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# 2014

The 2014 Legatum Prosperity Index™

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# FOREWORD



**Over the last six years, the world has become more, not less, prosperous.**

This may be surprising given the negative impact of the financial crisis. But economic growth is just one dimension of national success. In order to determine a nation's true prosperity we must consider a broad set of measures. The Prosperity Index identifies eight core pillars of prosperity. On average, over the last six years, global performance on each of these has improved.

The past six years have seen the onward march of democracy. Emboldened citizens across multiple continents have led protests calling on their governments to grant them greater freedoms and a more open democracy. The 'Arab Spring' began with the lone actions of a Tunisian street seller and spread across an entire region toppling governments and empowering individuals. Even in these last weeks we have seen thousands of protesters taking to the streets of Hong Kong seeking the freedom to choose who governs them. The progress here is fragile. Islamists in the Middle East, for example, pose a major threat to freedom and wellbeing. It is vital to protect these liberties whether in Iraq, Syria, Libya, Hong Kong, or elsewhere.

In health, the last six years have seen positive advancements in some of the poorest places in the world. Across Africa, life expectancy has started to increase while infant mortality has decreased. Yet, this too is under threat in parts of West Africa as nations struggle to contain the worst recorded outbreak of the deadly Ebola virus, which has already killed thousands of people and threatens many, many more. The Prosperity Index highlights the weakness of health infrastructure in parts of Africa. Strengthening that infrastructure to prevent future disasters must now become a priority.

In recent years the importance of education has been brought to global prominence through the inspiring work of Malala Yousafzai, the Pakistani schoolgirl who has become the youngest ever winner of the Nobel Peace Prize. Malala's belief in the transformational power of education has taken her from the streets of Pakistan where her views made her a target of extreme violence, to the centre of the global stage where she is a leading light in the fight for universal education.

All of this emphasises that prosperity is truly multi-dimensional. Economic recovery after the financial crisis is important, but to secure a better world we need to look beyond GDP. We need to recognise that freedom of choice and democracy are the building blocks of prosperous societies. We need to recognise that health lays the foundation for human flourishing. We need to understand that education is a cornerstone of individual wellbeing as well as economic growth. And we need to prioritise opportunity and social capital, without which societies cannot prosper.

The 2014 Prosperity Index provides a lens through which to view a comprehensive assessment of national success. The Index measures the broad set of indicators that tell us not only how nations perform economically but in vital areas of education, health, freedom, opportunity, social capital, and more. The Prosperity Index covers 142 countries in the world, accounting for 96 per cent of the world's population and 99 per cent of global GDP making it the most comprehensive tool of its kind.

I hope you enjoy the 2014 edition.

**Sian Hansen**

Executive Director, Legatum Institute

THE LEGATUM PROSPERITY INDEX™ RANKINGS 2014

OVERALL PROSPERITY RANK	COUNTRY	ECONOMY	ENTREPRENEURSHIP & OPPORTUNITY	GOVERNANCE	EDUCATION	HEALTH	SAFETY & SECURITY	PERSONAL FREEDOM	SOCIAL CAPITAL
1	Norway	3	7	7	5	5	6	2	1
2	Switzerland	1	3	1	21	3	11	12	9
3	New Zealand	15	18	2	7	20	10	1	2
4	Denmark	18	2	3	3	13	8	9	3
5	Canada	5	17	8	2	11	9	5	4
6	Sweden	4	1	4	16	12	4	6	11
7	Australia	12	13	9	1	14	16	3	6
8	Finland	26	4	5	6	15	3	16	5
9	Netherlands	25	10	11	4	6	18	7	8
10	United States	17	11	12	11	1	31	21	7
11	Iceland	35	9	18	9	16	2	4	13
12	Ireland	29	16	14	8	17	5	11	10
13	United Kingdom	28	8	10	20	19	21	10	12
14	Germany	8	14	17	10	7	22	14	17
15	Austria	19	15	15	25	8	15	18	14
16	Luxembourg	11	5	6	45	2	17	32	29
17	Belgium	23	23	16	19	10	19	13	20
18	Singapore	2	12	13	22	18	14	40	45
19	Japan	7	24	19	27	4	25	28	22
20	Hong Kong	21	6	22	60	26	1	23	26
21	France	22	22	20	24	9	30	17	56
22	Taiwan	14	21	36	13	23	7	31	28
23	Malta	32	19	21	41	28	28	19	18
24	Slovenia	63	25	34	12	25	12	24	30
25	Korea, Rep.	9	20	30	15	21	23	59	69
26	Spain	46	29	27	17	22	29	22	32
27	Portugal	53	30	33	47	30	13	20	46
28	United Arab Emirates	10	31	32	39	37	26	55	43
29	Czech Republic	36	26	35	23	27	20	65	57
30	Uruguay	55	52	31	68	41	27	8	31
31	Poland	41	40	39	31	33	24	58	47
32	Estonia	58	27	26	40	39	36	70	39
33	Chile	30	32	23	63	48	41	33	71
34	Costa Rica	43	45	29	53	46	48	15	48
35	Slovakia	59	37	45	14	29	32	64	51
36	Kuwait	16	35	44	30	40	34	83	62
37	Italy	45	41	43	38	24	38	63	41
38	Israel	27	28	25	18	34	105	97	19
39	Hungary	69	47	37	32	35	37	42	75
40	Cyprus	64	34	24	35	32	53	53	86
41	Panama	33	43	60	65	51	52	34	38
42	Lithuania	79	39	40	29	43	35	95	50
43	Trinidad and Tobago	71	36	47	77	69	45	25	54
44	Latvia	49	33	41	34	50	44	86	90
45	Malaysia	20	38	38	51	56	71	112	36
46	Argentina	54	55	97	44	42	47	30	53
47	Saudi Arabia	24	49	49	28	45	72	136	23
48	Bulgaria	82	42	74	48	47	33	72	87
49	Brazil	37	51	63	86	63	86	27	65
50	Croatia	73	53	51	36	36	39	85	119
51	Thailand	13	64	57	59	59	92	130	15
52	Mongolia	80	58	76	46	91	40	90	25
53	Belarus	93	54	117	26	38	51	104	21
54	China	6	65	66	61	66	97	117	24
55	Kazakhstan	44	60	106	54	58	63	91	35
56	Vietnam	31	69	61	70	75	58	73	80
57	Uzbekistan	67	92	118	69	60	65	57	16
58	Belize	60	81	71	72	68	66	61	52
59	Greece	103	48	53	33	31	42	121	129
60	Romania	88	50	70	58	65	46	71	109
61	Jamaica	128	59	67	78	79	55	38	42
62	Sri Lanka	76	85	52	66	78	120	43	27
63	Ukraine	70	57	121	42	77	54	103	40
64	Mexico	34	83	59	85	49	99	75	76
65	Montenegro	123	62	65	43	53	43	89	115
66	Colombia	39	61	64	84	72	127	52	66
67	Philippines	40	75	55	76	97	111	50	59
68	Russia	57	46	113	37	44	96	124	67
69	Macedonia	110	63	69	74	52	67	77	82
70	Paraguay	38	86	110	100	84	73	35	61
71	Indonesia	42	84	78	80	94	68	109	33

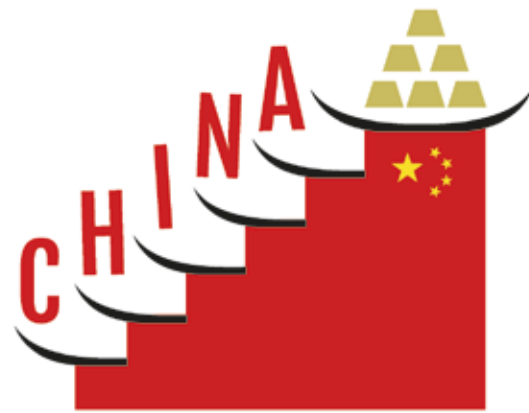
HIGH (1 <sup>ST</sup> - 30 <sup>TH</sup> )		UPPER MIDDLE (31 <sup>ST</sup> - 71 <sup>ST</sup> )			LOWER MIDDLE (72 <sup>ND</sup> - 112 <sup>TH</sup> )		LOW (113 <sup>TH</sup> - 142 <sup>ND</sup> )		
OVERALL PROSPERITY RANK	COUNTRY	ECONOMY	ENTREPRENEURSHIP & OPPORTUNITY	GOVERNANCE	EDUCATION	HEALTH	SAFETY & SECURITY	PERSONAL FREEDOM	SOCIAL CAPITAL
72	Dominican Republic	81	79	86	88	90	91	54	58
73	Ecuador	47	76	99	75	81	98	37	123
74	Kyrgyzstan	120	82	116	56	71	83	93	34
75	Botswana	101	72	28	94	111	84	41	93
76	Nicaragua	77	99	91	90	88	69	36	81
77	Serbia	130	77	81	55	57	64	74	96
78	Peru	48	74	83	87	86	100	69	106
79	Azerbaijan	65	67	105	83	89	75	102	77
80	Georgia	91	70	42	79	92	62	56	139
81	South Africa	92	44	54	92	105	109	79	72
82	Jordan	99	71	58	50	61	77	132	100
83	El Salvador	68	88	75	101	83	76	82	88
84	Albania	117	78	90	62	62	49	111	116
85	Morocco	52	80	72	106	76	78	113	84
86	Turkey	86	66	48	81	55	95	134	114
87	Bolivia	51	98	96	91	102	88	46	98
88	Namibia	84	96	46	102	106	82	45	99
89	Moldova	125	73	102	67	80	70	107	102
90	Guatemala	72	90	87	107	93	104	68	63
91	Bosnia - Herzegovina	113	94	108	73	54	57	122	103
92	Tunisia	87	56	94	71	70	74	120	135
93	Laos	56	107	77	104	117	61	80	74
94	Tajikistan	118	110	109	64	98	59	105	64
95	Armenia	129	68	88	49	87	56	123	124
96	Nepal	89	108	104	95	96	94	47	79
97	Algeria	50	95	103	82	73	89	137	95
98	Ghana	116	97	62	109	100	60	60	112
99	Rwanda	98	104	50	112	101	87	76	89
100	Venezuela	104	87	134	52	74	116	108	94
101	Lebanon	75	91	107	89	64	102	110	126
102	India	62	103	56	93	109	119	78	132
103	Burkina Faso	61	124	84	130	122	80	29	85
104	Bangladesh	74	106	89	96	95	106	49	138
105	Honduras	112	100	111	98	82	81	118	101
106	Senegal	102	111	80	125	104	101	39	70
107	Iran	114	93	120	57	67	126	128	111
108	Benin	115	132	79	117	107	50	26	136
109	Kenya	111	101	93	113	112	132	66	60
110	Zambia	108	105	82	105	135	121	88	68
111	Uganda	105	118	100	116	127	130	62	44
112	Cambodia	78	112	73	108	103	90	116	134
113	Mali	90	126	112	139	123	113	44	37
114	Niger	95	139	85	140	115	85	48	78
115	Cameroon	83	120	129	114	119	114	81	105
116	Egypt	119	89	119	99	85	112	141	107
117	Tanzania	94	119	95	119	121	117	114	73
118	Malawi	136	129	68	118	108	108	84	118
119	Djibouti	126	133	92	132	118	79	101	83
120	Mozambique	96	117	98	131	137	110	67	117
121	Côte d'Ivoire	85	115	131	127	128	128	51	130
122	Congo Republic	66	128	132	111	131	115	98	133
123	Zimbabwe	122	123	137	103	126	133	115	104
124	Mauritania	131	116	127	129	113	103	127	92
125	Nigeria	97	114	130	123	132	137	106	108
126	Ethiopia	100	134	101	133	125	131	100	125
127	Pakistan	107	102	122	122	110	139	135	122
128	Iraq	109	125	133	110	116	134	140	91
129	Syria	134	122	124	97	99	140	139	127
130	Sudan	135	113	135	124	124	141	138	49
131	Liberia	142	127	125	137	129	107	99	128
132	Angola	106	131	126	135	133	125	133	131
133	Guinea	140	137	138	138	134	118	92	121
134	Sierra Leone	141	130	114	134	142	129	96	110
135	Haiti	133	138	139	115	139	124	131	97
136	Togo	132	135	123	121	130	93	87	142
137	Afghanistan	138	109	140	128	120	136	126	137
138	Yemen	137	121	136	126	114	122	142	120
139	Burundi	139	136	115	120	136	123	119	140
140	Congo (DR)	121	141	142	136	138	142	125	55
141	Chad	124	140	141	142	140	138	129	113
142	Central African Republic	127	142	128	141	141	135	94	141

# Headline Findings



## New Zealand rises to 3rd on the Prosperity Index

New Zealand is now 3rd on the Prosperity Index. The country has risen two places this year, the result of a large increase in the country's Social Capital score, and an increase of four places on the Personal Freedom sub-index.



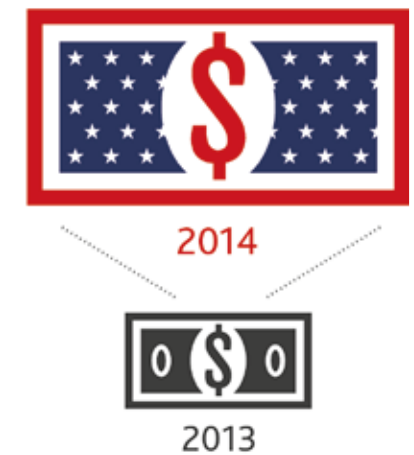
## China is now 6th on the Economy sub-index

China has risen to 6th on the Economy sub-index, up one place this year. By contrast the country still languishes in 117th position on the Personal Freedom sub-index, down six places this year.



## Russia has fallen the most in Europe

Russia is the worst performing country in Europe this year, falling seven places on the Prosperity Index to 68th.



## US rises seven places on the Economy sub-index

The US has risen to 10th, overall on the Prosperity Index. The country rose seven places on the Economy sub-index, to 17th, and declined five places on the Personal Freedom sub-index, to 21st.



## UK extremely entrepreneur friendly

The UK has the third lowest start-up costs in the world. It only costs 0.3% of gross national income (per capita), around £66, to set up a business in the UK. The UK has always ranked within the top ten in the Entrepreneurship & Opportunity sub-index.



## Sierra Leone is worst on the Health sub-index

Sierra Leone is ranked 142nd in the world for Health. The country has always been in the bottom three for this sub-index.



## Venezuela has fallen the most globally

Venezuela has declined the most of any country this year. The country has fallen 22 places to 100th on the Index. This is the result of a decline of 44 places on the Economy sub-index (to 104th), a decline of 24 places on the Personal Freedom sub-index (to 108th), and a fall of 26 places on the Social Capital sub-index (to 94th).



## Syria's Prosperity declines dramatically

Unsurprisingly given events in the country, Syria's prosperity has declined the most in the MENA region this year. This is the result of large falls in the Governance and Personal Freedom sub-indices.

*\*a more detailed explanation of these findings is provided overleaf*



## HEADLINE FINDINGS: OVERVIEW

The 2014 Prosperity Index picks up some interesting trends. The changing economic situation is having a clear impact on the rankings this year, notably the improvements of China, the US and New Zealand and the deterioration in the ranking of Venezuela. But other factors are important for prosperity, such as entrepreneurship, health, security, freedom, and governance; poor performance in these areas have significantly affected the rankings of Russia, Venezuela, and Syria. A number of African countries, led by Sierra Leone, show up as particularly vulnerable on our Health sub-index. The data that lies behind the Index predates the Ebola outbreak, but the weakness of the health infrastructure of these countries is a key reason why it has been difficult to bring it under control.



### NEW ZEALAND RISES TO 3RD ON THE PROSPERITY INDEX

New Zealand is a big winner this year climbing to third; it has never recorded a higher score on the Prosperity Index. Despite ongoing concerns about productivity, New Zealand has risen 12 places in the Economy sub-index in just two years, from 27th in 2012 to its highest ever rank (15th) in 2014.

However, New Zealand's success is also driven by strong freedom and civil society. The country records the highest tolerance levels in the world: 92% and 93% of citizens report the country to be a good place to live for immigrants and minorities, respectively. It is also 2nd on the Social Capital sub-index, with 96% of New Zealanders able to count on friends and family in times of need, the 2nd highest in the world. Similarly, 44% report donating to charity, the 4th highest in the world.

Optimism has flourished with an additional 14% of citizens reporting that working hard gets you ahead compared to 2008. Coupled with the fact that New Zealanders also now worry less and report greater satisfaction with their freedom of choice, this is a nation that is optimistic, prosperous, and free.



### CHINA IS NOW 6TH ON THE ECONOMY SUB-INDEX

While China has been experiencing something of a slowdown of late, the country's economic development over the last decade has been dramatic, which has lifted

hundreds of millions of people out of poverty. China is now ranked in the top 10 of the Economy sub-index. High savings and investment has allowed the country to become one of the

largest exporters of high-tech products. Millions of Chinese have found work in the country's continually expanding cities and as a result the country's unemployment rate has remained between 4% and 5% for the last two decades.

Juxtaposing this success though is China's failure to provide freedom to its people. The country performs poorly on the Personal Freedom sub-index, scoring very poorly in measures of civil liberties and only 52% of Chinese people feel that the country is tolerant of immigrants, below the global average of 66%. While the Communist Party has managed to head off calls for greater political and civil liberty so far, the recent turmoil in Hong Kong suggests that this may not be sustainable in the long run.



### US RISES 7 PLACES ON THE ECONOMY SUB-INDEX

This year the US is back in the top ten on the Prosperity Index. The big improvement has come through the recovery of the economy which has seen it rise up the Economy sub-index this year. This is the result of falling unemployment, improvements in economic sentiment and a decline in non-performing loans in the nation's banks.

However, the picture is not all rosy. The land of the free is no longer so free. The United States performs relatively poorly on the Personal Freedom sub-index. While 86% of people felt that they had the freedom to choose the course of their own lives in 2011, only 82% feel this way now, a lot less than the 94% of New Zealanders, whose country tops the sub-index. Similarly the number of people who feel that the country is a good place for ethnic minorities and immigrants has fallen steadily, dropping to 82% this year. Given the revelations about internet and phone tracking by US agencies and growing racial tensions surrounding the events in Ferguson, Missouri, it will be interesting to see if the country can rediscover its passion for freedom and tolerance.



### UK EXTREMELY ENTREPRENEUR FRIENDLY

The UK is one of the top countries in the world for entrepreneurship, ranking 8th on the Entrepreneurship & Opportunity sub-index. Contributing to this is the fact that it is relatively easy to start a business, costing only around £66. Similarly, the country has a strong internet

infrastructure, with the internet sector contributing more than £2,000 per person to GDP, and the UK possessing 1,193 secure internet servers per one million people, the 11th most in the world. The current government have taken a number of steps to increase support for entrepreneurs and this seems to have helped public perceptions with the number of people who believe that hard work pays off growing by 6%, to 84%, since 2009.



### RUSSIA HAS FALLEN THE MOST IN EUROPE

Coverage and analysis of Russia in the past year has focused on the country's international actions: vetoing Security Council resolutions on Syria, invading Crimea, and stirring unrest in Eastern Ukraine. Such attention

detracts (probably intentionally) from the countries' domestic woes. The country recorded the worst performance of any European country on the Prosperity Index this year.

Russia struggles in the Governance, Personal Freedom, and Safety & Security sub-indices, ranking 113th, 124th and 96th, respectively. In the past three years the country has performed poorly on these three sub-indices. The country is increasingly intolerant of ethnic minorities and immigrants and performs poorly in terms of civil liberties and political rights – unsurprisingly only 27% of Russians have confidence in the freedom and fairness of elections. Russians are also increasingly fearful, only 46% feel safe walking alone at night, compared to the global average of 62%. 82% of Russians feel that businesses and their government are corrupt, far higher than the global average of 67%.



### VENEZUELA HAS FALLEN THE MOST GLOBALLY

Despite possessing the highest oil reserves in the world, Venezuela's economic performance has long been poor. This year the strain is clear as the country fell dramatically down the Prosperity Index due to large falls in the Economy, Personal Freedom and Social Capital sub-indices.

Inflation in the country is running at well over 50% per annum. Satisfaction with living standards is down to 56% from 80% five years ago and only 27% of people feel that now is a good time to enter the job market. This economic malaise has a clear social impact: volunteering rates are down, donations are down, food shortages threaten social cohesion, and recent protests point to

a country that is increasingly divided. Unsurprisingly Venezuela performs poorly on the Personal Freedom sub-index. This is the result of the further erosion of civil liberties and is increasingly evident in public opinion: only 64% of Venezuelans feel that they have the freedom to choose the course of their lives, down from 80% in 2012.



### SYRIA'S PROSPERITY DECLINES DRAMATICALLY

Syria has been embroiled in a civil war since early 2011 which has devastated the country. The country's poor performance on the

Prosperity Index, unsurprisingly, reflects this. Although the quality of international data has obviously deteriorated as the war has spread, the indicators used in the Index continue to paint a picture of decline.

This is particularly apparent when examining the subjective data, which has continued to be collected, albeit with some sections of the population excluded. Syrians are the least well-rested in the world and report the highest levels of worrying. If the war does not abate the country is likely to continue its dramatic fall down the Prosperity Index next year.



### SIERRA LEONE IS WORST ON THE HEALTH SUB-INDEX

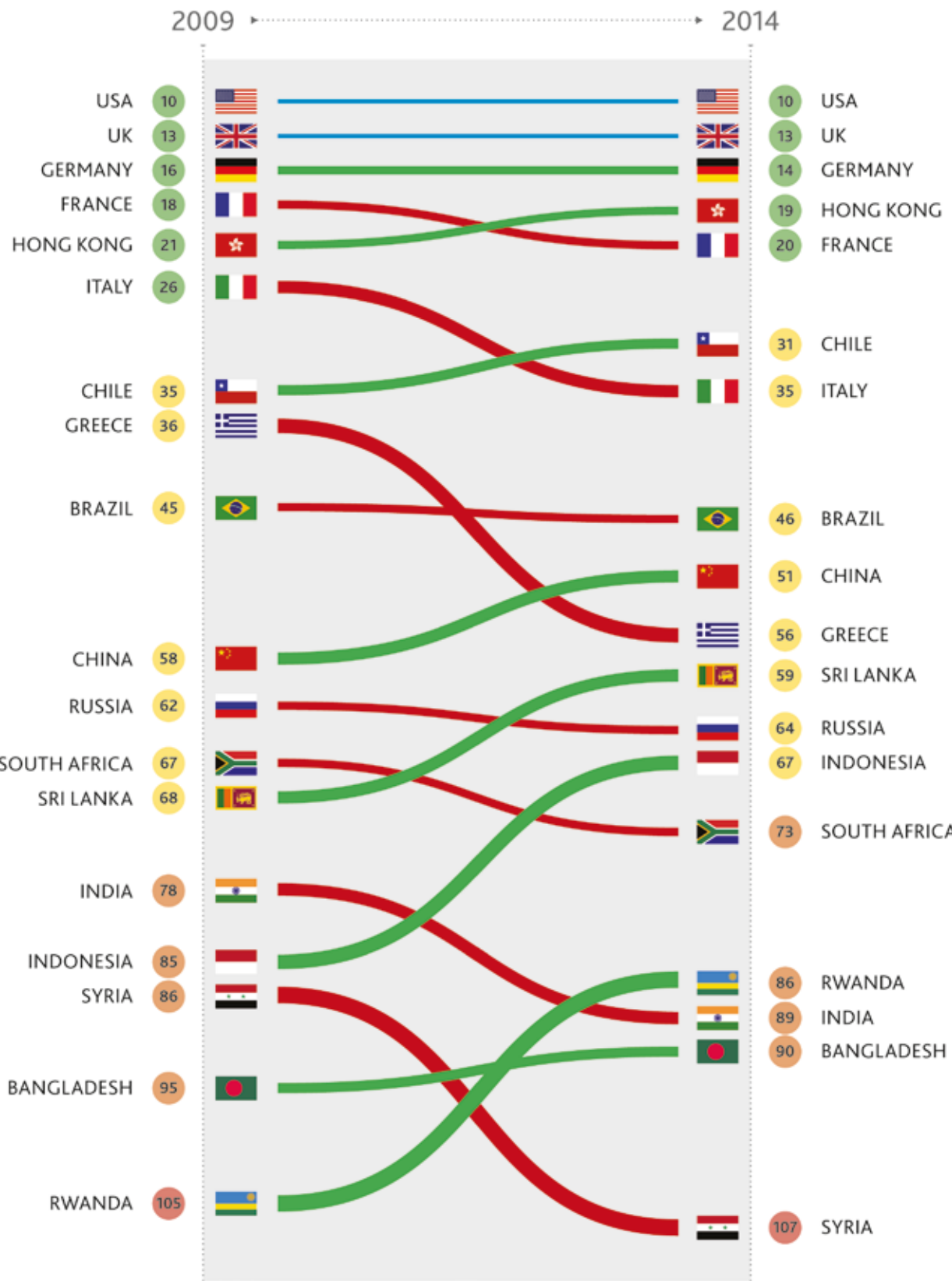
Sierra Leone is the worst performing country on our Health sub-index and sub-Saharan African countries make up nine of the bottom ten

countries on this sub-index. The health systems in the majority of countries in the region are underdeveloped and ill-prepared to face serious threats to public health, such as the recent outbreak of Ebola in West Africa.

Seven of the ten countries who spend the least on healthcare are in sub-Saharan Africa and five of the ten countries with the fewest hospital beds per person are also in the region. The result, not surprisingly, is poor health outcomes. Eight of the ten countries with the highest incidences of tuberculosis and of respiratory diseases are in the region. The Index highlights that these countries were vulnerable to an outbreak like Ebola and while the near term focus has to be on tackling that problem, the longer term strategy has to be to address the weakness of the healthcare infrastructure in countries like Sierra Leone.

PROSPERITY INDEX RANKINGS 2009–2014

This is based on the 110 countries originally included in the Prosperity Index. It excludes the 32 countries added in 2012.



YEAR-ON-YEAR PROSPERITY RANKINGS 2009–2014\*

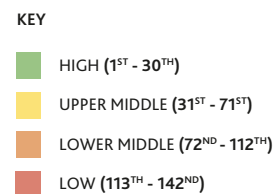
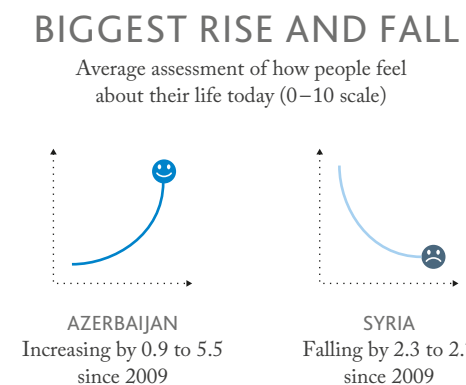
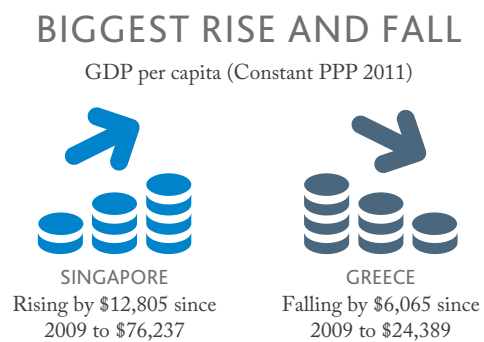
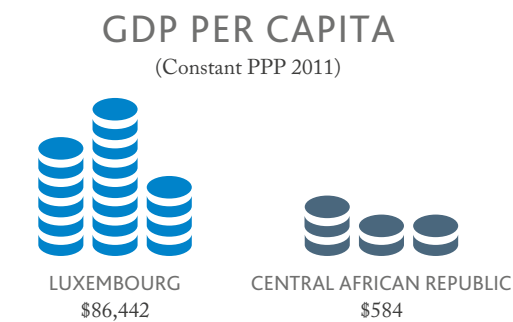
COUNTRY	COUNTRY RANK					
	2009	2010	2011	2012	2013	2014
Norway	1	1	1	1	1	1
Switzerland	8	8	8	9	2	2
New Zealand	3	5	4	5	5	3
Denmark	2	2	2	2	6	4
Canada	6	7	6	6	3	5
Sweden	7	6	5	3	4	6
Australia	5	4	3	4	7	7
Finland	4	3	7	7	8	8
Netherlands	11	9	9	8	9	9
United States	10	10	10	12	11	10
Iceland	12	12	12	15	13	11
Ireland	9	11	11	10	12	12
United Kingdom	13	13	13	13	16	13
Germany	16	15	15	14	14	14
Austria	14	14	14	16	15	15
Luxembourg	/	/	/	11	10	16
Belgium	15	16	17	17	17	17
Singapore	17	17	16	19	18	18
Japan	19	18	21	22	21	19
Hong Kong	21	20	19	18	19	20
France	18	19	18	21	20	21
Taiwan	22	22	20	20	22	22
Malta	/	/	/	25	25	23
Slovenia	23	21	22	24	24	24
Korea, Rep.	29	27	24	27	26	25
Spain	20	23	23	23	23	26
Portugal	25	26	25	26	27	27
UAE	27	30	27	29	28	28
Czech Republic	24	24	26	28	29	29
Uruguay	32	28	29	31	30	30
Poland	28	29	28	32	34	31
Estonia	31	35	33	35	36	32
Chile	35	32	31	34	35	33
Costa Rica	30	33	34	37	31	34
Slovakia	37	37	32	36	38	35
Kuwait	34	31	35	38	33	36
Italy	26	25	30	33	32	37
Israel	33	36	38	40	39	38
Hungary	38	34	36	39	41	39
Cyprus	/	/	/	30	37	40
Panama	42	40	37	42	40	41
Lithuania	40	42	44	43	43	42
Trinidad and Tobago	46	44	47	51	42	43
Latvia	41	47	51	47	48	44
Malaysia	43	43	43	45	44	45
Argentina	44	41	39	41	45	46
Saudi Arabia	57	49	49	52	50	47
Bulgaria	47	46	48	48	49	48

COUNTRY	COUNTRY RANK					
	2009	2010	2011	2012	2013	2014
Brazil	45	45	42	44	46	49
Croatia	39	38	41	50	53	50
Thailand	54	52	45	56	52	51
Mongolia	60	60	60	59	57	52
Belarus	55	54	50	54	58	53
China	58	58	52	55	51	54
Kazakhstan	51	50	46	46	47	55
Vietnam	50	61	62	53	62	56
Uzbekistan	65	76	64	64	63	57
Belize	53	56	56	65	65	58
Greece	36	39	40	49	54	59
Romania	48	51	58	60	55	60
Jamaica	52	55	55	62	56	61
Sri Lanka	68	59	63	58	60	62
Ukraine	63	69	74	71	64	63
Mexico	49	53	53	61	59	64
Montenegro	/	/	/	57	71	65
Colombia	64	65	61	69	67	66
Philippines	61	64	66	67	66	67
Russia	62	63	59	66	61	68
Macedonia	70	72	76	75	79	69
Paraguay	69	67	57	68	68	70
Indonesia	85	70	70	63	69	71
Dominican Rep.	71	68	72	81	70	72
Ecuador	77	77	83	76	74	73
Kyrgyzstan	/	/	/	88	80	74
Botswana	59	57	67	70	72	75
Nicaragua	73	87	86	91	73	76
Serbia	/	/	/	79	76	77
Peru	72	73	68	72	75	78
Azerbaijan	/	/	/	94	81	79
Georgia	/	/	/	93	84	80
South Africa	67	66	69	74	77	81
Jordan	75	74	65	77	88	82
El Salvador	81	78	77	90	85	83
Albania	/	/	/	92	83	84
Morocco	66	62	71	73	82	85
Turkey	80	80	75	89	87	86
Bolivia	84	82	85	95	86	87
Namibia	74	71	80	83	93	88
Moldova	83	86	79	84	89	89
Guatemala	82	81	84	97	90	90
Bosnia-Herzegovina	/	/	/	99	97	91
Tunisia	56	48	54	78	91	92
Laos	/	/	/	82	92	93
Tajikistan	/	/	/	86	94	94
Armenia	/	/	/	98	95	95
Nepal	88	91	93	108	102	96

COUNTRY	COUNTRY RANK					
	2009	2010	2011	2012	2013	2014
Algeria	91	79	88	100	99	97
Ghana	89	90	78	87	100	98
Rwanda	105	98	98	111	105	99
Venezuela	76	75	73	80	78	100
Lebanon	90	84	82	85	98	101
India	78	88	91	101	106	102
Burkina Faso	/	/	/	112	112	103
Bangladesh	95	96	95	103	103	104
Honduras	79	85	87	96	96	105
Senegal	92	94	92	118	104	106
Iran	93	92	97	102	101	107
Benin	/	/	/	119	113	108
Kenya	97	104	102	116	116	109
Zambia	98	101	101	110	107	110
Uganda	102	99	100	117	114	111
Cambodia	101	95	94	107	110	112
Mali	94	93	90	104	111	113
Niger	/	/	/	114	109	114
Cameroon	99	102	99	115	115	115
Egypt	87	89	89	106	108	116
Tanzania	96	97	96	109	117	117
Malawi	/	/	/	105	119	118
Djibouti	/	/	/	121	120	119
Mozambique	104	103	103	124	121	120
Côte d'Ivoire	/	/	/	126	131	121
Congo (Republic)	/	/	/	120	118	122
Zimbabwe	110	110	109	135	124	123
Mauritania	/	/	/	122	125	124
Nigeria	103	106	104	123	123	125
Ethiopia	108	107	108	133	126	126
Pakistan	107	109	107	132	132	127
Iraq	/	/	/	131	130	128
Syria	86	83	81	113	122	129
Sudan	106	100	105	125	128	130
Liberia	/	/	/	130	127	131
Angola	/	/	/	129	133	132
Guinea	/	/	/	127	135	133
Sierra Leone	/	/	/	128	129	134
Haiti	/	/	/	138	134	135
Togo	/	/	/	136	137	136
Afghanistan	/	/	/	140	139	137
Yemen	100	105	106	134	136	138
Burundi	/	/	/	137	138	139
Congo (DR)	/	/	/	141	140	140
Chad	/	/	/	139	142	141
Central African Rep.	109	109	110	142	141	142

\*In 2012 the number of countries in the Index was increased to 142 (from 110 countries in 2009–2011). This should be borne in mind when looking at ranking movement over the five years. This is particularly relevant for lower ranking countries that appear to have declined significantly in 2012.

# Mapping Prosperity in 2014



## REGIONAL CHANGES IN PROSPERITY BETWEEN 2009 AND 2014



**1<sup>st</sup>**  
Norway is the highest ranked country

**142<sup>nd</sup>**  
Central African Republic is the lowest ranked country



# Special Report

## PROSPERITY SINCE THE FINANCIAL CRISIS

The financial crisis and ensuing recession have tested countries across the globe. World Bank data shows that global GDP fell from \$51.03 trillion in 2008 to \$49.97 trillion in 2009, it rebounded to \$52.00 trillion in 2010 and rose to \$55.43 trillion in 2013. The speed of recovery varied for different countries. Indeed some saw no fall in output at all, while for others, GDP remains below the pre-crisis peaks.

In many countries, the impact of the financial crisis goes far beyond economics. Data from the Legatum Prosperity Index™ help us understand why some countries have recovered quicker than others by providing a broader picture of the drivers of national success. The results are stark and surprising. While economic performance is important, arguably just as important is how well-governed a country is, how free its people are, and how strong its social bonds are.

Figure 1 compares countries on two measures: GDP<sup>1</sup> and overall Prosperity score.<sup>2</sup> Some countries, such as Canada, the United States, Germany, the United Kingdom, Japan, and France reacted better economically to the financial crisis than others. Moreover, across the same period these countries have also seen an improvement in their overall prosperity. In contrast, countries such as Spain, Italy, and Greece have struggled to recover from the financial crisis: they have witnessed a decline in both GDP and Prosperity. Some of these declines have been dramatic. Greece has fallen 20 places down the rankings in six years, Italy is down nine, and Spain down four.

Within these two groups, however, there are interesting differences. In terms of GDP, France and Japan have grown the least since 2008, and both now face significant economic problems. France's recovery has stalled since 2011 and the current government is struggling to take unpopular structural reforms (Economist 2014). Similarly, Japan experienced a 7% drop in GDP in the second quarter of 2014, as an increase in the sales tax took effect (Kihara 2014). Even Germany, long the growth-engine for the entire eurozone, has seen economic growth slow recently (Benoit 2014).

Comparing GDP and prosperity, the United States performed particularly strongly in terms of GDP, but less so on Prosperity. Conversely, the UK's improvement on prosperity outstripped growth in GDP. A look at the Prosperity Index explains this discrepancy. While the United States has seen its economy expand, the country has witnessed a decline in governance. Government approval has fallen from 51% to 29% since 2009 and approval of the judiciary has fallen from 63% to 46%.<sup>\*</sup> Both may be responses to the growing gridlock in Washington DC.

Meanwhile, although the UK's economic performance has been underwhelming until recently, the country has become safer and more entrepreneurial. The percentage of people who feel safe walking home at night has increased from 66% to 74% since 2009. The number of people who feel that working hard gets you ahead in life has increased from 78% to 84% and the UK now boasts

FIGURE 1: CHANGE IN PROSPERITY SCORE (2009 - 2014) VS. CHANGE IN GDP (2008 - 2013)

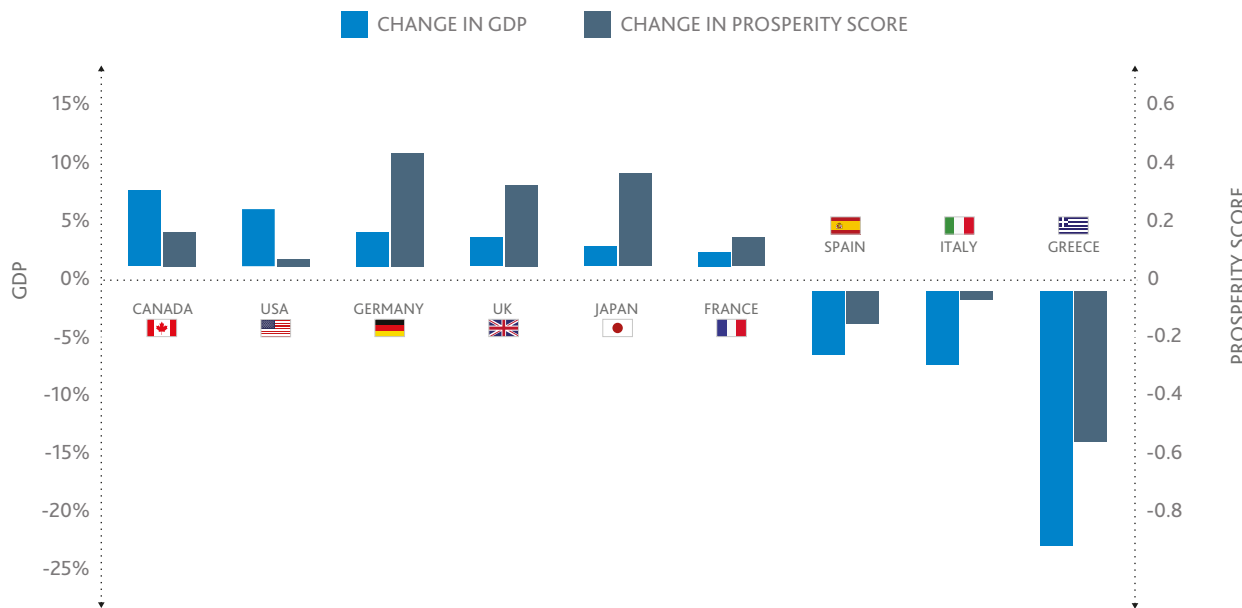
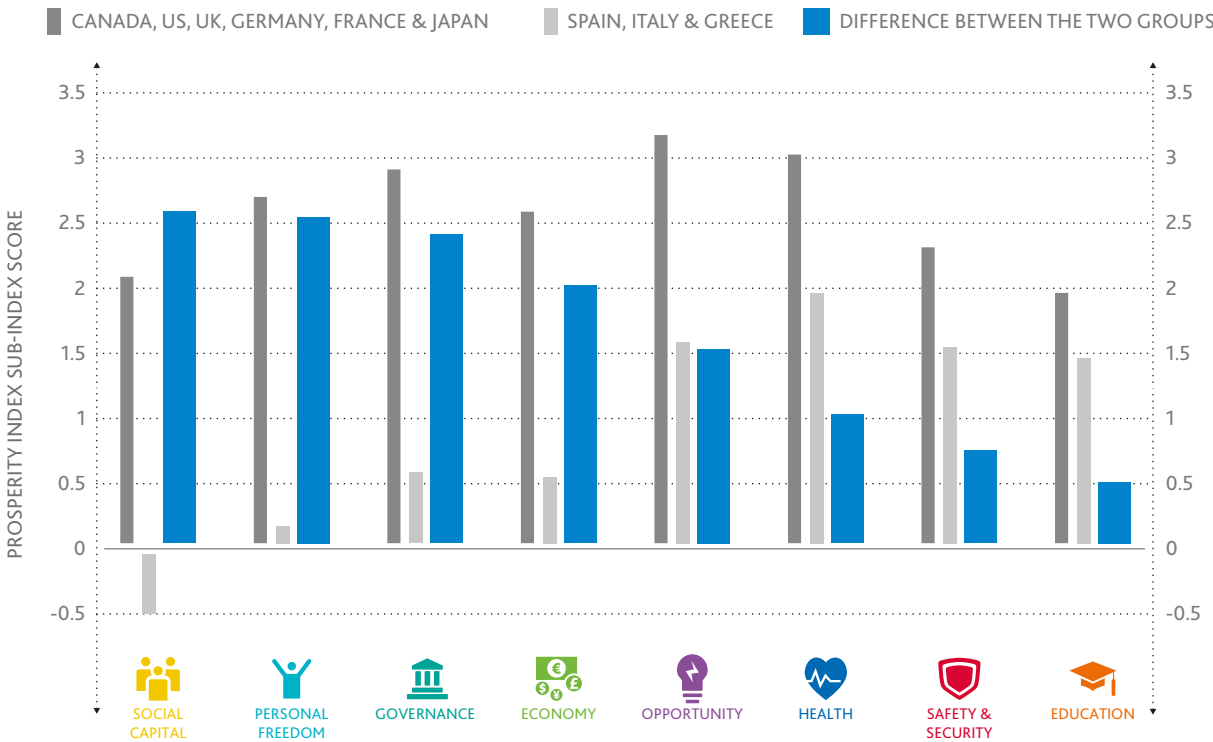


FIGURE 2: THE 2014 PROSPERITY INDEX SUB-INDEX SCORES FOR THE G7 AND SELECTED EUROPEAN COUNTRIES



the third-lowest start-up costs in the world. Clearly prosperity is a broader measure of national performance than GDP, and the evidence, presented below, is that it can help explain national recovery.

The drivers of economic recovery have been widely debated. Organisations such as the International Monetary Fund and the Organisation for Economic Cooperation and Development have investigated, and suggested policy reforms to help countries respond to economic crises. Examples of reforms include restructuring product and labour markets, ending inefficient public spending, and ensuring that financial institutions are solvent. Although there are debates about the appropriateness of certain reforms in certain contexts, there is a consensus on the importance of a stable macroeconomic environment and regulation that supports rather than hinders an efficient private sector (OECD 2010). Using the Prosperity Index we can demonstrate not only the importance of these factors but also that of social capital and personal freedom.

In figure 2 we split the countries into two groups depending on their success in recovering from the financial crisis. The figure compares the average score in 2014 of the two groups on the eight difference sub-indices of the Prosperity Index<sup>3</sup>. The biggest differences between these two groups are in the areas of Social Capital, Personal Freedom, and Governance, and a very similar picture emerges if we construct the same graph for sub-index scores in 2009.

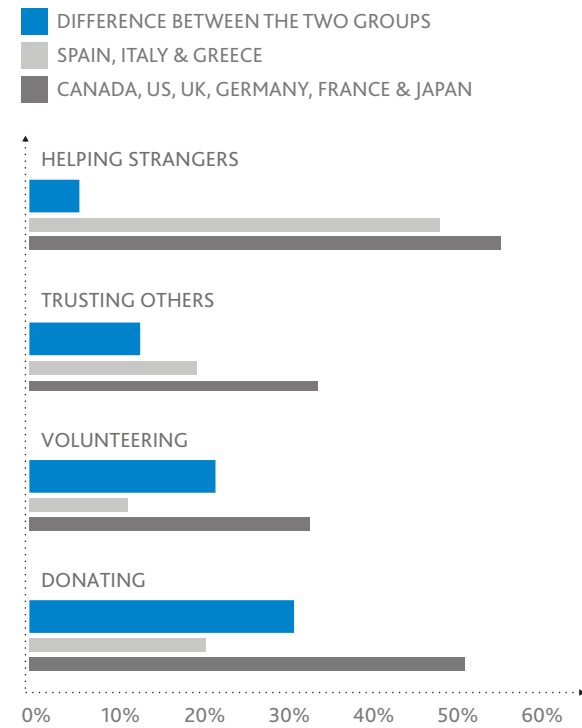
The data suggest that freer, more socially cohesive, and well-governed countries rode out the financial crisis better. An understanding of how countries differ in these respects can shed light upon what countries need to do to rediscover prosperity in the wake of the crisis.

Robert Kennedy famously enumerated the many things that gross domestic product does not measure, including the 'strength of our marriages', 'our compassion' and 'our devotion to our country'. 'It measures everything, in short, except that which makes life worthwhile', he concluded. Although RFK did not use the specific term, the then-US presidential candidate was describing a nation's social capital. Societies where people trust one another, have compassion for one another, and have people on whom they can depend in times of need are stronger than those without these characteristics. Social cohesion is most tested in times of economic difficulty and the evidence is that countries with greater levels of social capital experience greater levels of economic growth (Zak 2001).

On nearly all measures of social capital, Canada, Germany, France, Japan, the UK, and the US perform better than Spain, Italy, and Greece. In the first group, an average of 32% of people have volunteered in the past month; 51% have donated to charity; 54% having helped a stranger; and 33% trust others in society. In the latter group these figures are far lower at 11%, 21%, 48%, and 20% respectively.

Figure 3 shows that the differences between the two groups of countries are most stark in terms of volunteering and donating to charity, but the difference in trust is also notable. Research has found a relationship between social capital and both economic success (Zak 2001) and individual wellbeing (Leung 2013). Therefore it is unsurprising that there are clear differences between more and less prosperous countries. The challenge facing countries most affected by the financial crisis is how to strengthen social bonds so that society is more resilient in the future.

FIGURE 3: DIFFERENCES IN SOCIAL CAPITAL 2014



Personal freedom is an important driver of prosperity. Free and tolerant societies provide individuals with the opportunities to shape their own lives. This applies as much in the economic sphere, where people need to be able to invest their time and money how they choose, as it does in the social sphere, where people need to be free from persecution, whether from government or their fellow citizens (Mill 1982). In Canada, 92% of people feel that they have the freedom to choose the course of their own lives, the highest score of the countries grouped above. By contrast only 43% of Greeks feel this, and only 50% of Italians. While in the UK the percentage of people who believe they have the freedom to choose the course of their lives rose from 78% to 91% between 2010 and 2014, the number of Italians who felt free dropped from 62% to 50% over the same period. Greater freedom of choice in the UK may be related to the Coalition Government's reforms to expand choice in the education, health, and energy sectors. The Government has also abolished control orders, scrapped the previous government's proposed ID card scheme, and in 2012 passed the Protection of Freedoms Act. As a result the country has been dubbed a 'more liberal and principled country' (The Economist 2014) than it was six years ago.

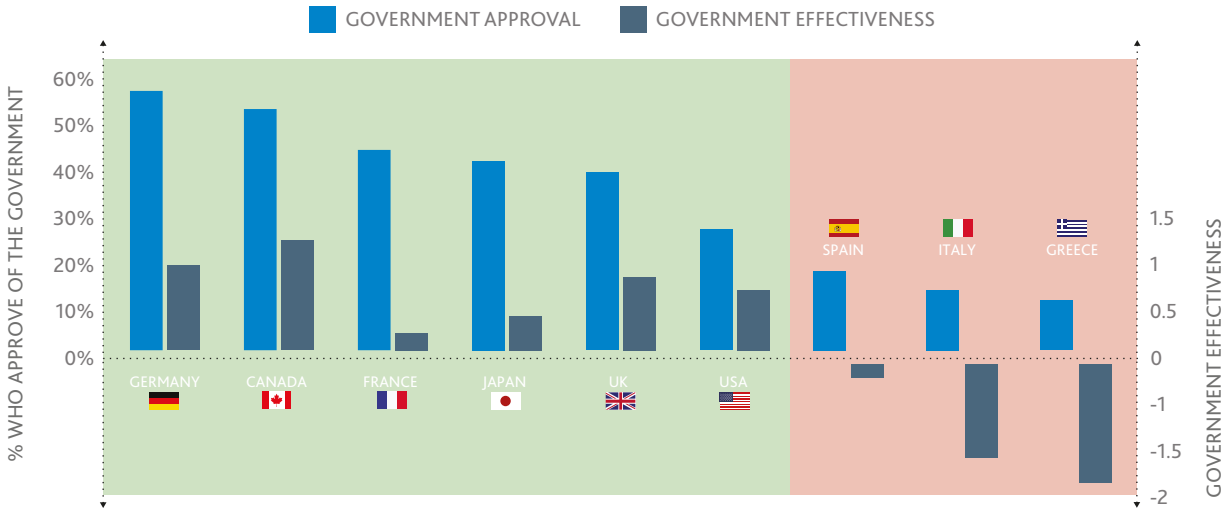
Economic downturns can strain societies; intolerance and xenophobia often flourish as people look for others to blame for their own misfortunes. In Europe, where many countries have suffered economically, there has been widespread discussion in the media about the rise of populist, xenophobic parties (Higgins 2014), and much new research has examined the phenomenon (Bartlett 2011).

The Prosperity Index suggests that this concern is well-founded. In those countries that have suffered the most economically - in this case, Greece, Italy, and Spain - there has been a fall in tolerance. The number of people who believe that society is tolerant of immigrants and ethnic minorities fell from 73% and 72% to 69% and 67%. This decline in tolerance mirrors the decline in economic sentiment, in 2009 9.3% of people in these countries felt it was a good time to find a job, a low figure, but not as low as in 2013 when only 3.3% felt this way. By contrast in those countries that have fared better economically there was no meaningful change in tolerance. The Index shows that those societies that were originally more tolerant have remained so, and are growing comparatively more so as intolerance grows in other countries.

FIGURE 4: PERCENTAGE OF PEOPLE WHO BELIEVE SOCIETY IS TOLERANT OF IMMIGRANTS AND ETHNIC MINORITIES (2010 & 2014)



FIGURE 5: PERCENTAGE OF PEOPLE WHO APPROVE OF THE GOVERNMENT AND GOVERNMENT EFFECTIVENESS



Well-governed countries are more resilient: they are more likely to experience economic growth (Fayissa 2013) and their citizens are more likely to be happy (Ott 2010). Indeed the OECD and EU have placed a lot of emphasis on the importance of structural reforms in the aftermath of the financial crisis (Gurria 2013). An aspect of governance in need of reform in many countries, and which relates to national economic success and individual prosperity, is corruption. It is difficult for private initiative to flourish in countries where businesses and public authorities are corrupt. Perceptions of corruption are markedly higher in those countries whose economies have not grown since 2008. In 2010 in Spain, Greece, and Italy 78% of people believed that businesses and the government of their country were corrupt, for the other countries this figure was 55%. The financial crisis has contributed to the broadening of this gap. Indeed, when asked again in 2014, 88% of people in Spain, Italy, and Greece felt that corruption was widespread, whereas the figure was 54% for Canada, Germany, France, Japan, the US, and the UK.

Governments that are seen as corrupt find it more difficult to impose spending cuts and other unpopular policies necessary at a time of economic malaise upon their citizens. Poor governance can become self-fulfilling in this respect, as ineffective governments fail to make necessary reforms and become even more unpopular and ineffective as a result (Rothstein 2011). Government approval is at a nadir for those countries that have witnessed serious declines in economic output: across Greece, Italy, Spain, and Portugal average approval of the government stands at only 17%. This makes it incredibly difficult for the governments of these countries to take the actions necessary to revive their declining economies. Italy has had particular problems in this regard with three different governments holding power since the crash. The most recent, led by Matteo Renzi, continues to struggle to make key political and economic reforms. The World Bank's assessment

of the quality of governance also draws a stark contrast between the two groups. While Italy, Greece, and Spain score -1.20 on the Bank's measure of government effectiveness, Canada, France, Germany, Japan, the UK, and the US score 0.65. The global average is 0.02<sup>4</sup>.

The financial crisis continues to dominate. Journalists, policy analysts, academics, and decision-makers in business and politics often frame their analysis by seeking to draw lessons from it. In many cases the lessons are economic: what was it about the economies of the more successful economies that helped them ride out the storm? What economic reforms are needed by those struggling states? The Prosperity Index suggests that we have been blinkered in understanding what drives national success. Although a solid macroeconomic environment is a prerequisite, other factors matter. The Index shows that countries that have recovered from the financial crisis (both in terms of GDP and Prosperity) are those where the social bonds between people create trust, compassion, and tolerance: where individual liberty is safeguarded; and government rules effectively. Spain, Italy, Greece, and other countries can learn from this and start to implement reforms that support and safeguard social capital, personal freedom, and good governance. Such reforms may be implemented without significant increases in public spending, but could result in large increases in wealth and wellbeing and, ultimately, prosperity.

<sup>4</sup> All survey data in this chapter are taken from the Gallup® World Poll.  
<sup>1</sup> For the UK we use the most recent statistics produced by the ONS. The change in GDP is measured using constant prices, stripping out the effect of inflation.  
<sup>2</sup> GDP is measured between 2008 and 2013, while a country's prosperity score is taken from the Legatum Prosperity Index measured between 2009 and 2014. The two periods are comparable because data in the Prosperity Index is lagged a year.  
<sup>3</sup> Economy, Entrepreneurship & Opportunity, Governance, Education, Health, Personal Freedom, Safety & Security, and Social Capital.  
<sup>4</sup> The World Bank measures 'Government Effectiveness' as 'the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies'. Countries are awarded a score between -2.5 and 2.5.





# Principles of Prosperity

**Two fundamental questions lay at the heart of all national strategy: What is prosperity? And how can it be achieved?**

Traditionally, the most commonly used and widely accepted measures of national success are GDP: the size of a nation's economy, and GDP per capita: the average economic output of its citizens. Since its development in the 1930s by economist Simon Kuznets, GDP has become a benchmark against which nations have been measured. But there is a growing consensus that GDP alone is too narrow to capture a country's overall success.

This has become known as the 'Beyond GDP' debate. The Prosperity Index does not, however, seek to remove GDP from our concept of national success. Wealth remains a fundamental requirement of prosperity; one among many others. What the Prosperity Index offers, therefore, is best described as 'GDP and beyond'.

As yet, there is no consensus on what to include as a complement to GDP in an attempt to measure national success. A range of factors including wellbeing, health, and education among others have been suggested. In the absence of an agreed definition, one thing is clear: national prosperity is about more than just money. The outcome of this is the realisation that what we measure needs to catch up with what we value.

This is not new. In March of 1962, Robert Kennedy eloquently summarised the shortcomings of using purely economic measures to assess a nation's progress:

*"...Gross National Product counts air pollution and cigarette*

*advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl ... Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile."*

This section of the report, explores six principles of prosperity. The list is by no means exhaustive but it includes some of the core principles that have been widely discussed and debated in both the academic and policy community, and which we have found have a strong relationship with both GDP and individual wellbeing. These are: Opportunity; Education; Health; Freedom; Safety; and Social Values. Each chapter draws on leading academic scholarship and uses examples from the most recently available global data to illuminate the findings.

The purpose of these short chapters is not to provide definitive answers to major questions (although it does provide some) but rather to summarise some existing answers and to point towards further areas of study. A full bibliography is provided on pages 51 and 52 of this report.

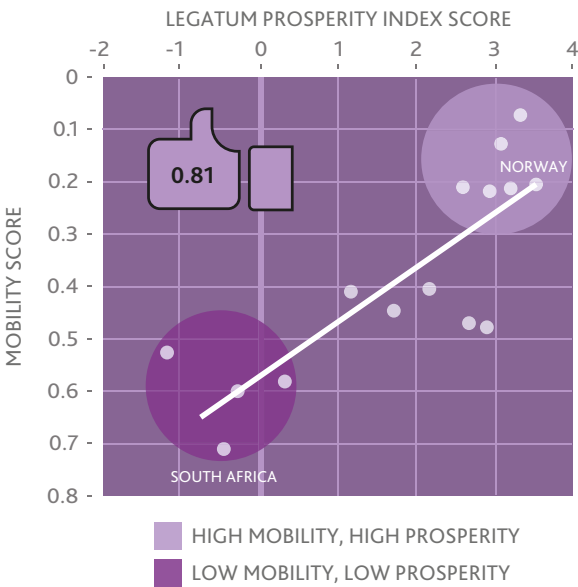
# MOBILITY AND OPPORTUNITY BRING PROSPERITY



The relationship between inequality, social mobility, and growth has been long debated. Although some degree of inequality can act as a catalyst for growth, it is widely recognised by economists and policy makers that high levels of inequality (Persson and Tabellini 1994, Rodrik 1998, Barro 1999, Ostry et al. 2014) and low level of social mobility (Reeves 2013, OECD 2010) can have a negative effect on growth. The main causes are the waste or misallocation of human skills and talents; and the negative effect on the motivation, effort and, ultimately, the productivity and wellbeing of citizens. All these elements damage prosperity and future growth. (OECD 2010).

Data from the Prosperity Index show a very strong and negative correlation between a nation's Prosperity score and inequality (correlation coefficient = -0.7). Prosperity is also positively correlated with mobility (figure 1).<sup>1</sup> Simply put, more prosperous countries have lower levels of inequality and higher levels of mobility. Moreover, more equal and mobile countries have become more prosperous across time. Correlation, however, is not causation. The findings do not mean that if a nation were to experience a decrease in income inequality that would automatically increase social mobility and prosperity. The missing link in the chain is more equal access to opportunity (Brunori, Ferreira and Peragine 2013).

FIGURE 1: PROSPERITY AND INCOME MOBILITY



Note: Mobility is measured as income elasticity across generation (Corak 2006). The y axis in the graph reports an inversed scale.

Intergenerational mobility reflects the extent to which individuals move up or down the social ladder compared to their parents. This is measured by using the intergenerational elasticity of earnings where lower numbers equal high mobility. Looking at cross-country comparison, we notice that these estimates range from less than 0.2 in more mobile countries like Denmark and Finland to a high of almost 0.7 in the least mobile countries such as Peru and South Africa. The UK and US are classified in the middle of the income mobility league, with values close to 0.48 (Corak 2006).

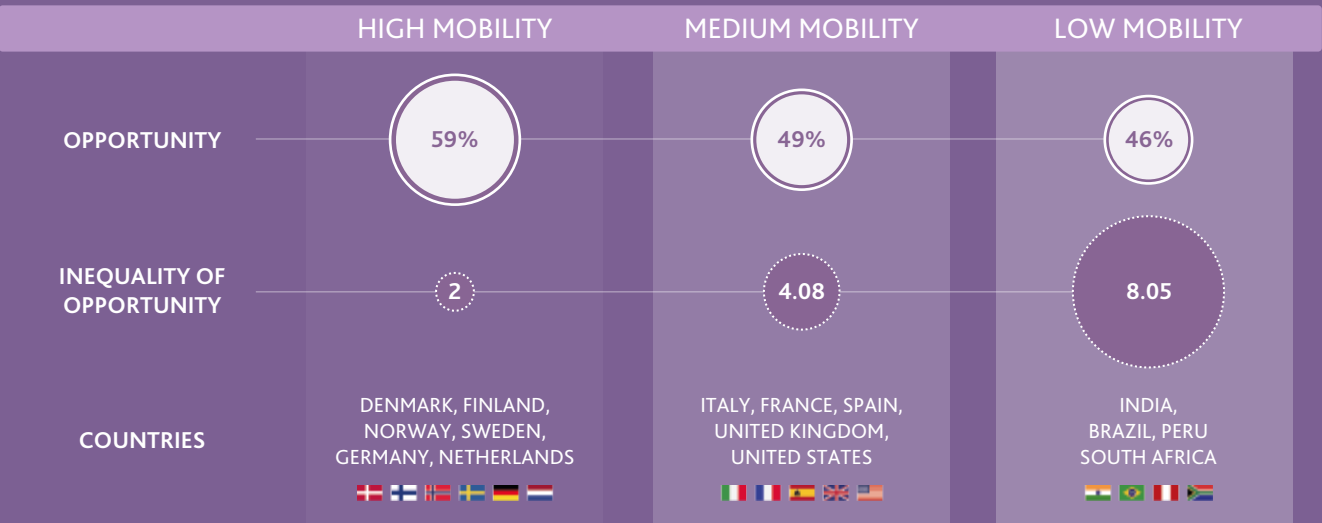
Part of the variation across the countries is due to the process of economic development, with lower-income countries generally having higher inequality between generations. If we focus our attention on rich countries there are still considerable variations, with the United States standing out along with the United Kingdom, Spain, Italy, and France as being the least inter-generationally mobile countries.

Intergenerational mobility depends on a host of factors that determine individual economic success and explain differences across countries. Some of these factors are related to the inheritability of traits (such as innate abilities) while others depend on the family and socio-economic environment in which individuals develop (Reeves 2014).

Family structure and community are key elements in social mobility and prosperity. Sawhill (2014) identified the complicated kaleidoscope of family structure as 'the new fault line in the American class structure'. Reeves (2014) says that the 'social capital' generated by the networks and norms of community life can be crucial for upward mobility, especially for people from troubled families. The Prosperity Index finds that in 2014 countries with high income mobility have much stronger Social Capital than stagnant societies and this variation explains the larger part of the difference in prosperity.

Looking at the socio-economic factors, inequality is the most debated. The financial crisis of 2008 and subsequent years of low growth, high unemployment, and wage stagnation in the West have shone a light on the issue of inequality. Thanks to movements such as Occupy Wall Street, we are all familiar with phrases such as 'the

FIGURE 2: HIGH MOBILITY, HIGH OPPORTUNITY, AND LOW INEQUALITY



1%' and 'the 99%'. It is well known that high inequality may be associated with low mobility across generations (Krueger 2012).<sup>2</sup> However, it is not inequality by itself that is the principal cause of social stagnation: it affects mobility by skewing opportunities. Indeed, countries with lower levels of income mobility have higher inequality and lower and more unequal access to opportunities. The United States offers a good case study. Americans have, historically, accepted the gap between rich and poor on the grounds that, thanks to equal opportunity, the gap is bridgeable by everyone. The 'American Dream' is based on the idea that every child born in the US – regardless of social status – can rise to the top of their chosen field as a result of talent and hard work. Reeves (2014) argues, however, that owing to growing economic and social divide, the American Dream today faces a double threat: a big gap between the rich and the rest, plus low rates of upward mobility. The main cause? Increasingly unequal access to opportunity.

Opportunity can be defined as the tool that gives children the capacity to pursue a fulfilling life and to exercise choice. Graham and Nikolova (2013)<sup>3</sup> measure opportunity as the combination of self-reported subjective factors – the absence of health problems; opportunity to learn and get ahead in life; satisfaction with freedom of choice – and objective factors such as income, education, and employment status. Following their approach and using subjective variables from the Prosperity Index, we can show that countries with higher social mobility are characterised by better opportunities (figure 2). The United States and the United Kingdom, along with France and Italy, present a poorer set of opportunities in comparison with Norway, Germany, and other high mobile nations. This message is echoed by the Prosperity Index: countries with higher scores in Entrepreneurship & Opportunity<sup>4</sup> also have higher social mobility (the average scores for the high, medium, and low income mobility groups are: 3.78; 2.74; 0.47).

Not only access to but also equality in opportunities is important for social mobility and prosperity. Brunori, Ferreira, and Peragine (2013) show a strong correlation between unequal access to opportunity and higher social stagnation. A similar exercise can be replicated using the 'uneven economic development' variable from the Prosperity Index, which measures the level of inequality in education, jobs and economic status.<sup>5</sup> The analysis shows that countries with low mobility are characterised by a more uneven economic environment (figure 2).

The Prosperity Index shows that more prosperous countries have higher income mobility and lower inequality. Among other reasons, this is because more prosperous societies promote better and more equal access to opportunity.<sup>6</sup> In order to boost more prosperous countries, governments should implement policies that improve access to opportunity for children regardless of family background and address both cash and class gaps. The focus on family, schooling, health, and community should be high on the policy maker's agenda in order to avoid the dangers of a divided nation and low future prosperity.

## More prosperous societies promote better and more equal access to opportunity

<sup>1</sup> All survey data in this chapter are taken from the Gallup® World Poll.  
<sup>2</sup> Inequality is measured using the World Bank (2013) indicator of Total Inequality; for Mobility we use the intergenerational elasticity of earnings as in Corak (2006).  
<sup>3</sup> This relationship is well-known as "the Great Gatsby Curve".  
<sup>4</sup> Graham and Nikolova (2013) use the terms "agency" and "capability".  
<sup>5</sup> It is worth noting that the Entrepreneurship & Opportunity sub-index not only includes variables related to opportunity as defined by Graham and Nikolova (2013) but also other variables that measure opportunity of starting and running a business (such as start-up costs and internet bandwidth).  
<sup>6</sup> Uneven Economic Development – Failed States Index.  
<sup>7</sup> The correlation is statistically significant and the coefficients are 0.5267 with access to opportunity (Graham and Nikolova 2013); -0.4560 with the World Bank's indicator of unequal access to opportunity (IEO\_L); and -0.8587 with the Failed States Index variable.



# EDUCATION FOR DEMOCRACY AND PROSPERITY



Education is important for prosperity. Educated people can secure good jobs, compete in the market place, float new ideas, enrich society, and contribute to their own – and their nation’s – development. One of the chief reasons why education is important for prosperity, however, is that education is important for democracy.

The relationship between education and democracy has been widely discussed theoretically and empirically (Glaeser, Ponzetto and Shleifer 2007, Rindermann 2008), even though the literature is not unanimous on this relationship (Acemoglu et al. 2005). In fact, certain factors seem to mediate the relationship between education and democracy, in particular the quality and inclusivity of education (Brookings Institution 2014). The Prosperity Index enables us to look at this in more detail.

The Prosperity Index supports findings in the literature that education is positively related to governance and democracy.<sup>1</sup> In fact, there is a high correlation (0.6) between the Education and Governance sub-indices (figure 1). Countries like Switzerland, which is 2nd in the Prosperity Index in 2014, rank highly in both Education and Governance. The relationship between education and democracy runs in both directions. First of all education instills democratic values (Lipset 1959 and Zeuner 2013), raises the benefits of civic participation (Glaeser, Ponzetto, and Shleifer 2007), and increases income (Harmon, Oosterbeek, and Walker 2003), which in turn has been shown to foster political development. On the other hand, democracies also give citizens more rights to make their voices heard and hence to ask for a broader provision of public education (Brown 1999).

Using the ‘political rights’ measure<sup>2</sup> from the Prosperity Index as well as data on enrolment rates in education<sup>3</sup>, we can examine the extent to which more democratic societies have higher schooling levels (see figure 2). This data show us that countries with higher political rights (scores 6 and 7) have greater educational enrolment rates. When testing this with other measures of democracy<sup>4</sup>, the same pattern emerges, which shows that education is related both to the extent to which a country has a democratic system in place and also to the extent to which individuals are able to participate in the political process.

We may suspect that this finding is driven simply by high income countries also having higher political rights scores and schooling levels. However, this result holds across the world when we exclude high income countries. This is in line with preliminary findings from Hegre et al. (forthcoming) that education has a positive impact on democracy over and beyond income.

FIGURE 1: BETTER EDUCATION, BETTER GOVERNANCE

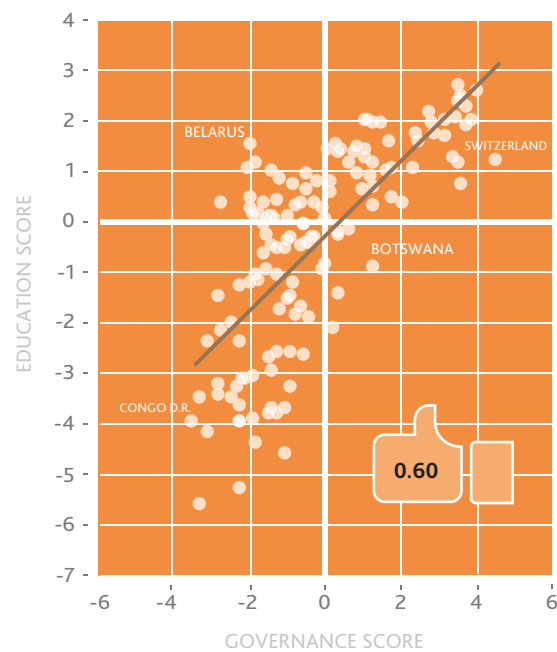
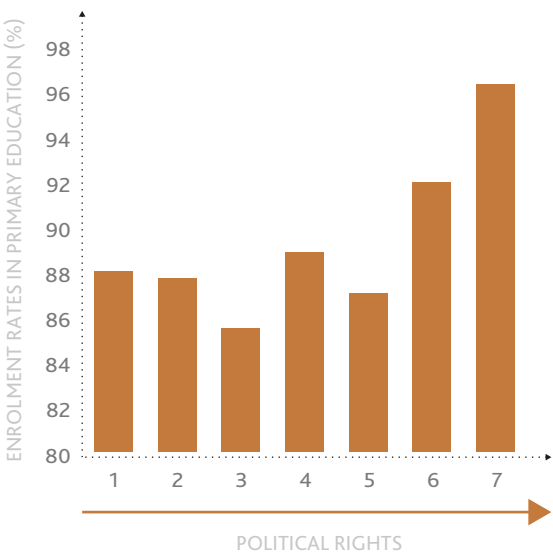


FIGURE 2: HIGHER ENROLMENT, HIGHER POLITICAL RIGHTS

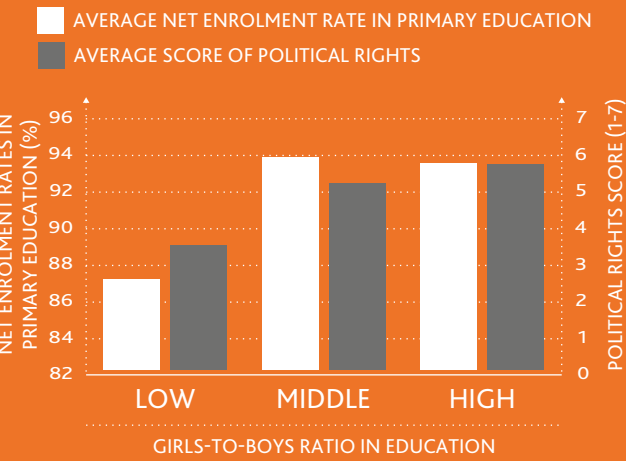


Note: Primary education enrolment rates for countries with differing degrees of political rights

These results could indicate that democracies need to reach a certain level of ‘maturity’ before education is positively associated with democracy. But what are the factors defining ‘mature’ democracies? The literature suggests several factors such as the quality of political institutions and political stability (Hegre et al. forthcoming), ethnicity and religion (Inglehart and Welzel 2006), economic structure (Bueno de Mesquita and Smith 2009) as well as the quality and inclusiveness of education systems (Cohen 2006, Harber and Mncube 2012). The idea behind the latter is that for a broad set of views to be represented in the political sphere, citizens would need to have equal access to education and better quality of education. Equality and quality of education would need to be sufficiently high to create a ‘culture of democracy’ (Lipset 1959).

Using data from the Prosperity Index, we can examine the inclusiveness of education systems and quality of education. This is done using the gender ratio in education<sup>5</sup> and satisfaction with education quality,<sup>6</sup> respectively.

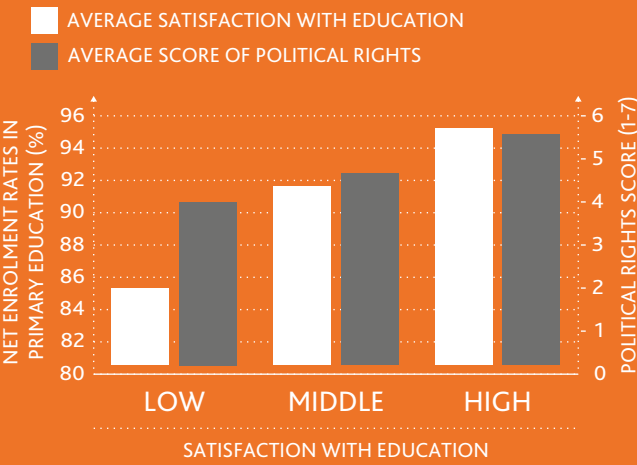
FIGURE 3: GENDER EQUALITY IN EDUCATION, ENROLMENT, AND POLITICAL RIGHTS



Access to education for girls has been argued to have a significant effect on democratisation (Barro 1999, Brown 2004, Beer 2009), through socio-economic and political empowerment. Studies have found that low gender inequality in education is positively related to democracy, even when accounting for general inequality in education. In figure 3 we see that both primary education and political rights are high in the group with the highest girls to boys ratio in education. Primary education stays roughly the same between a middle and high level of girls to boys ratio while both are very low in countries with high gender inequality in education. This could indicate that reducing inequality in education would boost education and democracy mainly for countries that have very high levels of gender inequality.

This is why many experts, academics and institutions – including the World Bank in its 2014 report – agree that improving the agency of women as well as access to opportunities is crucial for development and prosperity around the world.

FIGURE 4: SATISFACTION WITH EDUCATION, ENROLMENT, AND POLITICAL RIGHTS



Various studies have shown that not only equality but also the quality of education such as teaching as well as the curricula (including extra-curricular activities) are important for economic, social, and political development (Cohen 2006, Gutman and Schoon 2013). In figure 4, primary education and political rights are highest in the countries where people are most satisfied with education quality (here we are using satisfaction with education quality as a proxy of curriculum content and experience in class). For example, 85% of people are satisfied with the quality of education in Norway, the most prosperous country in our Index.

Education has an important role to play in the democratic progress of nations. Simply increasing educational attainment, however, will not automatically yield more democracy. Data from the Prosperity Index confirm academic findings that both quality and equality of education matter for democracy. Although the relationship between education and democracy has yet to be fully understood, one thing is clear: education and democracy go hand in hand.

## Quality and equality of education matter for democracy

<sup>1</sup> All the data used in this analysis except when indicated is taken from the Prosperity Index and comprises 142 countries in 2014.

<sup>2</sup> Political rights measure the ability to participate in political processes such as voting in legitimate elections, joining parties, running for office, etc. This variable from Freedom House captures elements relating to the electoral process, political pluralism and participation as well as the functionality of the government and additional discretionary political rights (with -7 being the lowest and +7 being the highest score).

<sup>3</sup> In the article the results for primary education and measures of democracy will be presented but the same kind of relationships hold throughout for secondary and tertiary education.

<sup>4</sup> These are: “government type”, a Polity IV variable measuring the extent to which a society is autocratic or democratic (scale of -7 to +7); and “civil liberties”, a Freedom House variable measuring a range of freedoms as well as equality of opportunity.

<sup>5</sup> The gender ratio is the ratio of girls-to-boys for years of education attained at the primary, secondary and tertiary level. The ratio is calculated based on the Barro and Lee dataset from 2010 for 127 countries.

<sup>6</sup> Satisfaction with education quality is a question from a Gallup® World Poll survey “In the city or the area where you live, how satisfied or dissatisfied are you with the educational system or the schools?”

# HEALTH MATTERS: SPEND MORE BUT SPEND WELL



HEALTH

Does spending more on healthcare increase the health and prosperity of a nation? In the past ten years some studies dispute, or at least seek to qualify, the link between health spending and outcomes. Data from the Prosperity Index can help to shed light on this issue.

According to McGuire (2006) healthcare spending, as a percentage of GDP, no longer has a relationship with infant mortality, once you control for the quality of maternal and infant health programs and the share of births attended by trained personnel. While McGuire's conclusion seems plausible, quality is clearly somewhat related to spending. Using more sophisticated methods than McGuire, Bokhari, Gai, and Gottret (2007) find that government health expenditures do have a positive effect on both maternal and child mortality.

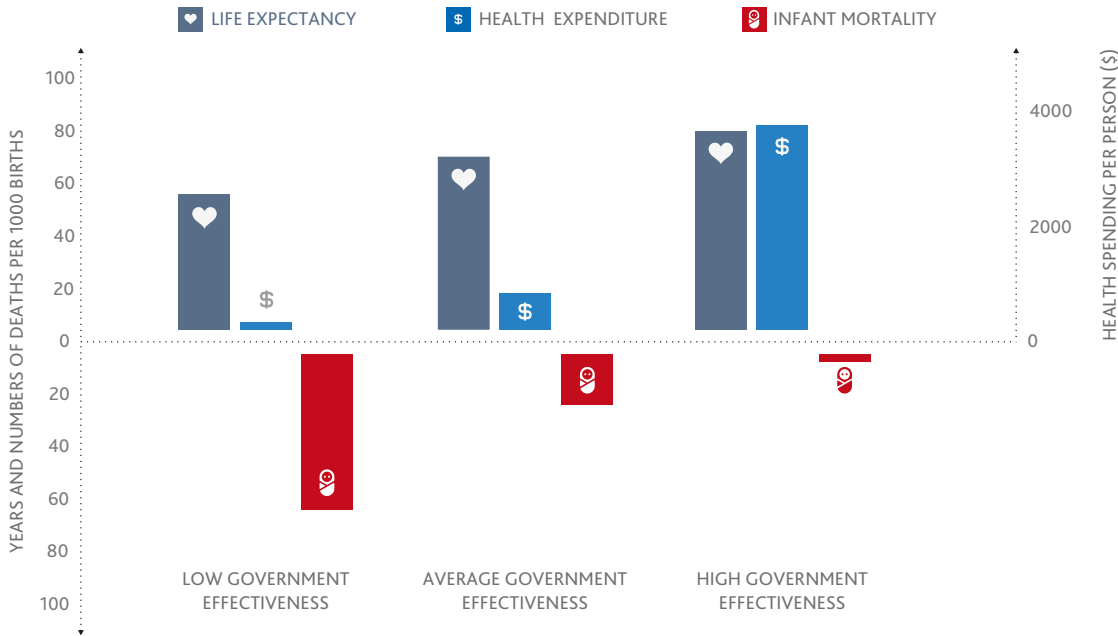
Because the evidence is somewhat mixed it is worth exploring whether or not the effect of healthcare spending on health outcomes is mediated by other variables. McGuire's study hints that how much money is spent seems to be less important than *how* it is spent. The quality of governance may therefore have an effect upon health outcomes. Rajkumar and Swaroop (2008) test this on 91 developing and developed countries and find that

as the quality of governance increases the effect of healthcare spending increases. Put simply, healthcare spending goes further in better governed countries.

Data in the Prosperity Index can shine a light on this issue, given that it includes 142 countries and measures infant mortality, life expectancy, and healthcare spending along with a range of governance indicators.

A simple correlation tells us that across all 142 countries in our Index those with higher spending on healthcare see lower levels of infant mortality and higher life expectancy. This is unsurprising, but there are some important caveats. The US spends far more on healthcare than any other country in the world - \$8,895 per person - yet the average American citizen lives 78.7 years, 4.7 years fewer than the average resident of Hong Kong, the territory with the highest life expectancy that spends only \$2,144 per person. By contrast, Vietnam spends only \$233 per person on healthcare and yet the average Vietnamese person lives 75.6 years. At the other extreme Russia spends \$1,474 per person on healthcare, yet the average Russian only lives 70.5 years.

FIGURE 1: HEALTHCARE SPENDING AND OUTCOMES FOR COUNTRIES WITH DIFFERING DEGREES OF GOVERNMENT EFFECTIVENESS



Clearly there is no simple relationship between health spending and outcomes. We can understand more by introducing governance into the analysis.

Figure 1 shows that poorly governed countries spend relatively little on healthcare and have poor health outcomes. Interestingly, a rise in spending from \$132 to \$691 per person and an improvement from low to average government effectiveness, see an increase in life expectancy of 12 years and a fall in infant mortality of 40.8 deaths per 1000 births. Health expenditure increases significantly between those countries with average government effectiveness and those with very effective governments (see figure 1) but life expectancy increases by only 10.7 years. Although improvements in life expectancy are harder to achieve as societies grow healthier, because many of the easy-to-solve health issues have been dealt with, there are clearly diminishing returns where healthcare spending is concerned.

Figures 2 and 3 are scatterplots showing the relationship between spending and infant mortality. While the relationship between spending and infant mortality is weak for poorly governed countries (figure 2) it is strong for countries with an average level of governance (figure 3). Furthermore, the evidence is that within better-governed countries the largest gains from increasing healthcare spending occur as spending increases from approximately \$70 to \$700 per person. This is equivalent to moving from the spending of Benin (\$70) to Tunisia (\$686).

Developing countries may witness greater returns from investments in health, if they also invest in improving governance. Taking those countries in our Index with a low or average level of government effectiveness and that spend only \$50 to \$200 per person on healthcare, we see that the better governed countries are healthier. Life expectancy is 2.4 years lower in the poorly governed countries, and there are 7.9 more cases of infant mortality per 1,000 live births. This is despite the fact that spending is approximately the same. To put this in perspective, life expectancy across the globe only increased by five years between 1990 and 2012, suggesting that improving governance can have big rewards in terms of health.

We set out to explore the relationship between healthcare spending and outcomes. Contrary to the work of McGuire (2006), we found that higher healthcare spending is related to better health outcomes. However, in line with McGuire (2006) and Rajkumar (2008), there is strong evidence to believe that increasing healthcare spending alone is an inefficient way to improve a nation's health. The health of a country is an important determinant of its prosperity. There is a proven link between health and economic growth: unhealthy people find it harder to succeed in school and in the workplace (Barro 2013). By improving governance, developing countries improve the efficacy of healthcare spending. For developed countries, the returns to healthcare spending are likely to be limited if healthcare systems are not efficient.

FIGURE 2: INFANT MORTALITY AND HEALTHCARE SPENDING IN POORLY GOVERNED COUNTRIES

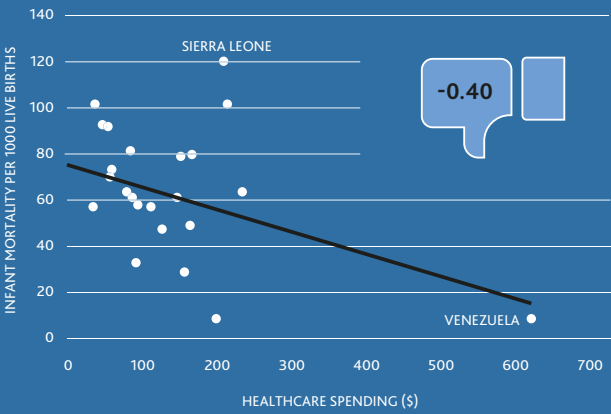
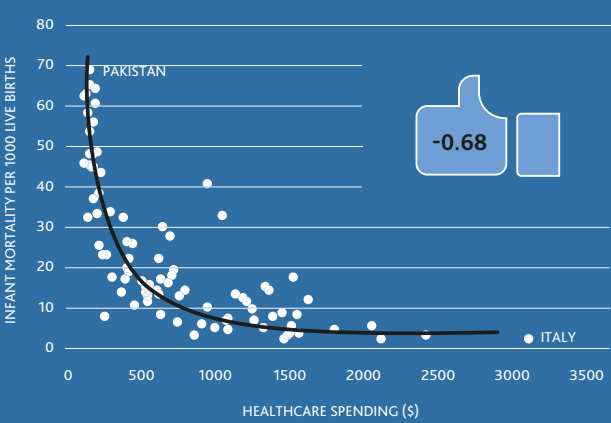


FIGURE 3: INFANT MORTALITY AND HEALTHCARE SPENDING IN COUNTRIES WITH AN AVERAGE LEVEL OF GOVERNANCE



There is a proven link  
between health and  
economic growth

<sup>1</sup> The correlation coefficient for spending and life expectancy is 0.64 and for infant mortality it is -0.56.  
<sup>2</sup> Governance is measured using the World Bank's 'government effectiveness' indicator which 'combine[s] the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries'. The scale is -2.5 to 2.5. Countries are grouped into three categories of governance based on whether they fall one standard deviation below the mean, within one standard deviation of the mean, or one standard deviation above the mean. The mean is 0.02 and the standard deviation is 0.99.



# THE GENDER FEAR GAP

‘Do you feel safe walking alone at night?’ This short, straightforward question is one we ask ourselves—consciously or unconsciously—many times in our lives. Indeed the answer we give to this question can have a profound effect on how we spend our time or where we choose to live. It is a question that has been asked to millions of people all around the world as a way to measure their fear of crime and their feelings of personal safety.<sup>1</sup>

The answers reveal a lot about global personal safety. One of the starkest findings is this: women universally report feeling less safe than men. In 2013 this happens in every country in the world except for three, and this ‘fear gap’ between genders is consistent between 2006 and 2013. Disproportionate fear of crime among women is a concern not only for their safety and security but also for mental health and wellbeing. This gender fear gap prompts us to ask where and why these disparities occur, and how the gender fear gap can be narrowed.

It may come as a surprise that among the top ten countries with the largest differences between male and female fear of crime are high-income, highly prosperous countries, such as Australia, New Zealand, and Canada – see figure 1.

In Canada, a country that ranks ninth in our Safety & Security sub-index, 91% of men reported feeling safe versus 62% of women in 2013. In New Zealand 81% of men reported feeling safe walking alone at night, compared with just 54% of women. In Australia, 80% of men reported feeling safe compared with only 54% of women. In all of these countries, the gap between genders is much higher than the global average of 13%.

On the other hand, it is still true to say that the majority of women and men in the world feel safe. That is to say that more than 50% answered yes when asked ‘do you feel safe walking alone at night?’ There is one region in the world, however, where for the last eight years women have consistently reported feeling more unsafe than safe: Latin America. Eastern Europe used to have the same problem, but has improved since 2011, albeit there are still significant discrepancies between countries in the region.

In Latin America the majority of women live in fear of crime. And it is the only region in the world where this is true for all the years analysed – 2006 to 2013. Latin America has long faced big safety challenges, and this is reflected in the data – on average only 51% of men in the region felt safe. Gender-based violence is viewed as a particular problem in the region (UNDP 2013), and the low positive answers for women mirror it well.



SAFETY & SECURITY

FIGURE 1: DO YOU FEEL SAFE WALKING ALONE AT NIGHT?

YES (%) WOMEN MEN

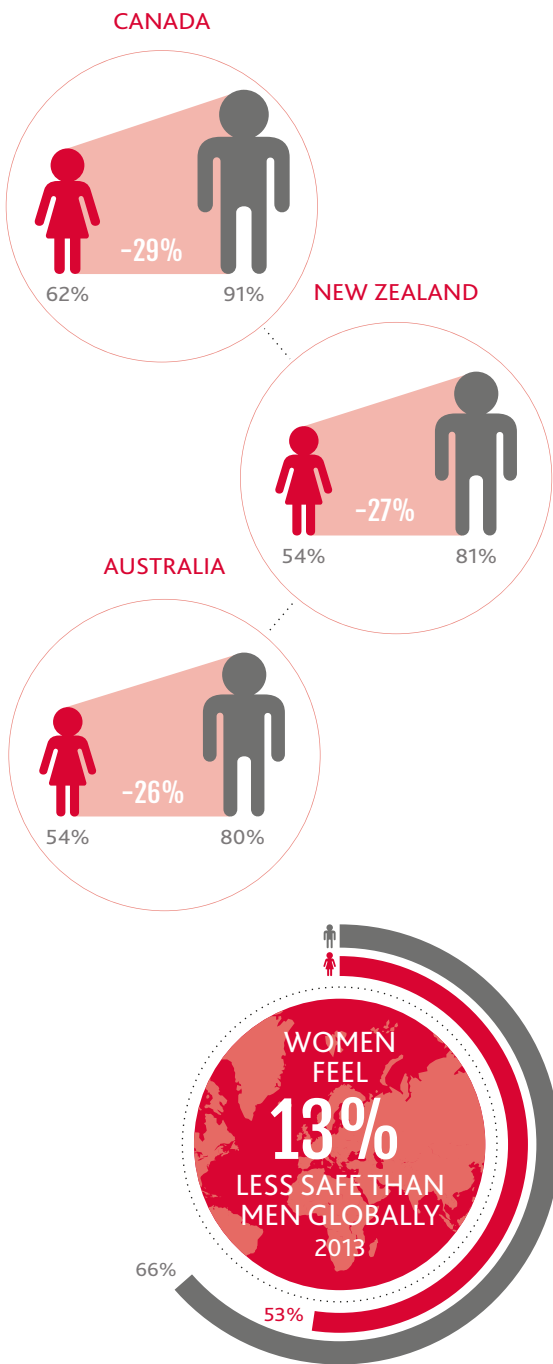
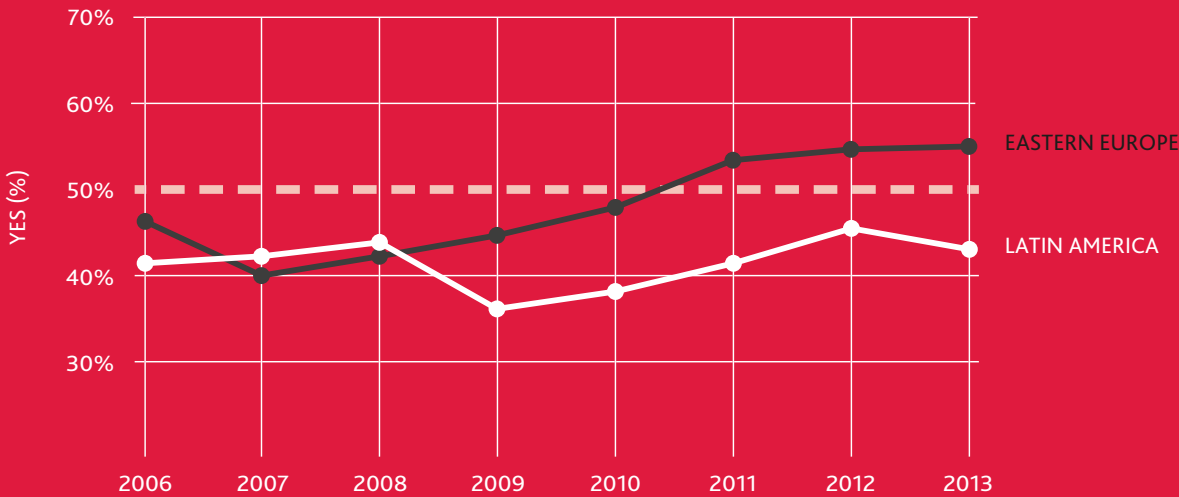


FIGURE 2: DO YOU FEEL SAFE WALKING ALONE AT NIGHT?

WOMEN'S ANSWERS (YES%) IN LATIN AMERICA AND EASTERN EUROPE (2006-2013)



In Brazil only 26% of women feel safe compared with 43% of men. Brazil’s ‘Maria da Penha’ law – which protects victims of domestic violence – celebrated its eighth anniversary in August this year, but questions have been raised about the effectiveness of its enforcement (UNHR 2012).

In Eastern Europe, the majority of women declared feeling unsafe between 2006 and 2010, although there has been a steady improvement in recent years. This improvement has been driven by countries such as Georgia and Montenegro, where in 2013 82% and 72% of women reported feeling safe respectively. However, there are still countries presenting a high number of women feeling unsafe. In Russia, for example, only 35% of women reported feeling safe in 2013, a percentage that actually shows improvement compared with previous years. Many issues affect women’s sense of security in the region. Sex trafficking is one of the most widely recognised problems of this part of Europe (UNODC 2010).

Studies examining the causes of fear of crime are unanimous<sup>2</sup> in concluding that fear of crime is unrelated to actual crime rates. It is argued that fear of crime can be the result of past victimisation, psychological predisposition (Stafford, Chandola, and Marmot 2007), the way media reports national crime incidents or even a perceived increase in community policing (Hanslmaier 2007). Clearly it is very difficult to pin-point exactly why people fear crime in general. Some authors, however, suggest that women fear crime more than men as a result of fear of sexual abuse or negative experiences with (male) strangers.

One study found that ‘women and men reported the same fear levels for non-violent crime’, but ‘when the crime of rape was added (...) women’s reported fear rose significantly’ (Ferraro 1995).<sup>3</sup> Others have argued ‘that women perceive the seriousness of rape as almost equal to or exceeding the perceived seriousness of murder’ (Scott 2003).<sup>4</sup>

The data shows that not only is there a striking gap between men’s and women’s fear of crime, it also reveals that the situation is not improving for women: around the world women feel less safe today than at any point in the last eight years. It is clear that a lot of work still needs to be done to empower and support women. In a 2012 report, the World Health Organisation uses several international reviews to identify effective policies towards addressing violence against women. For example, the report shows how early-life intervention can reduce dating violence. This includes classroom work and targeting of young adults in at-risk families (WHO 2012). Also, when addressing gender-based violence the report suggests the promotion of ‘social and economic empowerment of women and girls’ and the engagement of ‘men and boys to promote nonviolence and gender equality’.

The main concern at the moment is how to overcome the difficulty of cross engagement between government and civil society, affirming the necessity of a ‘comprehensive, multi-sectoral, long-term collaboration’ between the two, rather than just ‘individual-level’ intervention.

**Around the world women feel less safe today than at any point in the last eight years**

<sup>1</sup> Survey question: ‘Do you feel safe walking alone at night in the city or area where you live?’ Source: Gallup® World Poll.

<sup>2</sup> The literature on fear of crime has been developed since the mid-1960s and the lack of connection between actual crime and fear of it has been a consistent finding until today. See e.g. Garofalo 1973 and Farral, Gray and Jackson 2007.

<sup>3</sup> As cited by Scott 2003.

<sup>4</sup> Citing Warr 1984 and Ferraro 1996.



# FREEDOM, A FOUNDATION FOR PROSPERITY



Free people are more satisfied with their lives (Inglehart, et al. 2008). Freedom also encourages economic growth (Cebula 2011) and economic freedom can stimulate calls for other freedoms (Dreher 2012).

While the evidence suggests that the greater the level of freedom in society the greater the satisfaction with life. Some studies have gone further, exploring exactly what type of freedom, economic, political or social, has the largest effect (Veenhoven 2000). Others have explored whether the relationship between freedom and life satisfaction changes for countries with different levels of income (Inglehart 2008). Using data from the Prosperity Index to test the relationship between freedom and national prosperity we will answer two questions:

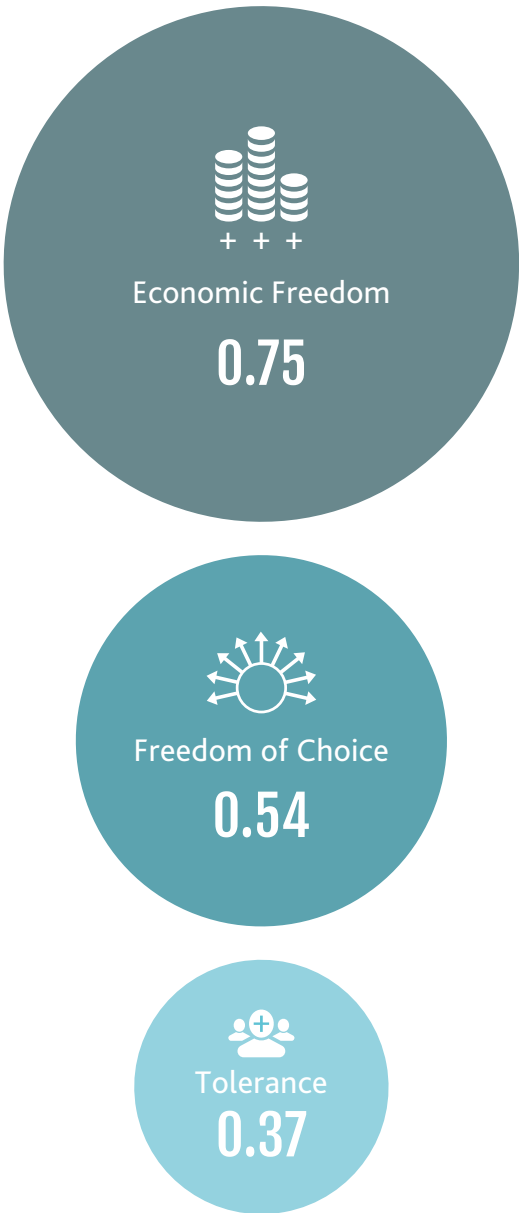
- 1. Which type of freedom is most related to national prosperity?
- 2. Does the relationship between freedom and national prosperity change for countries at differing levels of wealth?

In his 2000 study Veenhoven found a positive relationship between a composite measure of freedom composed of 'objective' indicators and life satisfaction (Veenhoven, 2000). Replicating Veenhoven's method we can test the relationship between different measures of freedom and a country's overall prosperity<sup>1</sup> for 132 countries in the world.<sup>2</sup>

Economic freedom has the strongest relationship with national prosperity. Using data from this year's Index, figure 1 shows the correlation coefficients for three measures of freedom against prosperity. Economic freedom is first, followed by freedom of choice and then tolerance. This reflects the findings of Veenhoven (2000) and Ovaska (2006), who both conclude that economic freedom is most important for life satisfaction and wellbeing across a range of countries.

A more sophisticated way to test the relationship between our three measures of freedom and national prosperity is to run a fixed effect regression, which can test if changes in freedom within countries are related to changes in prosperity. For instance, we can test if an improvement in freedom is followed by an improvement in prosperity, holding the level of wealth in the country constant. The analysis also allows us to test the relationship between prosperity and our three measures of freedom simultaneously, to see which has the largest effect.

FIGURE 1: DIFFERENT TYPES OF FREEDOM HAVE A GREATER OR SMALLER INFLUENCE ON PROSPERITY



Note: Economic freedom is measured using data from the Fraser Institute's Economic Freedom of the World project. Freedom of choice and tolerance are measured using questions from the Gallup World Poll.

The results show that while all types of freedom have a significant relationship with prosperity, the effect of economic freedom is the greatest: its coefficient (0.145) is the largest.<sup>3</sup> Again, economic freedom appears the most important factor.

Of the top 20 countries in the Legatum Prosperity Index™, 11, including the UK, US and Singapore, are some of the freest economically in the world.<sup>4</sup> In particular Switzerland, New Zealand, Canada, and Australia are all world leaders in economic freedom and prosperity, ranking second, third, fifth, and seventh respectively. Others such as Chad and the Democratic Republic of Congo have little economic freedom and are ranked near the bottom of the Prosperity Index (141st and 140th).

So economic freedom is the most important factor, but does the relationship between our measures of freedom and prosperity vary across income levels? Inglehart (2008) and Verme (2008) tested the relationship between freedom of choice and life satisfaction and found it to be stronger for more developed countries. Is this also the case for national prosperity?

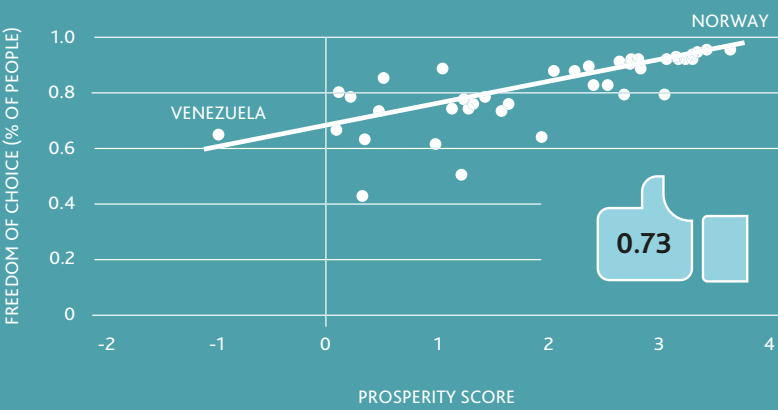
As countries become richer, people have the resources, financial and otherwise, to realise freedom of choice (Inglehart 2008). The two scatterplots (right) display the relationship between freedom of choice and prosperity for two different groups of countries. The relationship is 37% stronger for those countries at the top of the income distribution than for those countries in the middle.

This points to clear policy implications for developing countries. Economic freedom can help stimulate prosperity, regardless of a country's level of development. Once this is established, the benefits of wider freedoms – such as freedom of choice – can be realised. Furthermore, the evidence presented here is compatible with the argument that economic freedom can help stimulate demand for other freedoms. Once people are free to buy, sell and trade they may demand freedom in other aspects of their lives.

FIGURE 2: RELATIONSHIP BETWEEN FREEDOM OF CHOICE AND PROSPERITY FOR THOSE COUNTRIES IN THE MIDDLE OF THE INCOME DISTRIBUTION



FIGURE 3: RELATIONSHIP BETWEEN FREEDOM OF CHOICE AND PROSPERITY FOR THOSE COUNTRIES IN THE TOP OF THE INCOME DISTRIBUTION



## Economic freedom can help stimulate demand for other freedoms

<sup>1</sup> Prosperity here is measured using a country's score on the Prosperity Index, however from this score the Personal Freedom component is subtracted to avoid false collinearity between the variables.

<sup>2</sup> Only 132 countries are included in our sample because there is only data on 132 countries in our Index for economic freedom.

<sup>3</sup> An OLS regression was run with 105 countries, yielding 506 observations across five years, with time and country dummies and robust standard errors. The R-squared for the regression was 0.483. The coefficient for Economic Freedom was 0.145, a result significant at the 0.01 level. The coefficients for Freedom of Choice and Tolerance were 0.0623 and 0.0426, the former significant at 0.01 level, the latter significant at 0.10 level.

<sup>4</sup> Eleven are in the top 20 of the Fraser Institute's Economic Freedom of the World Index.

# VALUES MATTER FOR PROSPERITY

The concept of the social network did not begin with Mark Zuckerberg. Social capital – the institutions, norms, and values that shape our social interaction – has long been of interest in the study of wealth and wellbeing. Within the Prosperity Index, the Social Capital sub-index considers multiple aspects of social capital, but do some matter more than others when it comes to our wealth? We find that a particular set of values relates most strongly with wealth, a relationship that transcends cultural variation and strengthens with good institutional design.

Social capital's economic relevance is well established, but research has focused on trust (Knack and Keefer 1997, Zak and Knack 2001). In more trusting societies, transaction costs are lower as the risk of opportunistic behaviour falls (Rose 2011). Other studies find the economic effects of trust to include higher investment rates (Guiso, Sapienza and Zingales 2000) and the encouraging of innovation (Adam and Borut 2003).

Within the Index, we too find an economic link with trust, though it is weaker than the overall relationship between social capital (sub-index score) and wealth (taken throughout as GDP per capita PPP). <sup>1</sup> This prompts us to look beyond the literature to consider whether it is some other aspect of social capital that seems to matter more.

We find that two variables – strength of family and charitable intent – have a stronger correlation with wealth than trust, though all three exhibit a notable association, whereas other variables have a weak or even negative relationship with wealth. <sup>2</sup> Yet this does not seem to be reflected in countries themselves. Uzbekistan has the world's second strongest family networks, tied with the Danes, but only an eighth of Denmark's wealth. New Zealand and China have similarly high levels of trust, yet New Zealanders are three times wealthier than the Chinese.

This approach is clearly too simplistic. Why? As defined above, social capital is a composite of institutions and values. The strength of family, depth of trust, benevolent intent, centrality of marriage and guidance of faith are all reflected in the Social Capital sub-index. Religious attendance is not just about social resource – it is also indicative of the importance of faith to individuals. The values implication makes it harder to isolate individual aspects of social capital.

Looking again at our Index data, we find that the most profound relationship between social capital and wealth occurs when the three factors above are combined. If we take an average of these factors to assess the prevalence of a particular set of

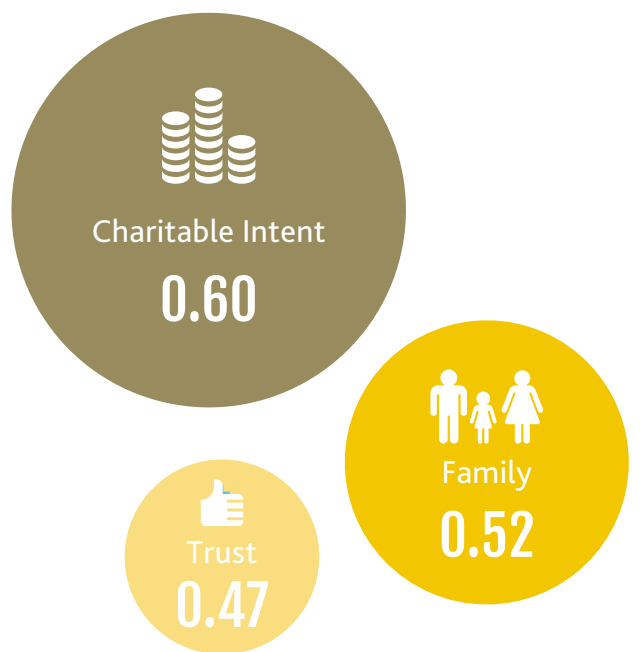
values (family, charitable intent and trust), the relationship with wealth strengthens to a level that is not matched by any other individual or combination of variables. <sup>3</sup> Countries with high trust, strong families and widespread charitable intent are on average wealthier than those that exhibit just one or two.

Yet for this finding to warrant further study, two mediating factors must be considered.

A key criticism of social capital is its context dependence (Foley and Edwards 1999). What constitutes a social resource depends on the circumstances of the individual. At a national level, one of the key determinants of context is culture. We see this within the Index. The five countries with the highest marriage rates are all in Asia, the bottom five in Sub-Saharan Africa. However, while culture may shape the formation of social capital, it does not seem to affect its relationship with wealth.

Just as studies on social capital and wellbeing have found similar correlations across the world (Helliwell and Putnam 2004, Yip et al. 2007), our data on wealth show a strong and similar correlation between our values-set and wealth in nearly all regions. Europe and MENA are particularly similar. The revealed values that seem to accompany wealth traverse the globe. <sup>4</sup>

FIGURE 1: CORRELATIONS BETWEEN WEALTH AND ASPECTS OF SOCIAL CAPITAL



SOCIAL CAPITAL

FIGURE 2: RELATIONSHIP BETWEEN VALUES SET AND GDP PER CAPITA FOR COUNTRIES WITH POOR REGULATION

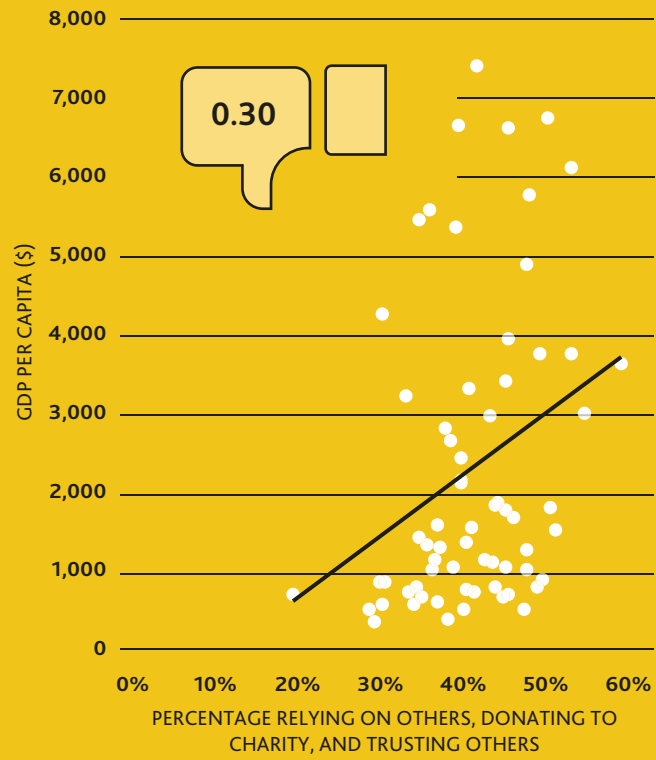
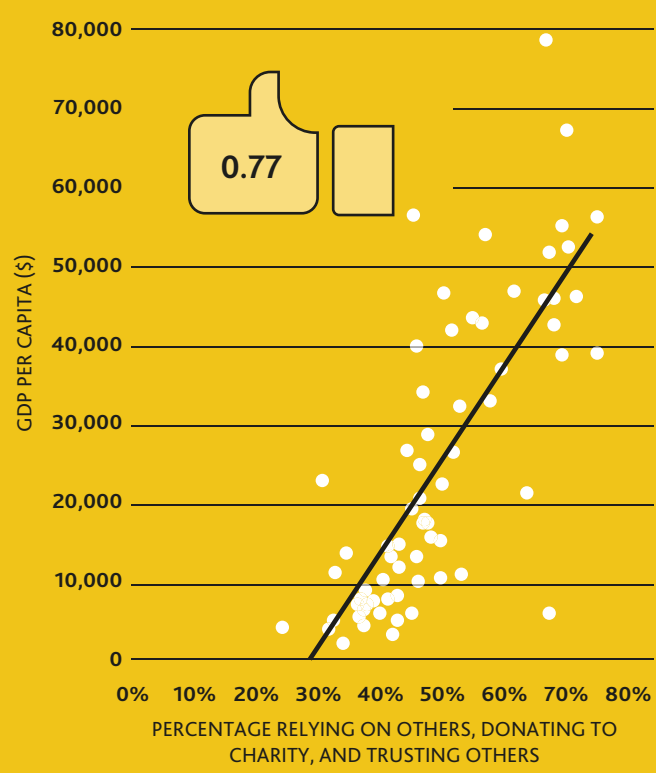


FIGURE 3: RELATIONSHIP BETWEEN VALUES SET AND GDP PER CAPITA FOR COUNTRIES WITH EFFECTIVE REGULATION



Context also applies to institutions. The interaction between a society's values and its wealth is not direct. Studies have found that both social capital (Kumlin and Rothstein 2005) and the effects it can have are dependent upon the institutional framework within which society sits (Adger 2003, Woolcock and Narayan 2000). Institutions mediate economic activity and determine boundaries for interaction during the economic transactions that are, ultimately, at the root of economic development and wealth generation.

The Prosperity Index includes an institutional measure that looks specifically at the ease of private sector flourishing. <sup>5</sup> When our 142 countries are split into the 50 per cent with the 'best' regulatory system, and the 50 per cent with the 'worst', the mediating impact of institutions on social capital is marked. Among the most effectively regulated countries, our values-set has a strong correlation with wealth of 0.768. Among poorly regulated countries, that correlation drops to just 0.295. <sup>6</sup>

Across the world, we have seen policy experimentation in the field of social capital as governments explore the interaction of social capital and institutions in social policy, from the UK's 'Big Society' project to New Zealand's 2001 Stronger Communities Action Fund. <sup>7</sup> It seems that in this field institutional design matters not only for social outcomes but for economic ones too.

The Prosperity Index points to a relationship between a nation's wealth and the values of its citizens that warrants further study. Regardless of cultural differences, the countries that have strong familial bonds, strong charitable intent and high levels of trust – a distinct values-set – are, ceteris paribus, those that are also the wealthiest. Crucially between the values of the individual and the output of the market our data suggests that government's role lies in effecting good institutional design.

**Countries that have strong familial bonds, charitable intent and high levels of trust are also the wealthiest**

<sup>1</sup> Correlation coefficient wealth-trust (0.466); correlation coefficient wealth-social capital (0.681).  
<sup>2</sup> Correlation coefficients: charitable donation (0.602); family (0.516); trust (0.466).  
<sup>3</sup> Correlation coefficient (0.738).  
<sup>4</sup> Correlations within regions: Europe: 0.757; Americas: 0.868; Asia-Pacific: 0.635; MENA: 0.723; Sub-Saharan Africa: 0.107.  
<sup>5</sup> The variable 'regulation' (Governance sub-index), captures perceptions of how well government policy/regulations promote private sector development. Source: World Bank Governance Indicators.  
<sup>6</sup> Both correlations are based on data that exclude outliers, though the inclusion of outliers does not change underlying results.  
<sup>7</sup> The Big Society is a Coalition Government policy that seeks to strengthen families, networks, and communities so that they can use devolved powers to solve some of the social challenges faced. The Stronger Communities Action Fund was a NZD\$1.6 million fund that sought to strengthen community based networks by enabling them to identify and make decisions about local social service needs.



# Regional Findings

The 142 countries in the Prosperity Index are divided into five regions. We have analysed developments in these five regions and chronicled the key trends and findings. Just as each country's path to prosperity is different, there are also regional differences in how prosperity is developing. This is clear from recent geopolitical and economic developments; while Asia has developed into an export powerhouse, the Americas are an increasingly tolerant place and the MENA region continues to struggle with safety and security. Despite set-backs sub-Saharan Africans are optimistic about their future, while parts of Europe are still struggling with the fallout from the financial crisis.

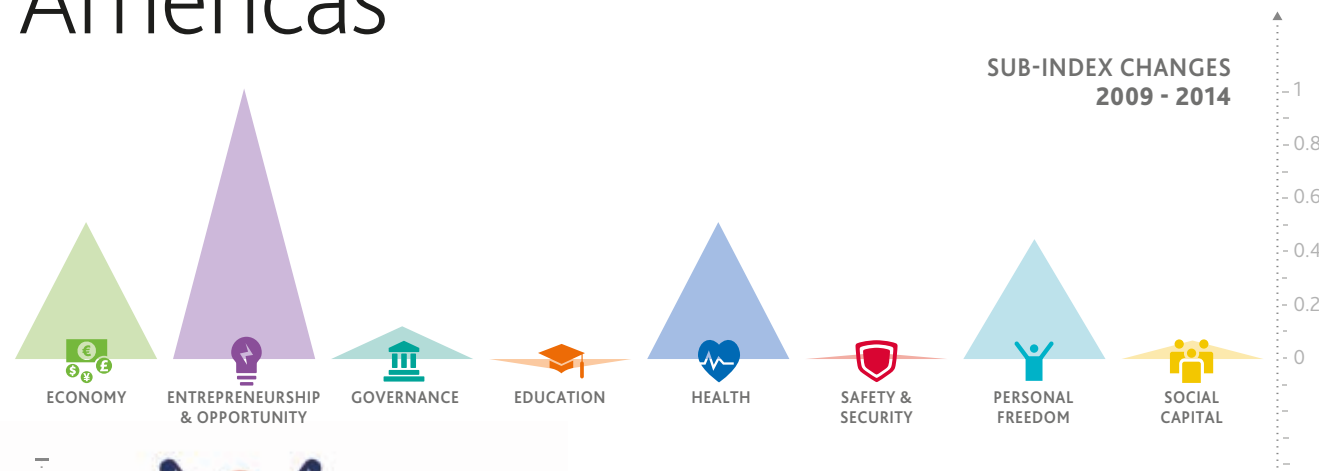
There are also differences in terms of the speed at which prosperity is increasing. This is clear when one compares the most developed region; Europe, with the least developed; Sub-Saharan Africa. While Europe has declined in the Economy, Governance, Education, Personal Freedom and Social Capital sub-indices, Sub-Saharan Africa has improved in all. This is unsurprising given that 'catch-up growth' is easier to achieve, but is important to appreciate when analysing improvements in prosperity. Europe is still a more prosperous place than the other regions, but is struggling to see further progress. While comparing regions is illuminating, so is understanding the unique challenges facing each of them. The following pages address both of these issues.





# Americas

SUB-INDEX CHANGES  
2009 - 2014



WHAT'S NEW?



## US struggles with freedom

The US is not the freest country in the Americas. The country is 21st in the Personal Freedom sub-index, after Canada (5th), Uruguay (8th), and Costa Rica (15th).



## Jamaica performs poorly economically

Jamaica has dropped 20 places in the Economy sub-index to 128th since 2009.



## Uruguay is 1st in Latin America

Uruguay is the highest ranking country in Latin America in overall Prosperity, placing 30th in 2014.



## Brazil is tired

Brazil has the least well-rested people in the Americas. Only 59% in 2013 declared that they felt well-rested – the global average is 67%.



## High tolerance of immigrants

Uruguay and Brazil are the two Latin American countries most tolerant of immigrants, 87.9% of Uruguayans and 82.2% of Brazilians declared their countries to be good places to live for immigrants.



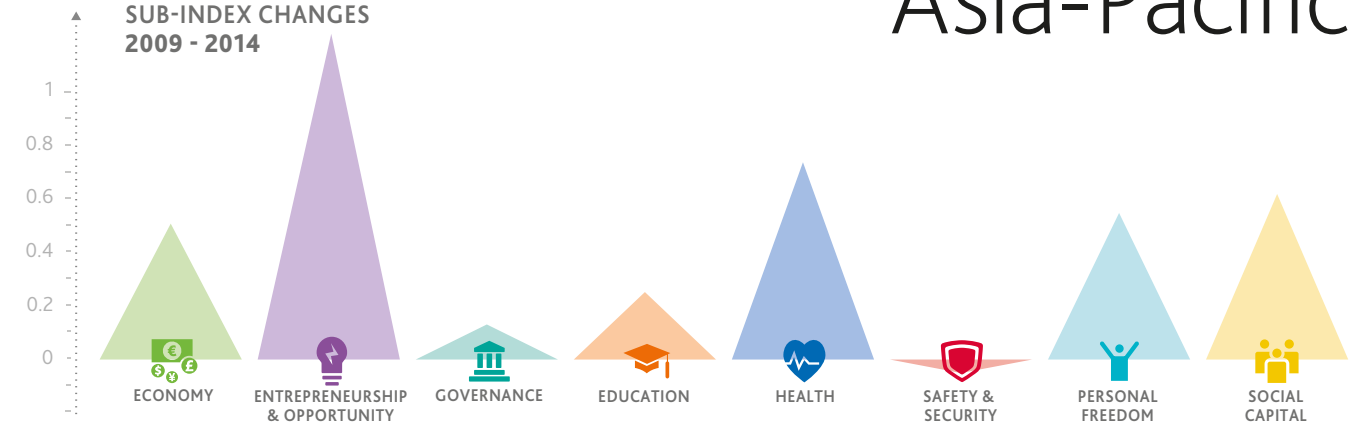
## Trinidad and Tobago the most helpful

Trinidad and Tobago has the highest percentage of people declaring they have helped a stranger in Latin America, followed by Jamaica. Both score higher than Canada. 77% of Trinidadians and 73% of Jamaicans declared that they had helped a stranger. In Canada, 66% declared the same.



# Asia-Pacific

SUB-INDEX CHANGES  
2009 - 2014



WHAT'S NEW?



## World's highest marriage rates

The five countries with the highest marriage rates in the world are all in Asia (China 80%, Bangladesh 76%, Nepal 76%, Laos 73% and Sri Lanka 73%).



## Strong families, strong trust

New Zealand leads the region in Social Capital, specifically rely on others and trust. Social trust runs at 62% (global average is 24%) and 96% report they can rely on family and friends in times of need.



## Limited choice

Pakistan has recorded the lowest level of satisfaction with freedom of choice in the region for each of the last five years (it stands at 44%, the global average is 73%).



## ICT exports booming

The world's five biggest ICT exporters are all in Asia (Hong Kong 42%, Philippines 29%, Singapore 28%, Malaysia 28% and China 27%).

WHAT'S CHANGED?



## India left behind

The only country in the region not to improve its Prosperity score since 2009 is India. This has been driven by large drops in the Safety & Security (down 26 places to 119th, globally) Governance (down 16 places to 56th), Personal Freedom (down 31 places to 78th) and Social Capital (down eight places to 132nd) sub-indices.

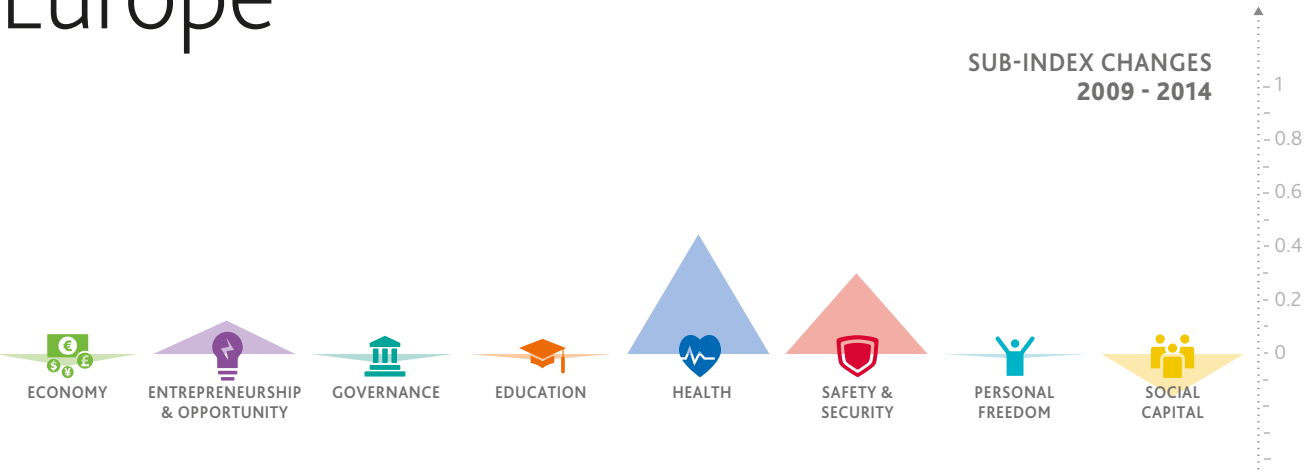


## Indonesia rising

The most optimistic country in the world in thinking working hard gets you ahead (99%), Indonesia is also Asia's biggest climber since 2009, rising 20 places as a result of impressive performance in almost all sub-indices.



# Europe



WHAT'S NEW?



## Switzerland, the world's best-governed country

Switzerland has been the best-governed country in the world for the past six years. The country has continued to improve on the Governance sub-index and so there is little chance of it losing its place at the top of the sub-index next year.



## Eastern Europe is struggling

Eastern Europe is struggling to match the levels of Governance, Personal Freedom, and Social Capital of Western Europe. However, the two halves of the continent do not differ greatly in terms of Education and Health.



## High unemployment

Unemployment is higher in Europe than in the rest of the world. 11.5% of people in Europe are unemployed, compared to 7.7% in the rest of the world.



## Lack of opportunity in Europe

People in Europe are less convinced that hard work pays off in life. 68% of people in Europe believe that by working hard you can get ahead in life; in the rest of the world 86% believe this.



## Iceland on the rise

Iceland has reached its highest level of prosperity. The country is now ranked 11th, having climbed two places this year.



## Europe's economic decline

More of Europe is going backward economically than forward. Of the 33 European countries in our Index for which we have six years of data, only eight have risen up the rankings on the Economy sub-index since 2009, while 25 have fallen. Greece is the biggest faller, dropping 57 places in six years.

WHAT'S CHANGED?



# Middle East & North Africa (MENA)



WHAT'S NEW?



## Syrians tired and worried

Syrians are the least well rested and they worry the most in the world. In 2014 only 38% of Syrians said they felt well rested, and 74% reported having worried the previous day.



## Low donating and volunteering in Yemen

Yemenis report the lowest levels of volunteering and donations in the world. Only 4% of Yemenis reported donating to charity in 2014, and only 3% reported volunteering.



## MENA – consistently below world average

The MENA region is below the world average for all sub-indices except Health and Education.



## High health satisfaction

Despite spending far less than the global average on healthcare, people in MENA countries are more satisfied with their health than people in other countries. On average, 84% of people in the MENA countries report being satisfied with their health, the global average for this figure is 78%.



## Turkish freedom falling

Since 2009 Turkey has fallen seven places down the Personal Freedom rankings. The country is now ranked 134th, below Russia and Venezuela.



## Syria's decline

Over six years Syria has declined the most in the MENA region. The country is now ranked 129th; given the ongoing tumult in the country, it is likely to fall again next year.

WHAT'S CHANGED?



**SUB-INDEX CHANGES  
2009 - 2014**

Category	Change (2009-2014)
Economy	0.8
Entrepreneurship & Opportunity	0.9
Governance	0.1
Education	0.4
Health	0.9
Safety & Security	-0.2
Personal Freedom	0.3
Social Capital	0.2



Ghana is the only country in Sub-Saharan Africa to obtain the best possible score for political rights (7).

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Despite challenges, sub-Saharan African citizens are optimistic about getting ahead in life. 98% of people in Malawi and Ghana believe that working ahead gets you ahead, followed by 97% of people in Zambia, and 96% in Namibia.

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Nine of the bottom 10 countries for Health are in Sub-Saharan Africa: Angola; Guinea; Zambia; Burundi; Mozambique; Democratic Republic of Congo; Chad; Central African Republic; and Sierra Leone.

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Eight of the top 10 most improved countries in Health are in sub-Saharan Africa: Tanzania (121st); Mozambique (137th); Cameroon (119th); Mali (123rd); Senegal (104th); Ethiopia (125th); Zimbabwe (126th); and Rwanda (101st).

Eight of the top 10 most improved countries in Health are in sub-Saharan Africa: Tanzania (121st); Mozambique (137th); Cameroon (119th); Mali (123rd); Senegal (104th); Ethiopia (125th); Zimbabwe (126th); and Rwanda (101st).



Six of the 10 most-improved countries in the Index are in sub-Saharan Africa: Zimbabwe (123rd); Rwanda (99th); Zambia (109th); Uganda (111th); Kenya (110th); and Ethiopia (126th).

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| In the past six years, all areas of prosperity have increased

| The biggest increases have been in  
Entrepreneurship & Opportunity and in Health

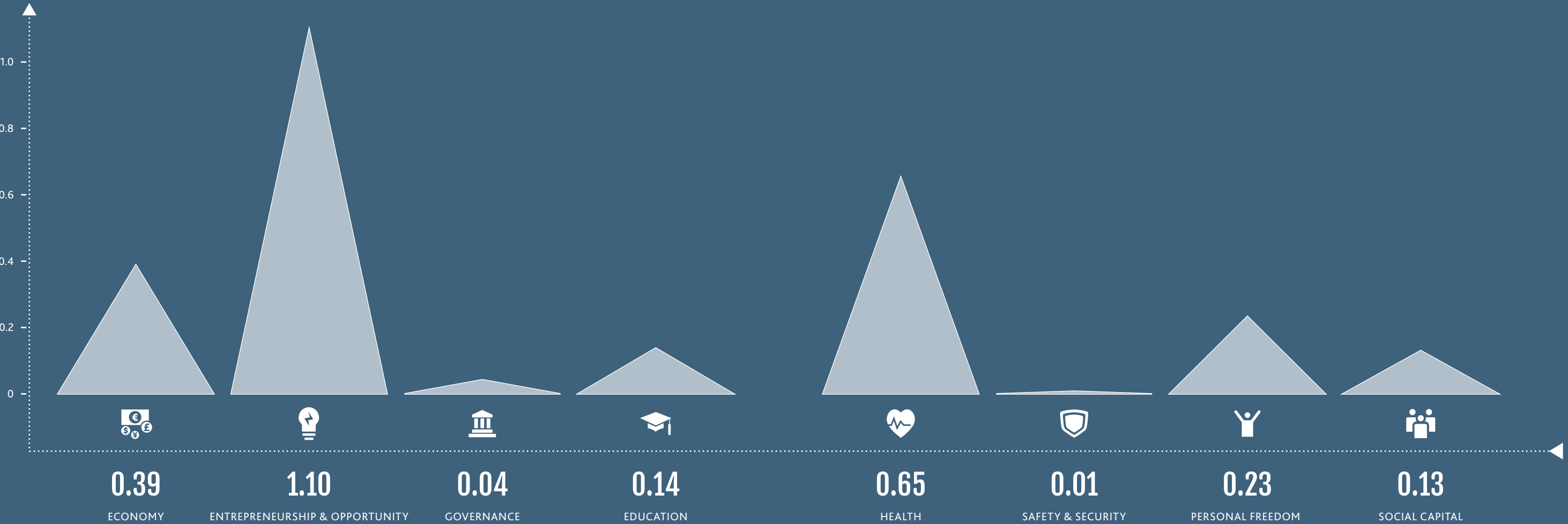
| The smallest increase has been in Safety & Security

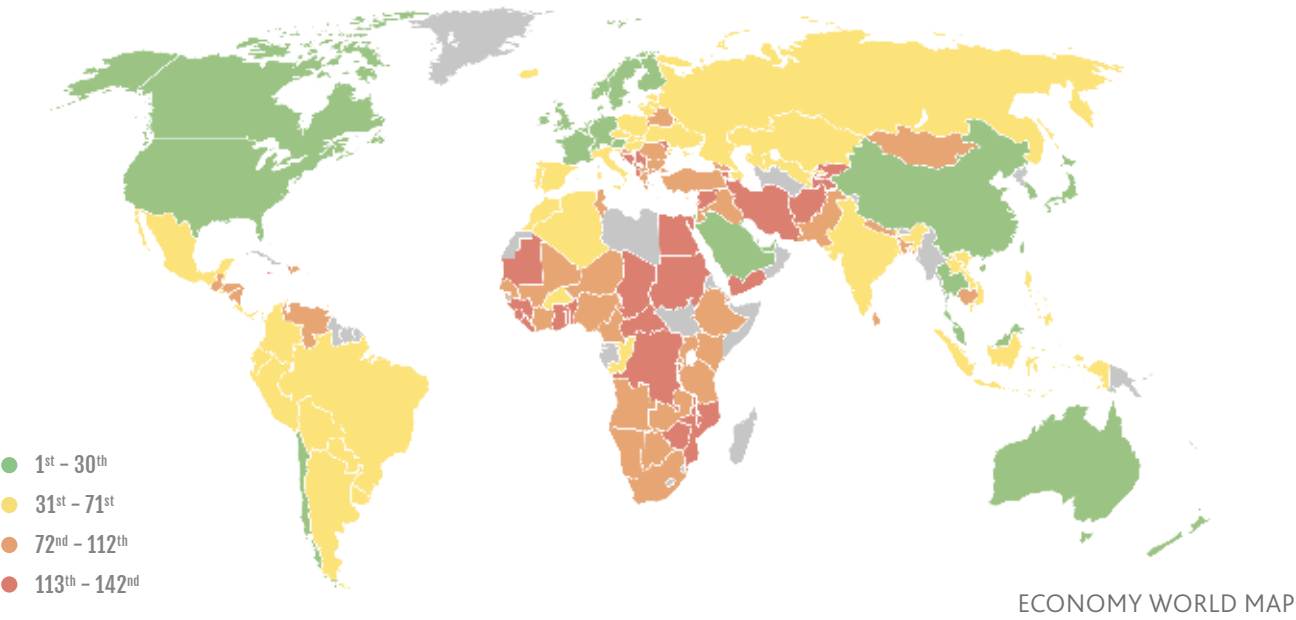
# Sub-Indices

Prosperity is multi-dimensional. This means that in order to measure and track prosperity we need to consider a broad set of indicators. The Prosperity Index uses regression analysis to determine the individual variables to include in its model. Only the variables that have the highest statistical significance are used in the Index. These are then divided into distinct categories. These categories are the eight sub-indices. The following pages provide more detail about the eight sub-indices to show exactly which variables are included in each

sub-index. Each page includes data showing which countries are the best and worst performers on each variable. The maps are colour-coded for each sub-index to show how countries rank in each category. Countries coloured in green rank within the top 30 countries in the world, while countries coloured red rank within the bottom 30. The middle ranking countries are split between yellow (upper middle) and orange (lower middle).

SUB-INDEX CHANGES  
2009 - 2014





# Economy

Sound and stable economic fundamentals increase per capita income and promote overall wellbeing. The Economy sub-index measures countries’ performance in four key areas: macroeconomic policies, economic satisfaction and expectations, foundations for growth, and financial sector efficiency.

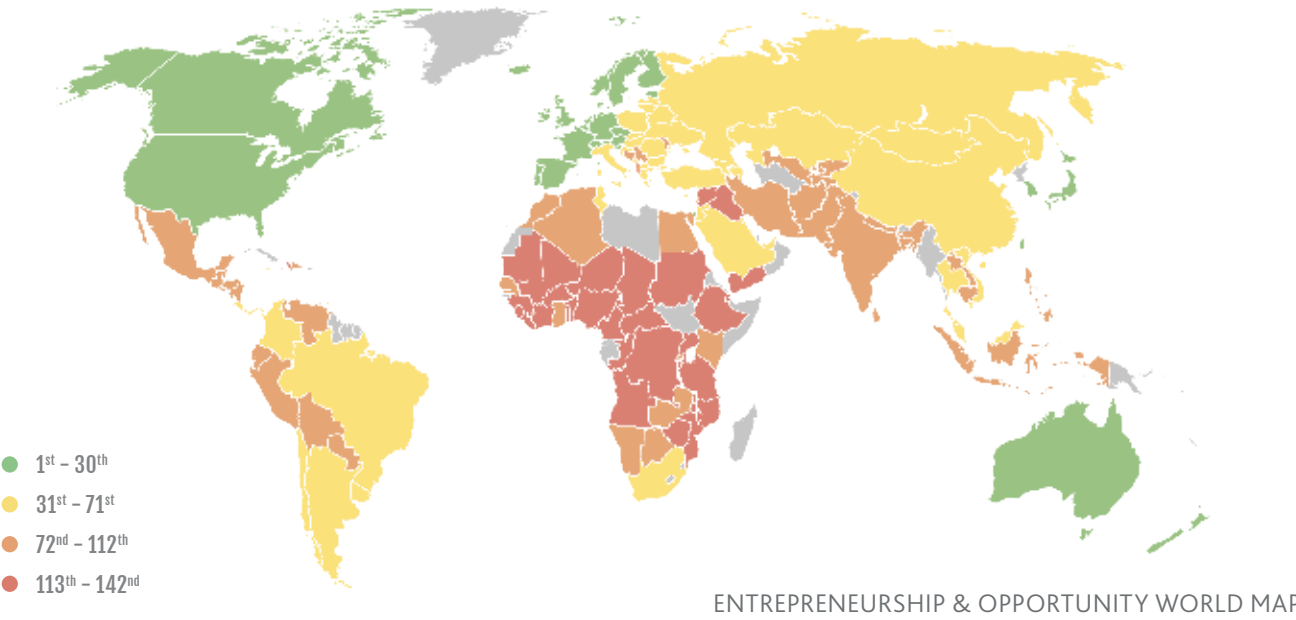
ECONOMY SUB-INDEX TOP AND BOTTOM					
TOP 3:			BOTTOM 3:		
1 <sup>st</sup>	SWITZERLAND	140 <sup>th</sup>	GUINEA		
2 <sup>nd</sup>	SINGAPORE	141 <sup>st</sup>	SIERRA LEONE		
3 <sup>rd</sup>	NORWAY	142 <sup>nd</sup>	LIBERIA		

VARIABLES* (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Capital per worker (PPP \$)	Luxembourg	275K	2013	Central African Republic	1730	2012
Market size (USD)	United States	10tn	2012	Liberia	1bn	2012
High-tech Exports (% of manufactured exports)	Philippines	49%	2012	Central African Republic	0.03%	2011
Gross Domestic Savings (% of GDP)	Kuwait	63%	2012	Liberia	-31.8%	2012
Unemployment rate (% of labour force)	Kenya	40%	2012	Rwanda	0.6%	2012
Non-performing loans (% of total loans)	Greece	31.3%	2013	Luxembourg	0.2%	2013
Inflation rate (%)	Venezuela	40.6%	2013	Greece	-0.9%	2013
FDI Size & Volatility	Korea, Rep.	59.5	2012	Slovenia	-0.4	2012

VARIABLES (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Satisfaction w/ living standards? (%yes)	Switzerland	95%	2012	Guinea	21%	2013
Inflation rate	Venezuela	40.6%	2013	Greece	-0.92%	2013
Adequate food & shelter? (%yes)	Kuwait	97.7%	2012	Cambodia	26.5%	2013
Perceived job availability? (%yes)	Laos	73%	2012	Greece	3%	2013
Gross Domestic Savings (% of GDP)	Kuwait	63%	2012	Liberia	-31.8%	2012
Expectations of the economy (1 to 3)	Laos	2.9	2012	Greece	1.1	2013
Are you Employed? (%yes)	Ghana	100%	2013	Georgia	32%	2012
Confidence financial institutions? (%yes)	Sri Lanka	94%	2013	Spain	11%	2013
5-year absolute GDP per capita growth rate (% annual)	China	8.7%	2012	Haiti	0%	2012

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)

Greece has the lowest perceived job availability in the world at 3%



# Entrepreneurship & Opportunity

A strong entrepreneurial climate in which citizens can pursue new ideas and opportunities to improve their lives leads to higher levels of income and wellbeing. The Entrepreneurship & Opportunity sub-index measures a country’s entrepreneurial environment, its promotion of innovative activity, and the evenness of opportunity.

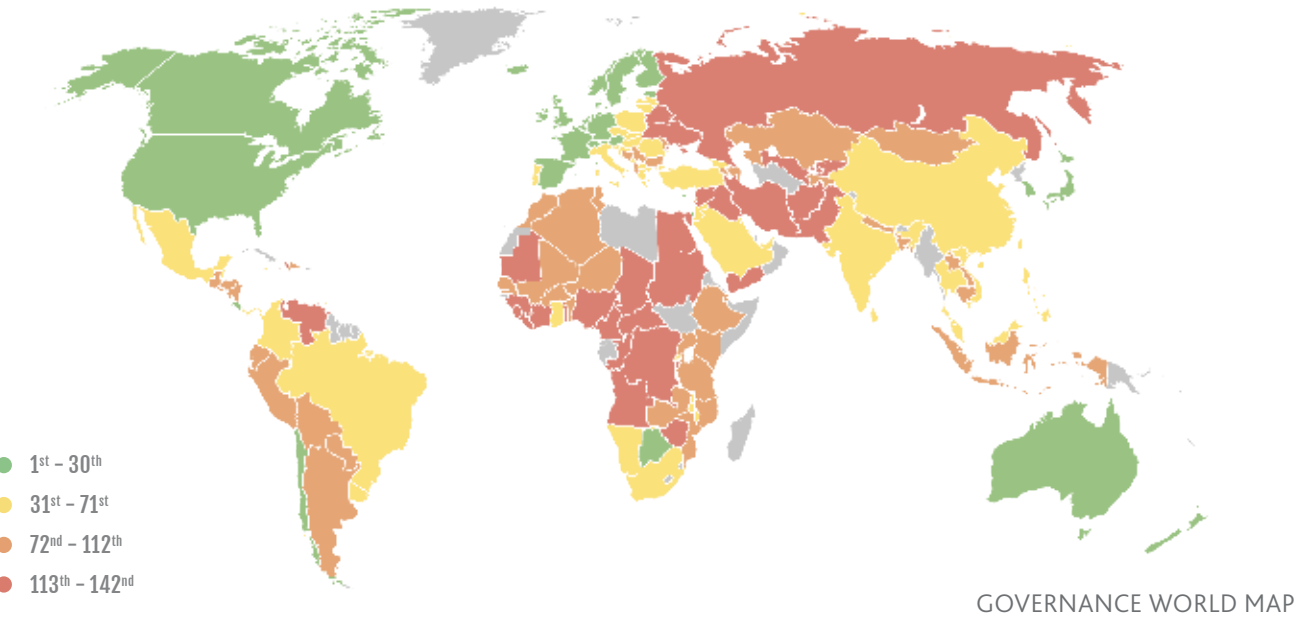
E&O SUB-INDEX TOP AND BOTTOM					
TOP 3:			BOTTOM 3:		
1 <sup>st</sup>	SWEDEN	140 <sup>th</sup>	CHAD		
2 <sup>nd</sup>	DENMARK	141 <sup>st</sup>	CONGO, DEM. REP.		
3 <sup>rd</sup>	SWITZERLAND	142 <sup>nd</sup>	CENTRAL AFRICAN REPUBLIC		

VARIABLES* (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Business Start-up Costs (% of GNI per capita)	Haiti	264.8%	2013	Slovenia	0%	2013
Secure Internet Servers (per 1M people)	Iceland	3K	2013	Sudan	0.04	2013
R&D Expenditure (% of GDP)	Israel	3.9%	2012	Chad	0%	2012
Internet Bandwidth (1000 Mbps)	United Kingdom	20m	2013	Central African Republic	22	2013
Uneven Economic Development (ordinal rating 1 to 10)	Angola	9.4	2013	Finland	1	2013
Mobile Phones (per 100 people)	Hong Kong	238.7	2013	Burundi	25	2013
Royalty Receipts (1000 USD)	United States	124K	2012	Central African Republic	0	2012
ICT Exports (% of total exports)	Hong Kong	42.2%	2012	Tajikistan	0%	2012

VARIABLES (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Secure Internet Servers (per 1M people)	Iceland	3K	2013	Sudan	0.04	2013
Mobile Phones in Household? (%yes)	United Arab Emirates	1	2013	Nigeria	0.4	2013
Working Hard Gets You Ahead? (%yes)	Indonesia	99%	2013	Armenia	31.9%	2013
Good environment for Entrepreneurship? (%yes)	Ghana	93%	2010	Japan	38.9%	2010
Business Start-up Costs (% of GNI per capita)	Haiti	264.8%	2013	Slovenia	0%	2013

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)

Slovenia has the lowest start-up costs in the world at 0%



# Governance

People who live under democratic governments are happier than those who do not and fair and effective governance helps stimulate increases in per capita income. The Governance sub-index measures countries' performance in three areas: effective and accountable government, fair elections and political participation, and rule of law.

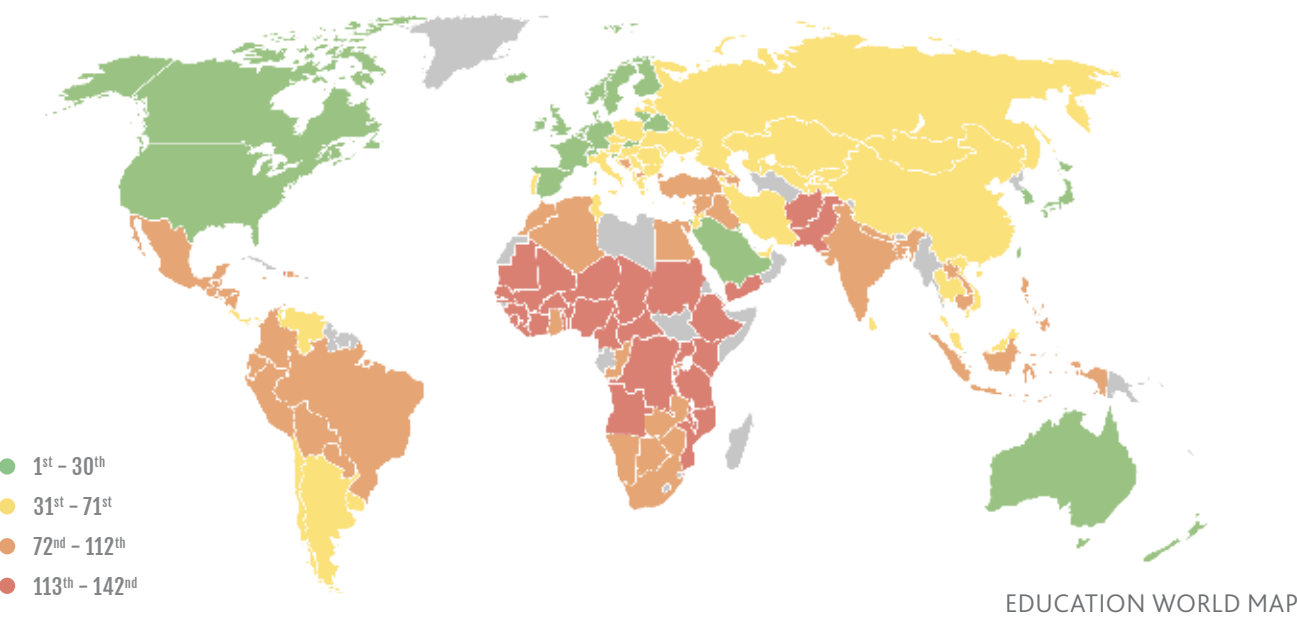
GOVERNANCE SUB-INDEX TOP AND BOTTOM					
TOP 3:			BOTTOM 3:		
1 <sup>st</sup>	SWITZERLAND		140 <sup>th</sup>	AFGHANISTAN	
2 <sup>nd</sup>	NEW ZEALAND		141 <sup>st</sup>	CHAD	
3 <sup>rd</sup>	DENMARK		142 <sup>nd</sup>	CONGO, DEM. REP.	

VARIABLES* (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Government Stability (years)	United States	203	2012	Afghanistan	0	2012
Government Effectiveness (-2.5 to 2.5)	Finland	2.2	2012	Congo, Dem. Rep.	-1.7	2012
Rule of Law (-2.5 to 2.5)	Norway	1.95	2012	Afghanistan	-1.7	2012
Regulation Quality (-2.5 to 2.5)	Singapore	1.96	2012	Zimbabwe	-1.8	2012
Separation of Powers (0 to 32)	Australia	32	2010	Jordan	2.3	2010
Political Rights (1 to 7)	Australia	7	2013	Sudan	1	2013
Government Type (-10 to 10)	Australia	10	2012	Saudi Arabia	-10	2012
Political Constraint (0 to 1)	Belgium	0.9	2012	Afghanistan	0	2012

Iceland has the highest confidence in elections in the world at 94%

VARIABLES* (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Satisfaction with Efforts to Address Poverty? (%yes)	Kuwait	91%	2012	Bosnia and Herzegovina	6.5%	2012
Confidence in the Judicial System? (%yes)	Singapore	92.4%	2012	Slovenia	15.3%	2013
Is Business & Government Corrupt? (%yes)	Indonesia	90.5%	2013	Rwanda	11.7%	2013
Government Effectiveness (-2.5 to 2.5)	Finland	2.2	2012	Congo, Dem. Rep.	-1.7	2012
Rule of Law (-2.5 to 2.5)	Norway	1.95	2012	Afghanistan	-1.7	2012
Regulation Quality (-2.5 to 2.5)	Singapore	1.96	2012	Zimbabwe	-1.8	2012
Satisfaction with Environmental Preservation? (%yes)	United Arab Emirates	95	2013	Ukraine	15	2013
Separation of Powers (0 to 32)	Australia	32	2010	Jordan	2.3	2010
Confidence in Government? (%yes)	Tajikistan	94.3%	2012	Bosnia and Herzegovina	12.4%	2013
Voiced Concern? (%yes)	Denmark	42.9%	2013	Yemen	71%	2013
Confidence in the Military? (%yes)	Vietnam	98.9%	2012	Congo, Dem. Rep.	21.2%	2013
Confidence in the Honest of Elections? (%yes)	Iceland	93.8%	2013	Chad	10.6%	2013

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)



# Education

The accumulation of human capital contributes to economic growth while increases in education allow people to lead fulfilling lives. The Education sub-index measures countries' performance in three areas: access to education, quality of education, and human capital.

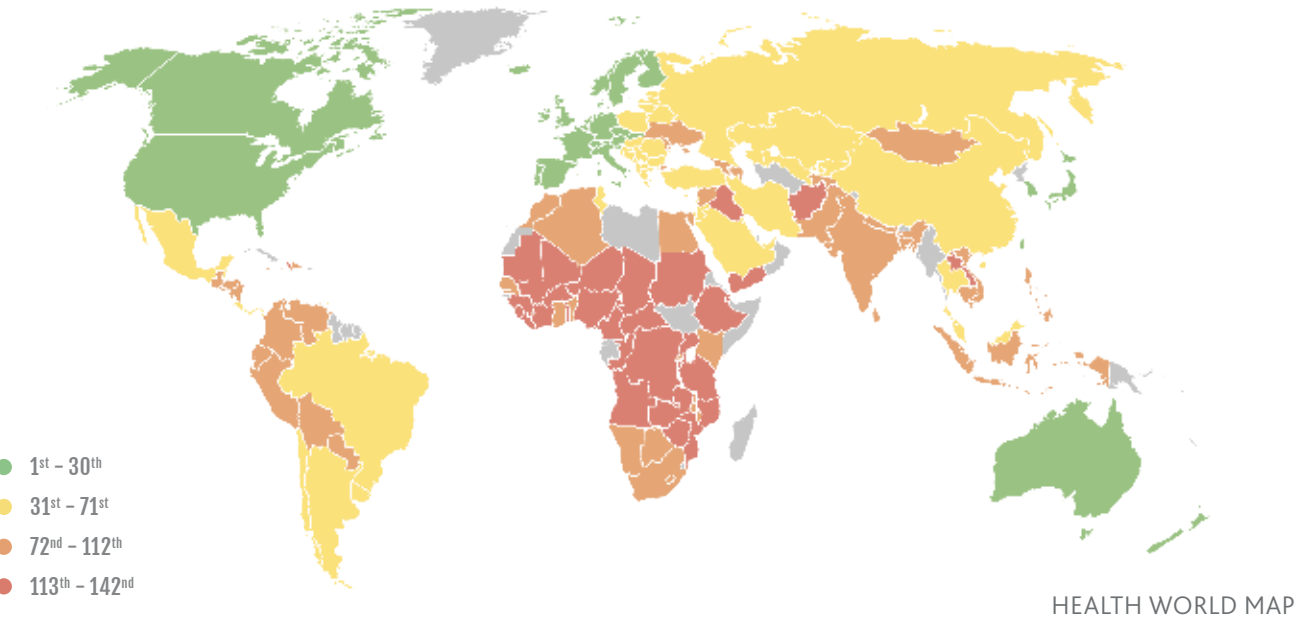
EDUCATION SUB-INDEX TOP AND BOTTOM					
TOP 3:			BOTTOM 3:		
1 <sup>st</sup>	AUSTRALIA		140 <sup>th</sup>	NIGER	
2 <sup>nd</sup>	CANADA		141 <sup>st</sup>	CENTRAL AFRICAN REPUBLIC	
3 <sup>rd</sup>	DENMARK		142 <sup>nd</sup>	CHAD	

VARIABLES* (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Gross secondary enrolment	Australia	135.5%	2012	Niger	15.9%	2012
Pupil-to-teacher ratio	Central African Republic	80.1	2012	Montenegro	7.6	2012
Net primary enrolment	Japan	99.9%	2012	Djibouti	57.8%	2013
Girls-to-boys enrolment ratio	Saudi Arabia	1.2	2012	Chad	0.7	2012
Gross tertiary enrolment	Korea	98.4%	2012	Niger	1.8%	2012
Secondary education per worker (years)	Slovakia	7.5	2010	Mozambique	0.1	2010
Tertiary education per worker (years)	United States of America	1.8	2010	Guatemala	0	2010

Luxembourg has the highest perception that children learn in society at 98%

VARIABLES (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Satisfaction with educational quality? (%yes)	Thailand	93%	2013	Egypt	31%	2013
Perception that children learn in society? (%yes)	Luxembourg	98%	2013	Democratic Republic of Congo	18%	2013
Gross secondary enrolment	Australia	135.5	2012	Niger	15.9	2012
Gross tertiary enrolment	Korea	98.4%	2012	Niger	1.8%	2012
Tertiary education per worker (years)	United States of America	1.8	2010	Guatemala	0	2010
Net primary enrolment	Japan	99.9%	2012	Djibouti	57.8%	2013
Girls-to-boys enrolment ratio	Saudi Arabia	1.2	2007	Chad	0.7	2012
Secondary education per worker (years)	Slovakia	7.5	2010	Mozambique	0.1	2010

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)



# Health

Citizens who enjoy good physical and mental health report high levels of wellbeing and an effective health infrastructure drives increases in per capita income. The Health sub-index measures countries’ performance in three areas: basic health outcomes (both objective and subjective), health infrastructure, and preventative care.

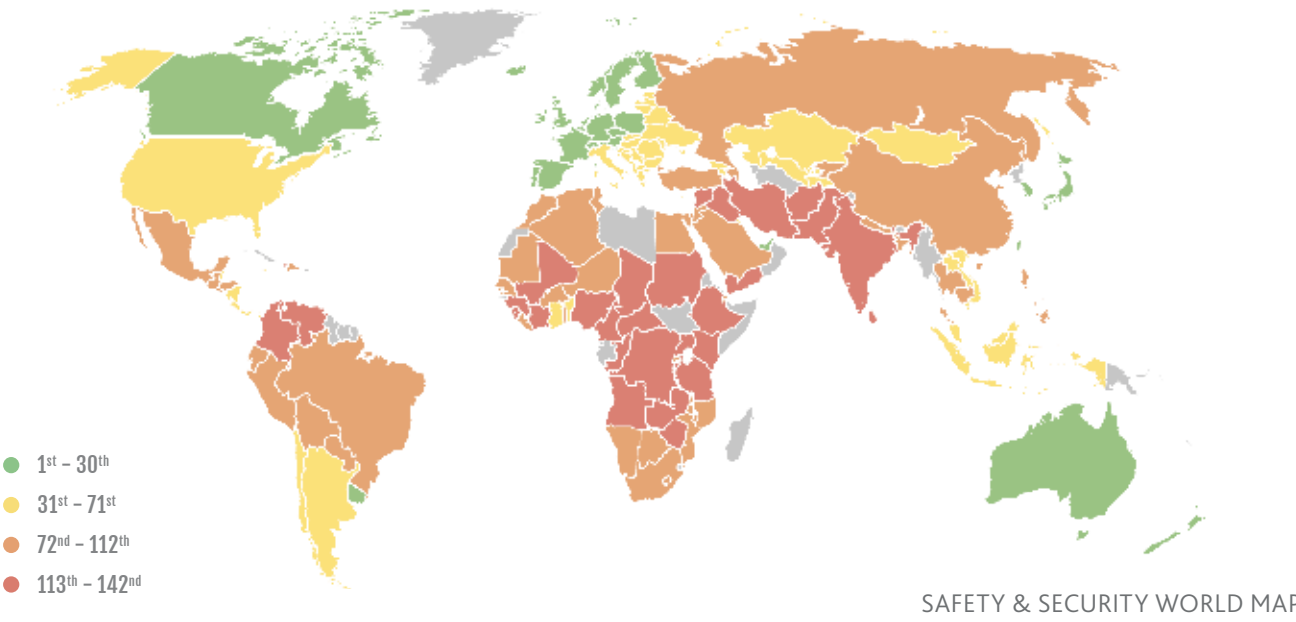
HEALTH SUB-INDEX TOP AND BOTTOM			
TOP 3:		BOTTOM 3:	
1 <sup>st</sup>	UNITED STATES	140 <sup>th</sup>	CHAD
2 <sup>nd</sup>	LUXEMBOURG	141 <sup>st</sup>	CENTRAL AFRICAN REPUBLIC
3 <sup>rd</sup>	SWITZERLAND	142 <sup>nd</sup>	SIERRA LEONE

VARIABLES* (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Infant mortality rate (per 1000 live births)	Sierra Leone	117.4	2012	Luxembourg	1.7	2012
Life expectancy (years)	Hong Kong	83.5	2012	Sierra Leone	45.3	2012
DPT immunisation rate (% of children immunised between 12-23 months)	Uzbekistan	99%	2012	Nigeria	41%	2012
Incidence of tuberculosis (per 100,000)	South Africa	1,003	2012	United Arab Emirates	1.7	2012
Undernourishment (% of population)	Burundi	67.3%	2012	Singapore	4.8%	2012
Measles immunisation (% children immunised between 12-23 months)	Uzbekistan	99%	2012	Nigeria	42%	2012
Health expenditure per person (Int. Dollars PPP)	United States	8,895.1	2012	Congo, Dem. Rep.	23.6	2012

Life expectancy is highest in Hong Kong at 83.5 years

VARIABLES (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Satisfaction with health (%yes)	United Arab Emirates	92.5%	2011	Armenia	50.6%	2012
Level of worrying (%yes)	Syria	73.8%	2013	Kyrgyz Republic	13.5%	2013
Satisfaction with environmental beauty (%yes)	Canada	94.9%	2011	Angola	31%	2011
Hospital beds (per 1000 people)	Ukraine	9	2013	Iran	0.1	2012
Health expenditure per person (Int. Dollars PPP)	United States	8,895.1	2012	Congo, Dem. Rep.	23.6	2012
Water quality (%yes)	Iceland	98%	2013	Congo, Dem. Rep.	21.2%	2013
Infant mortality rate (per 1000 live births)	Sierra Leone	117.4	2012	Luxembourg	1.7	2012
Health-adjusted life expectancy	Singapore	76	2012	Sierra Leone	39	2012
Sanitation (% of population)	Singapore	100%	2012	Niger	9%	2012
Death from respiratory diseases (per 100,000 people)	India	303	2008	Kuwait	20	2008
Undernourishment (% of population)	Burundi	67.3%	2012	Singapore	4.8%	2012
Well-rested (%yes)	Uzbekistan	85%	2013	Syria	37.8%	2013
Health problems (%yes)	Cambodia	44.4%	2013	United Arab Emirates	7%	2013

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)



# Safety & Security

Threats to national security and personal safety jeopardise levels of income and wellbeing. The Safety & Security sub-index measures countries’ performance in two respects: national security and personal safety.

SAFETY & SECURITY SUB-INDEX TOP AND BOTTOM			
TOP 3:		BOTTOM 3:	
1 <sup>st</sup>	HONG KONG	140 <sup>th</sup>	SYRIA
2 <sup>nd</sup>	ICELAND	141 <sup>st</sup>	SUDAN
3 <sup>rd</sup>	FINLAND	142 <sup>nd</sup>	CONGO (DR)

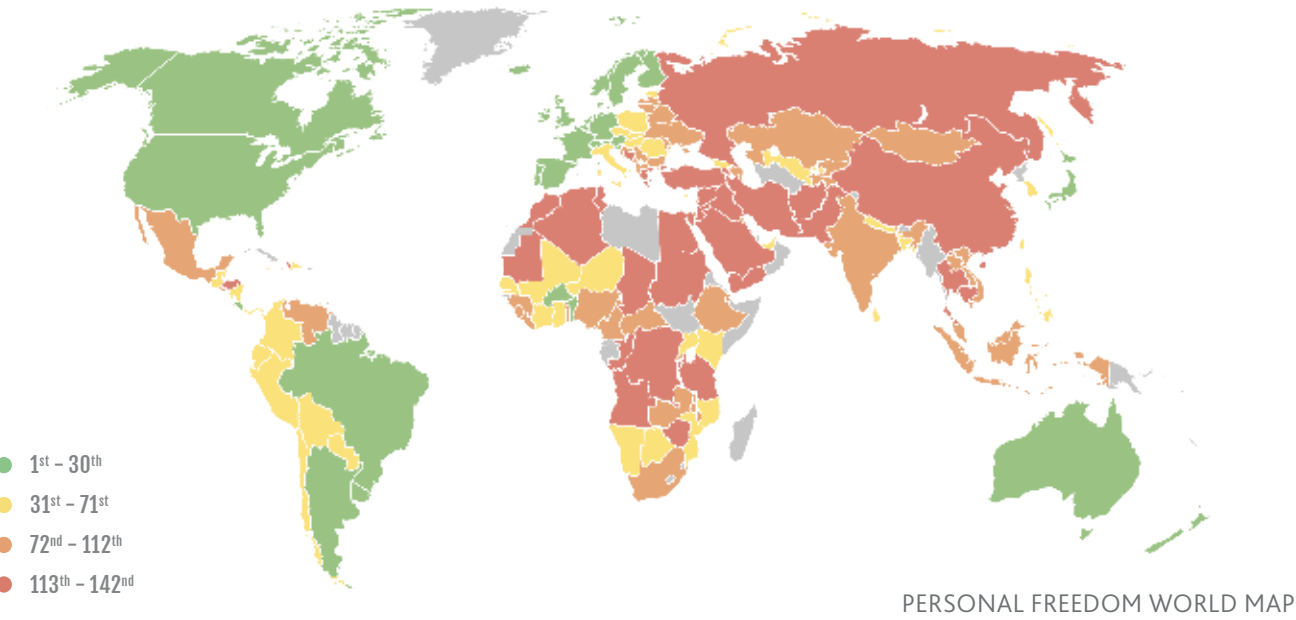
VARIABLES* (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Group grievances (ordinal rating 1 to 10)	Sudan	10	2013	Iceland	1	2013
Refugees & internally displaced persons (ordinal rating 1 to 10)	Sudan	10	2013	Hong Kong	1	2013
State-sponsored political violence (ordinal rating 1 to 5)	Sudan	5	2012	Australia	1	2012
Property stolen? (%yes)	Sierra Leone	50.5%	2013	Tajikistan	0.01%	2013
Assault? (%yes)	Chad	28.1%	2010	Azerbaijan	0.06%	2010
Safe walking alone at night? (%yes)	Singapore	90.9%	2012	Venezuela	19.2%	2013

Only 19% of Venezuelans feel safe walking alone at night

VARIABLES (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Safe walking alone at night? (%yes)	Singapore	90.9%	2012	Venezuela	19.2%	2013
Express political opinion without fear (ordinal rating 0 to 4)	Nepal	3.3	2010	Republic of Congo	1.6	2011
Group grievances (ordinal rating 1 to 10)	Sudan	10	2013	Iceland	1	2013
State-sponsored political violence (ordinal rating 1 to 5)	Sudan	5	2012	Australia	1	2012
Demographic instability (ordinal rating 1 to 10)	Democratic Republic of Congo	10	2013	Taiwan	1.5	2013
Refugees & internally displaced persons (ordinal rating 1 to 10)	Sudan	10	2013	Hong Kong	1	2013
Human flight (ordinal rating 1 to 10)	Haiti	9.1	2013	United States	1	2013
Assault? (%yes)	Chad	28.1%	2010	Azerbaijan	0.06%	2010
Civil war casualties (ordinal rating 0 to 10)	India	7	2013	Australia	0	2013

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)





# Personal Freedom

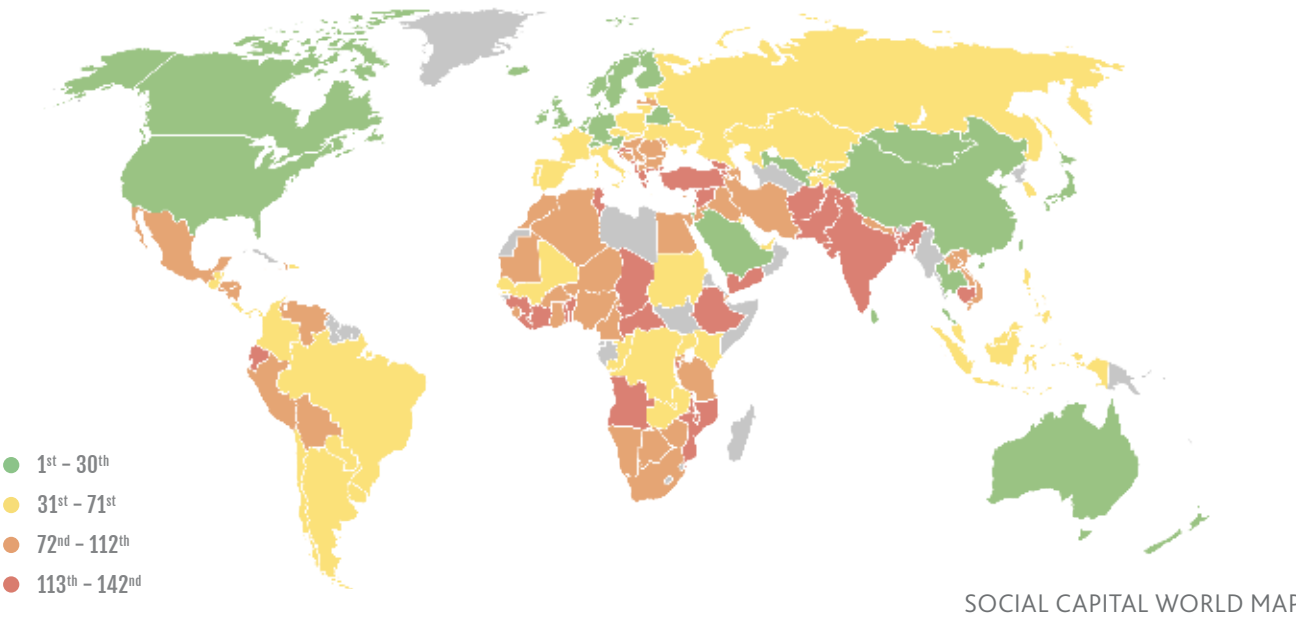
People with the freedom to choose the course of their lives are more satisfied than those who are not and freer societies encourage higher levels of income. The Personal Freedom sub-index measures the performance and progress of nations in guaranteeing individual freedom and encouraging social tolerance.

PERSONAL FREEDOM SUB-INDEX TOP AND BOTTOM			
TOP 3:		BOTTOM 3:	
1 <sup>st</sup>	NEW ZEALAND	140 <sup>th</sup>	IRAQ
2 <sup>nd</sup>	NORWAY	141 <sup>st</sup>	EGYPT
3 <sup>rd</sup>	AUSTRALIA	142 <sup>nd</sup>	YEMEN

VARIABLES* (ORDERED BY WEIGHTS)	INCOME			WELLBEING		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Tolerance of im-migrants? (% yes)	New Zealand	91.6%	2013	Cambodia	22.5%	2013
Tolerance of ethnic minorities? (%yes)	New Zealand	92.7%	2013	Yemen	19.7%	2013
Civil liberty & free choice (ordinal rating 0 to 1)	New Zealand	0.95	2013	Syria	0	2013

Bosnia and Herzegovina has the lowest satisfaction with freedom of choice at 39%

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)



# Social Capital

A person's wellbeing is best provided for in a society where people trust one another and have the support of their friends and family, and this also encourages increases in per capita income. The Social Capital sub-index measures countries' performance in two areas: social cohesion and engagement, and community and family networks.

SOCIAL CAPITAL SUB-INDEX TOP AND BOTTOM			
TOP 3:		BOTTOM 3:	
1 <sup>st</sup>	NORWAY	140 <sup>th</sup>	BURUNDI
2 <sup>nd</sup>	NEW ZEALAND	141 <sup>st</sup>	CENTRAL AFRICAN REPUBLIC
3 <sup>rd</sup>	DENMARK	142 <sup>nd</sup>	TOGO

VARIABLES* (ORDERED BY WEIGHTS)	INCOME			WELLBEING		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Perception of social support? (%yes)	Iceland	97%	2013	Afghanistan	47.9%	2013
Formal volunteer-ing? (%yes)	Sri Lanka	50.5%	2013	Yemen	3%	2013
Helping strangers? (%yes)	United States	79.8%	2013	Cambodia	22.2%	2013
Donations? (%yes)	Malta	78%	2013	Yemen	4%	2013

The US has the highest percentage of people who report to have helped a stranger in the past month at 80%

VARIABLES (ORDERED BY WEIGHTS)	HIGH			LOW		
	COUNTRY	VALUE	YEAR	COUNTRY	VALUE	YEAR
Perception of social support? (%yes)	Iceland	97%	2013	Afghanistan	47.9%	2013
Trust in others? (%yes)	New Zealand	62%	2012	Albania	0.7%	2011
Marriage? (%yes)	China	80%	2013	Angola	12%	2013
Donations? (%yes)	Malta	78%	2013	Yemen	4%	2013
Formal volunteering? (%yes)	Sri Lanka	50.5%	2013	Yemen	3%	2013
Helping strangers? (%yes)	United States	79.8%	2013	Cambodia	22.2%	2013
Religious attendance? (%yes)	Nigeria	93.5%	2010	Vietnam	10%	2010

\* for a complete dataset for all countries and all variables see [www.prosperity.com](http://www.prosperity.com)

# Methodology

## HOW WE BUILD THE INDEX



The 2014 Legatum Prosperity Index™ offers a unique insight into how prosperity is forming and changing across the world. The Index is distinctive in that it is the only global measurement of prosperity based on both income and wellbeing.

Traditionally, a nation's prosperity has been based solely on macroeconomic indicators such as a country's income, represented either by GDP or by average income per person (GDP per capita). However, most people would agree that prosperity is more than just the accumulation of material wealth. It is also the joy of everyday life and the prospect of being able to build an even better life in the future.

In recent years, governments, academics, international organisations and businesses have increasingly moved their attention towards indicators that measure wellbeing as a complement to GDP.

Attempting to understand how we complement GDP, the so-called 'GDP and beyond' approach provides a stimulating challenge, one we strive to meet with academic and analytical rigour in creating the Legatum Prosperity Index™. Indeed, the

Index recognises the need for a country to promote high levels of per capita income, but also advocates improvements in the subjective wellbeing of its citizens.

This short methodological overview provides an understanding of how the 2014 Legatum Prosperity Index™ is constructed by combining established theoretical and empirical research on the determinants of wealth and wellbeing.

Our econometric analysis has identified 89 variables, which are spread across eight sub-indices. Through this process we are able to identify and analyse the specific factors that contribute to the prosperity of a country.

We endeavour to create an Index that is methodologically sound. To that end, we also publish a full methodology document to provide the reader with all the information required to understand the Legatum Prosperity Index™ in a way that is transparent, useful, and informative.

For more information on our methodology please refer to the Methodology and Technical Appendix published on [www.prosperity.com](http://www.prosperity.com).

## HOW DO WE MEASURE A COUNTRY'S OVERALL PROSPERITY?



**1. Selecting the variables.** Starting with the current academic literature on economic growth and wellbeing, we identified a large number of variables (more than 200 in total) that have a proven impact upon wealth and wellbeing. The final variables were selected according to their global coverage and by using regression analysis to determine those that have a statistically significant relationship with wealth and wellbeing. The remaining 89 variables are divided into eight sub-indices depending on what aspect of prosperity they influence.




**2. Standardisation.** The 89 variables use many different units of measurement. For example, the proportion of citizens that express confidence in financial institutions is measured in percentage terms, while capital per worker is measured in US dollars. We transformed all variables to a common scale using a statistical technique called standardisation. A variable is standardised by subtracting the mean and dividing by the standard deviation.

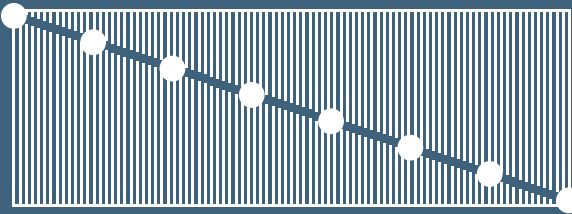


**3. Variable weights.** Regression analysis was used to determine the weight of each variable. A variable's weight (or 'coefficient') represents its relative importance to the outcome (either income or wellbeing). In other words, statistically speaking, some things matter more to prosperity than others.


### HOW TO CALCULATE PROSPERITY INDEX SCORES AND RANKINGS



**4. Income and Wellbeing scores.** For each country, the latest data available were gathered for the 89 variables. The raw values are standardised and multiplied by the weights. The weighted variable values are then summed to produce a country's wellbeing and income score in each sub-index. The income and wellbeing scores are then standardised so that they can be compared.



**5. Sub-index scores.** The standardised income and wellbeing scores are added together to create the countries' sub-index scores. Countries are ranked according to their scores in each of the eight sub-indices.



**6. Prosperity Index score.** Finally, the Prosperity Index score is determined by assigning equal weights to all eight sub-indices. The average of the eight sub-indices yields a country's overall Prosperity score. The overall Prosperity Index rankings are based on this score.



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# ACKNOWLEDGEMENTS

**The Legatum Institute Prosperity Index team:**

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Harriet Maltby

**Special Advisers:**

The Legatum Institute would like to thank the Special Advisers to the Prosperity Index for their helpful advice, critiques, and suggestions.

Tim Besley, London School of Economics  
Daniel Drezner, Tufts University  
Carol Graham, Brookings Institution  
Edmund Malesky, Duke University  
Ann Owen, Hamilton College

Design and visualisation by Wond.co.uk

The Legatum Institute would like to thank James Barty for his valuable and insightful input into this report.

We would also like to thank Damian Thompson for his guidance and advice.

The Legatum Institute also wishes to thank Gallup, Inc. for permission to use the Gallup World Poll Service© and Gallup World Poll Data in construction of the Prosperity Index. Copyright Gallup, Inc. 2014. Reprinted with permission of Gallup, Inc. All Rights Reserved.

Unless otherwise stated, all data is from the 2014 Legatum Prosperity Index™. All original data sources can be found in the Prosperity Index methodology report and online at [www.prosperity.com](http://www.prosperity.com).

In this report the term “country” is used to refer to the 142 societies that are included in the Prosperity Index. There are 140 states and two territories—Hong Kong and Taiwan—in the Index.

**We encourage you to share the contents of this document. In so doing, we request that all data, findings, and analysis be attributed to the 2014 Legatum Prosperity Index™.**

 **#ProsperityIndex @ProsperityIndex @LegatumInst**

**“ The Prosperity Index finds ... a strong and mutually-reinforcing relationship between a nation’s economic growth and the happiness of its citizens ”**

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NOVEMBER 2014