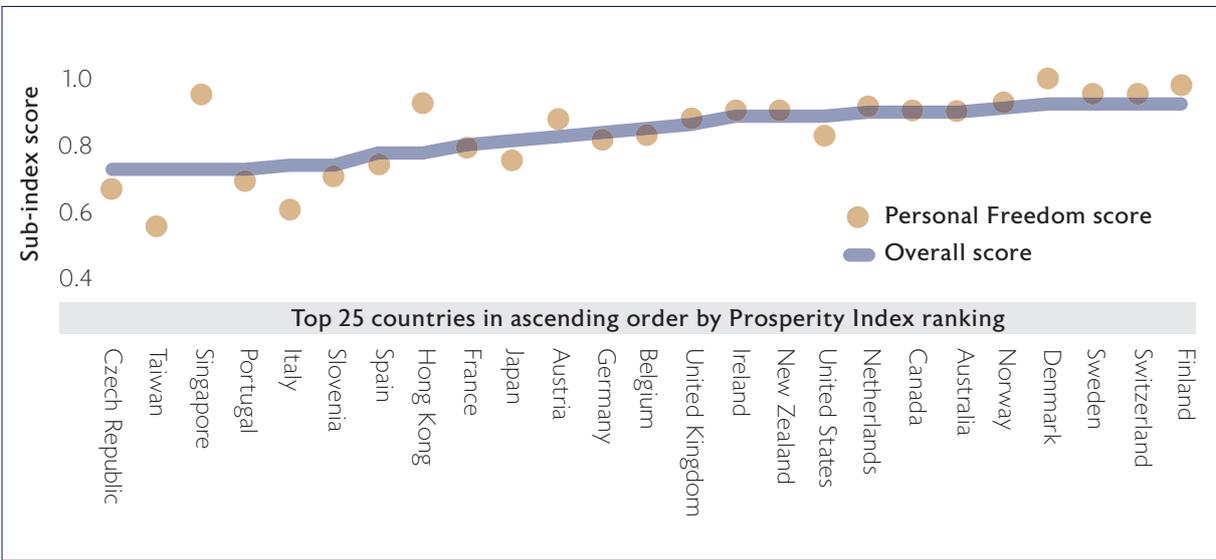
The Governance sub-index measures the connection between government performance and life satisfaction. Unlike the Democratic Institutions sub-index, which is related to economic growth, the Governance sub-index shows how a country’s governance directly impacts the quality of life of its citizens. It helps gauge the extent to which a nation is promoting or restricting the political and economic liberties that are vital for the happiness of its citizens.

This sub-index combines three objective governance indicators with a variety of subjective responses to survey questions. The result is a good picture of how the rule of law, the effectiveness of governments, corruption, political participation, and other key factors contribute to the wellbeing of a country’s citizens. The level of confidence people have in the fairness and predictability of government actions has a significant impact on their willingness and ability to be productive citizens.

Variables by degree of influence on life satisfaction



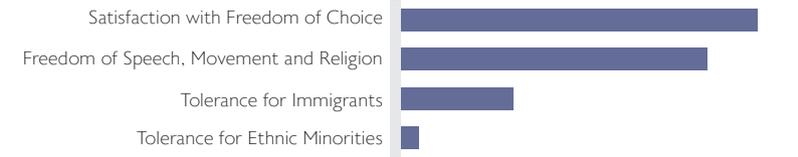
Governance Sub-index Rank Order	
Rank	Country
1	Denmark
2	Finland
3	Switzerland
4	Singapore
5	Sweden
6	Hong Kong
7	Norway
8	Netherlands
9	Canada
10	Australia
11	New Zealand
12	Ireland
13	United Kingdom
14	Austria
15	Belgium
16	United States
17	Germany
18	France
19	Estonia
20	Japan
21	Spain
22	Chile
23	Botswana
24	Slovenia
25	Portugal



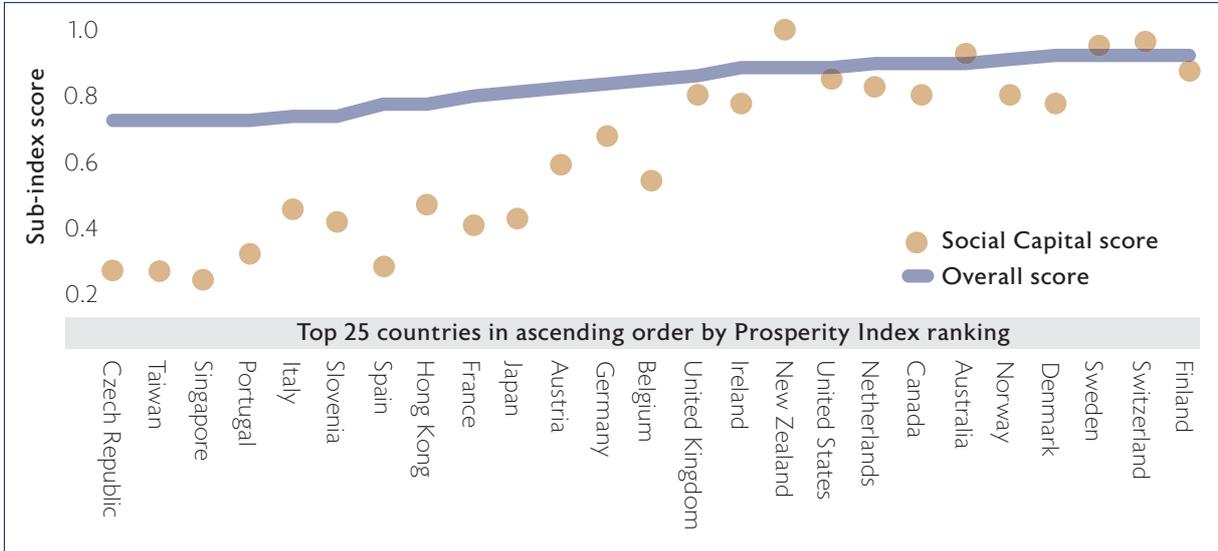
The Personal Freedom sub-index measures how well citizens are able to freely choose the course of their lives and pursue life-enriching opportunities. While social norms vary around the world, the ability to make choices regarding one's own life is a universal good. Empirical data has shown that despite people's variation in the kinds of choices they make, their desire to make choices freely is consistent. Through objective and subjective measures, the Personal Freedom sub-index assesses citizens' satisfaction with their freedom of choice and their perceptions of societal tolerance towards immigrants and minorities, as well as the freedom of religion, speech, and movement.

Of the four variables that were identified as the strongest measures of Personal Freedom, citizens' satisfaction with their freedom of choice and their ability to believe, speak, and move freely were the most significant variables. Countries that rank higher in the sub-index are ones in which citizens are able to choose the course of their lives, practise their religion, move about, and express their thoughts in the media with both limited interference and protection from the government.

Variables by degree of influence on life satisfaction



Personal Freedom Sub-index Rank Order	
Rank	Country
1	Norway
2	Denmark
3	Canada
4	Australia
5	Sweden
6	New Zealand
7	Finland
8	United States
9	Belgium
10	Netherlands
11	Switzerland
12	Costa Rica
13	Spain
14	Uruguay
15	France
16	Brazil
17	Germany
18	Trinidad and Tobago
19	United Kingdom
20	Philippines
21	Dominican Republic
22	Japan
23	Czech Republic
24	Jamaica
25	Ireland

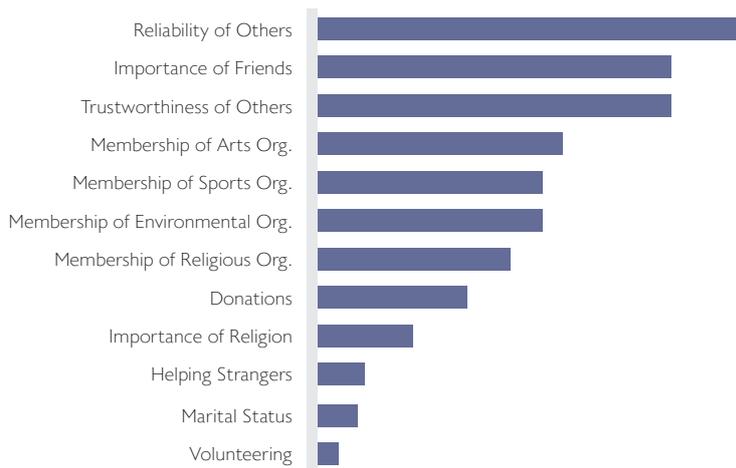


The Social Capital sub-index measures how well people in the countries in the Prosperity Index are developing social networks and relationships that are trustworthy and supportive. Being able to rely on friends, family, and even strangers during times of need is critical to life satisfaction. Relationships built on trust are gratifying and enjoyable but also vital when other areas of life such as our health, job, or government fail us. Accordingly, the Social Capital sub-index measures the importance that citizens place on social capital through how much they trust, value, and associate with others, as well as the extent to which they engender social capital through the amount that citizens rely on others, donate, help a stranger, or volunteer.

The field of social capital and its relation to wellbeing is still evolving, and therefore, the data and measurement tools necessary to evaluate social capital are still limited. This sub-index uses empirical data that demonstrate that valuing friends and family and being able to rely on them, trusting people, and voluntarily participating in associations are the most significant variables in social capital. However, due to limitations in data, the sub-index does not assess another significant element of social capital: the level of collective action in a society. The ability of citizens to gather and become more effective through cooperative efforts is a key element that this sub-index aims to capture in future iterations.

Social Capital Sub-index Rank Order	
Rank	Country
1	New Zealand
2	Switzerland
3	Sweden
4	Australia
5	India
6	Finland
7	United States
8	Netherlands
9	Canada
10	Norway
11	United Kingdom
12	Ireland
13	Denmark
14	Indonesia
15	Mali
16	Nigeria
17	Sri Lanka
18	Nepal
19	Germany
20	Dominican Republic
21	Zambia
22	Thailand
23	Austria
24	Ghana
25	Kenya

Variables by degree of influence on life satisfaction



Legatum Prosperity Index Academic Advisory Panel

The Legatum Institute (www.li.com) wishes to thank the members of the Academic Advisory Panel for their helpful advice, critiques and suggestions. The Legatum Institute assumes full responsibility for the content of the Prosperity Index. Participation in the Academic Advisory Panel does not imply endorsement of every aspect of the Prosperity Index.

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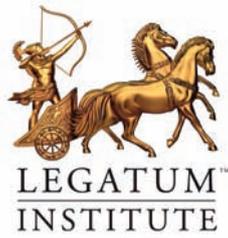
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