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PROSPERITY INDEX



# The Legatum Prosperity Index™

2017

ELEVENTH EDITION



# Foreword



The Legatum Institute exists to promote policies that create pathways from poverty to prosperity. We believe that every individual has immense personal value and potential and, for us, prosperity requires that people have the opportunity to fulfil that potential and to help others realise theirs. That means prosperity can never just be about material wealth; at its core it also entails personal and social wellbeing, such as having a home, an education and family and friends who care for us. The journey towards prosperity is therefore not just about what we contribute, but about who we become.

The goal of the Legatum Prosperity Index™ is simple: by illustrating how countries have moved toward or away from prosperity, we want to help identify those pathways that lead from poverty to prosperity.

To achieve that goal, the Prosperity Index describes the conditions required for prosperity. We describe these conditions as the combination of nine pillars: Economic Quality, Business Environment, Governance, Personal Freedom, Social Capital, Safety and Security, Education, Health, and the Natural Environment. Using data for 149 countries over eleven years, we track the journeys made by countries towards or away from prosperity.

Overall, progress has been positive. Despite a turbulent year in many countries, including divisive elections and terrorist attacks, this year's Index shows that global prosperity has continued to rise. More countries have seen improvements than those that haven't, while poorer regions of the world have also advanced. For example, Asia continues its strong improvements in prosperity; and many countries in Sub-Saharan Africa are also progressing, gaining particularly in Business Environment, Governance and Social Capital.

But this improvement is not universal. Of particular concern is the set of countries at the bottom of the rankings that are continuing to decline. We have reported previously on how Venezuela has squandered its prosperity – and sadly, its decline has continued. But a lesser-known example of declining prosperity is El Salvador, which this year suffered a fall in eight of the nine Index pillars. We also know that many countries we do not report on have even worse prosperity. But because of conflict or oppression we do not have the data to report on them. These include Myanmar, North Korea and Syria.

Reflecting the deeper foundations of success, this year's report focuses on the institutional elements of prosperity. We look at the role of Governance, Personal Freedom, Social Capital and Safety and Security in underpinning both wealth and wellbeing. The strengthening of these pillars enables the development of the other aspects of prosperity. When they are undermined, we see a corresponding decline across other pillars.

For this year's report we have maintained the methodology developed for last year's tenth anniversary edition. To understand more about the methodology that underpins the Index, I encourage you to read the Legatum Prosperity Index™ Methodology Report, which you will find online at [www.prosperity.com](http://www.prosperity.com).

On behalf of the Legatum Institute, I commend this report to you and invite you to join us in creating a more prosperous world.



**Baroness Philippa Stroud**  
CEO of the Legatum Institute









# Executive Summary

What true prosperity is, and how it can be realised, are fundamental questions that must be answered by every country. Over 11 years, the *Legatum Prosperity Index*™ has evaluated long-term changes in global prosperity, pinpointing some of the drivers of progress and highlighting those nations that have made the greatest strides forward.

## Prosperity: growing unequally

DESPITE TURBULENCE IN  
MANY AREAS, GLOBAL  
PROSPERITY HAS INCREASED

As our Index shows, prosperity has been growing around the world. This seems remarkable, given our present turbulent times. We have seen the rise of terrorism, through groups such as Islamic State and Boko Haram. A vast number of people have left their homes in the Middle East and Northern Africa, risking their lives to travel through war zones and across oceans for a highly uncertain future in Europe – in effect, seeking their own personal pathway from poverty to prosperity. We have also seen populist movements gain strength, leading to the election of Donald Trump, and the success of populist parties in Germany, the Netherlands and Hungary.

Despite these developments, global prosperity now sits at its highest level since the Index was first published in 2007. More countries experienced growing prosperity (88) than falling (61) in the last year, with the greatest increases coming in the Asia-Pacific region. The most important driver of this improved prosperity over the last 11 years is the significant strengthening of the world's Business Environment, one of the nine pillars of

the Index. (More information on the nine pillars can be found on page 10.)

THE GREATEST GAINS IN  
PROSPERITY HAVE COME IN  
THE ASIA-PACIFIC REGION

Growth in prosperity has been unequal, however. The gap between the top and bottom scorers in the Index has been growing for five straight years; and the lowest score in the Index (held by Yemen this year) has not been so low for eight years. Some declines in prosperity are very concentrated, such as those being seen in Latin America – most notably in Venezuela, but also in Nicaragua, Ecuador and El Salvador. Furthermore, countries such as Syria are devastated by conflict, and their declining prosperity significantly affects their neighbours. Syria is among a group of nations where accurate data collection is not possible, due to either conflict or governmental restrictions.

This resulting imbalance in prosperity threatens wellbeing as well as wealth, most notably in Safety and Security. In this pillar, the least prosperous 30 countries have now witnessed

LATIN AMERICA IS SHOWING  
THE MOST CONCENTRATED  
DECLINES IN PROSPERITY

a near-continuous 10-year decline, even while the top 30 countries have seen a modest improvement. The world may find it can increase prosperity, but growth will always be muted when it cannot be shared by all.

## Alternative pathways to prosperity

At first glance it may appear that the rankings this year broadly reflect traditional measures of wealth, with the bottom of the prosperity table populated by poorer nations which have not seen an increase in their GDP, and the top dominated by those which have been more successful. On closer inspection, however, it becomes clear that a nation's prosperity ranking is not determined by wealth alone; it also depends significantly on wellbeing. In fact, there are many diverse elements, with relative importance depending on culture and place, which determine the life chances and opportunities available to a nation's citizens.

NORWAY HAS REGAINED THE  
NUMBER ONE SPOT FROM  
NEW ZEALAND

In bringing together such a broad range of indicators, our aim is to characterise the many different routes to prosperity.

This is essential if we are to make meaningful comparisons in a world with distinct and equally valuable pathways to a fulfilling life. Two groups that demonstrate this truth are the Nordics and the Anglosphere. Their nations enjoy the highest overall prosperity in the world, with a representative from each at the number one spot for each of the last eleven years, held this year by Norway. Yet the Anglosphere and Nordics are successful for different reasons, as explored in our feature on page 13.

## What holds countries back?

The breadth of the Prosperity Index allows it to pinpoint not only the drivers of, but also the obstacles to, a nation's prosperity. It allows a unique look at the specific constraints to progress, highlighting where research and policy work should be most readily focused. With this deeper perspective it becomes possible to look at nations, not just in terms of where they are now, but where they could be in the future. All people should have the opportunity to live in a country in which their wellbeing is promoted; and searching out the areas in which nations have potential to grow is a crucial part of realising this goal. The Index provides a powerful tool for identifying where the progress of countries is held back, due to a deficit in key areas of prosperity.

For example, countries in the fourth quintile (ranked 91-120) generally underperform in Personal Freedom and Governance;



they have much worse basic legal rights than those at the top of the rankings; they typically have weak rule of law and their citizens do not (or indeed, cannot) participate politically. They also see a notable deficit in the strength of the Education pillar compared to top-ranking countries.

It is this standout deficit in Governance and Personal Freedom among less prosperous countries, together with the long-term divergence in Safety and Security, which has triggered our focus in this year's report on institutions.

**THE UK HAS MAINTAINED ITS TENTH PLACE IN THE RANKINGS**

### Institutions: the framework for prosperity

Institutions, both formal and informal, provide the civic framework within which wealth and wellbeing become sustainable. Four pillars of the Index measure the strength of institutions: Governance, Personal Freedom, Social Capital and Safety and Security. We have chosen to focus on them in this year's report in order to explore the institutional foundations of prosperity. In global terms, Governance, Personal Freedom and Social Capital have all risen since 2007 (Figure 1).

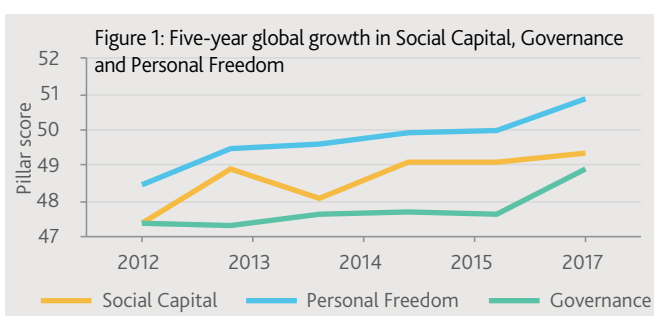
The quality of Governance around the world, which had fallen sharply after a high in 2009, has now rebounded and sits at its highest level in the history of the Index. All geographic regions

**THE QUALITY OF GOVERNANCE, PERSONAL FREEDOM AND SOCIAL CAPITAL ARE ALL IMPROVING**

of the world saw Governance improve over the last year, with Asia rising fastest. On average, people perceive judiciaries to be more independent of government than last year and believe that regulations can be more easily challenged in the legal system. For example, Ethiopia saw improvements in judicial independence, while in Belarus, there was a lower reported perception of corruption. Not only do the rule of law, strong institutions, and high regulatory quality contribute to economic growth; effective and accountable government also increases public trust and, ultimately, results in higher levels of life satisfaction among citizens. For more, see our feature on page 18.

Personal Freedom has recovered from a low in 2012, bettering its 2007 level for the first time. Asia and Sub-Saharan Africa registered the strongest growth this year and countries throughout other regions have seen significant improvements. Cyprus has improved through a reduction in compulsory military service, while over the last five years Iraq has seen the greatest increase in citizens' satisfaction with freedom. In North America, however, Personal Freedom has significantly weakened, and so too in parts of Europe, where the strain of the migration crisis now appears to be having a negative effect on tolerance levels in receiving nations. Societies that foster strong civil rights and freedoms have been shown to enjoy increased levels of satisfaction among their citizens. But so too does the economy benefit when personal liberties are protected and a nation is welcoming of the social diversity that stimulates innovation. This is explored further on page 21.

The world's Social Capital – the extent to which people trust and support each other – has improved more in the last decade than any other of the four Institutional pillars. A person's social and economic wellbeing is best provided for in a society where people trust one another and have the support of their friends and







family. This pillar highlights the contribution of social networks as an asset that produces economic returns and improves wellbeing. Asia has been the long-term improver, although this year the greatest gains were in MENA and Sub-Saharan Africa. It is also troubling to see a decline in some developed nations such as the UK and the US (as discussed in our feature on page 24).

While the pillars of Governance, Personal Freedom and Social Capital have all made improvements in the last decade, the strengthening of institutional foundations worldwide has come under threat from falling Safety and Security, which continued its decade-long decline in 2017 (Figure 2). This is alarming: wellbeing and economic growth are strongly dependent on citizens being

kept safe from conflict and crime, and being housed and fed. Nearly two-thirds of the 149 nations in the Index saw

**SAFETY AND SECURITY  
CONTINUES ITS  
DECADE-LONG DECLINE**

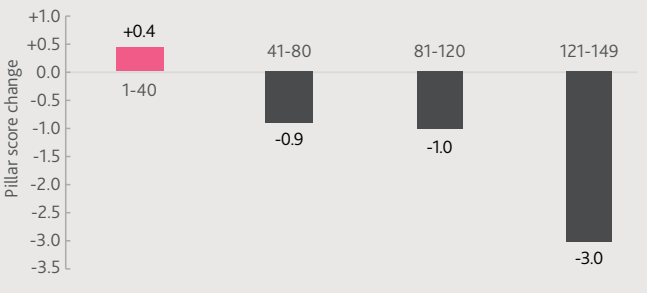
their scores fall this year, in what was the largest single-year fall in its eleven-year history. Eastern Europe was the only region where Safety and Security improved, while all the others, led by the Middle East and North Africa (MENA), saw worse scores than in earlier years. In nations such as the US, falling Safety and Security has been buffered by otherwise strong institutions of government, but in regions where institutions are more fragile, such as Latin America and the Caribbean, the stress can no longer

be withstood. We look into this in greater depth on page 27.

### The future of prosperity

Prosperity is at its highest point for ten years, and yet too few of the world's inhabitants are enjoying its fruits. Much needs to change to enable all nations to fulfil their potential in the nine pillars of prosperity. Given the different political, cultural and geographic contexts in which nations find themselves, the solutions to realising such potential could scarcely be more wide-ranging. This year's Prosperity Index has sought to offer a window into the many routes to progress that nations have taken, or in some cases have been forced to take. Our hope is that our Index can help all governments and policy-makers to identify the pathways to a fulfilling life for all.

Figure 2: Five-year change in Safety and Security by 2007 ranking group



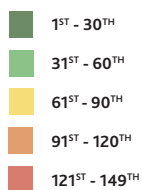
# Mapping Prosperity in 2017

**Norway (1<sup>st</sup>)** has increased its Prosperity and has regained the top ranking from New Zealand. (see p. 13)

The **United Kingdom (10<sup>th</sup>)** has maintained its spot at tenth in the Index, retaining the best Business Environment in Western Europe.

The **United States (18<sup>th</sup>)** has extended its lead as the best place in the world to do business. But overall prosperity declined. (see p. 34)

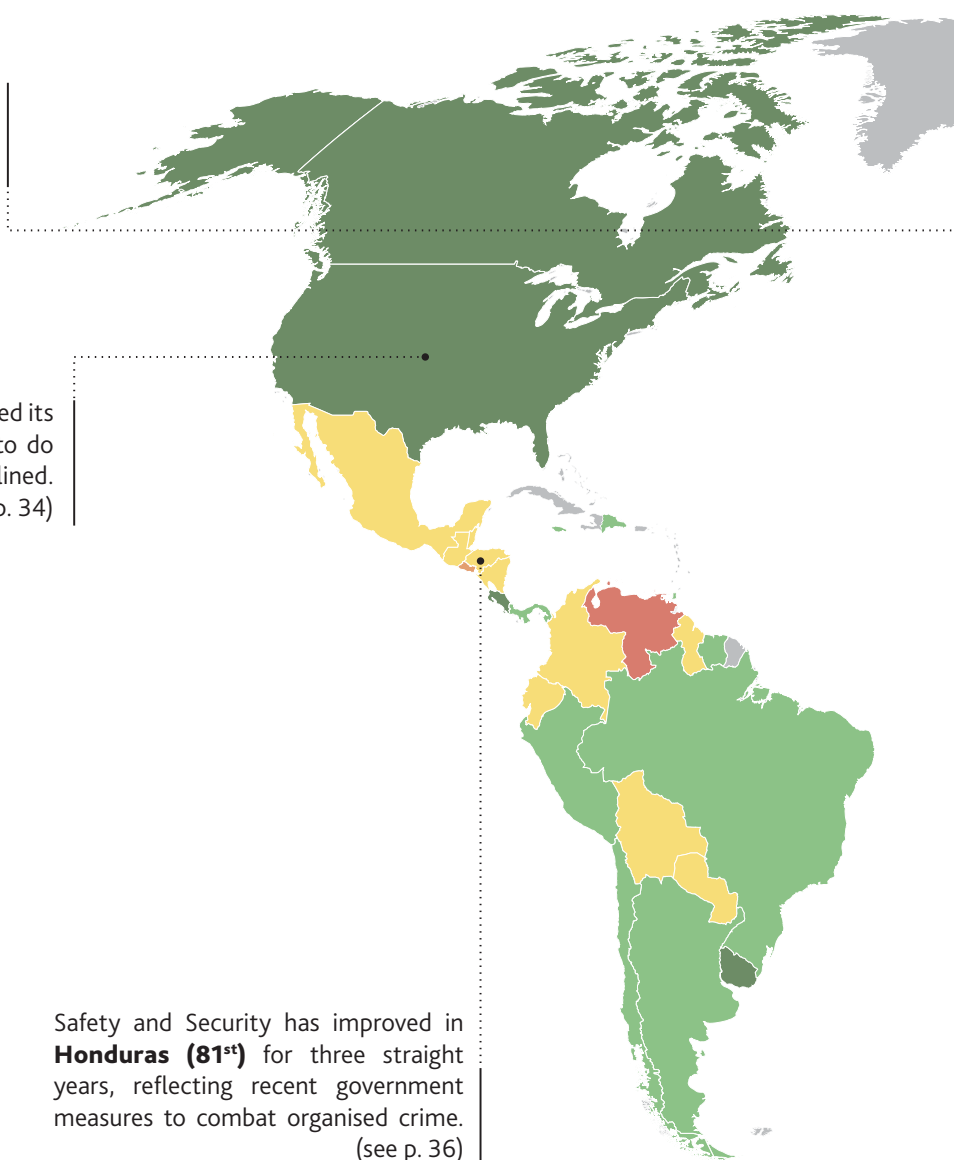
## RANK



Several countries are not included in the Prosperity Index because we cannot access data. In many cases this is due to conflict or government restrictions preventing the collection or publication of accurate data. The ten most populous countries not included in this year's Prosperity Index are:

Myanmar  
Uzbekistan  
Syria  
North Korea  
Somalia  
South Sudan  
Cuba  
Haiti  
Papua New Guinea  
Turkmenistan

Safety and Security has improved in **Honduras (81<sup>st</sup>)** for three straight years, reflecting recent government measures to combat organised crime. (see p. 36)





Personal Freedom increased in **Cyprus (31<sup>st</sup>)** through a halving of the length of compulsory military service, and increased satisfaction with freedom. (see p. 51)

**Mongolia (68<sup>th</sup>)** has greatly improved its Governance, with increased independence of the judiciary and greater confidence in government.

In the midst of conflict, **Kenya (99<sup>th</sup>)** has the strongest Social Capital in Sub-Saharan Africa.

**Morocco (97<sup>th</sup>)** has improved its Natural Environment, having implemented more sustainable management of its water supply.

**Bangladesh (111<sup>th</sup>)** has improved its Education more than any other Asian nation, with its adult literacy rate increasing to over 70%.

# Key Findings

**2.6%**

higher than in 2007



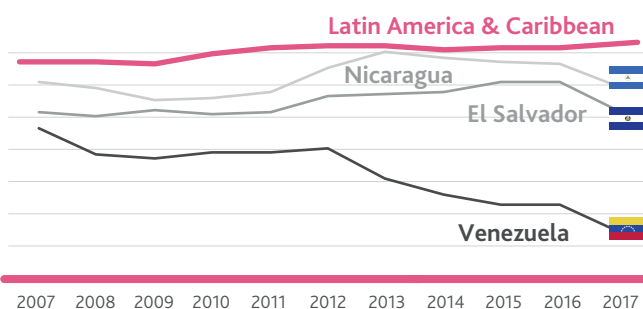
## Global prosperity at a record high

World prosperity increased in 2017 and now sits at its highest level in the last decade. It is now 2.6% higher than in 2007. Furthermore, prosperity growth has been faster from 2012 to 2017 than it was from 2007 to 2012. However, the gap between the highest and lowest scores in the Index has increased for five straight years and the spread between nations is growing, indicating that while prosperity as a whole may be increasing, not all countries are yet benefiting from the increase.



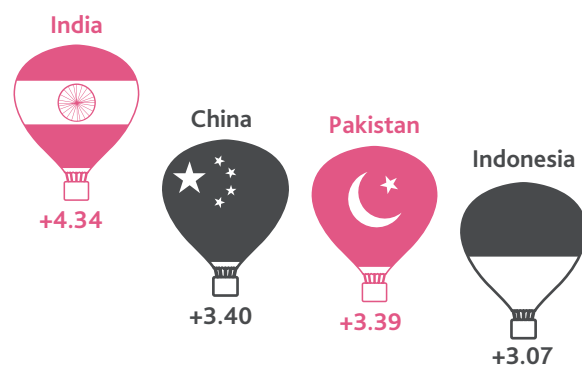
## Improved government accountability

Every region in the world improved in Governance in 2017, with Asia and Sub-Saharan Africa rising fastest. Across the world judiciaries became more independent from state interference and the process of challenging governmental regulation became easier. People also became more confident in the outcome of elections.



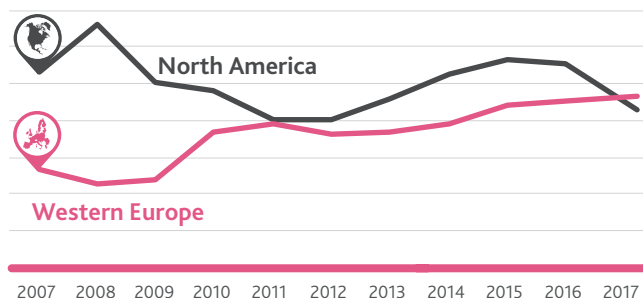
## Notable fallers in Latin America and the Caribbean

While overall prosperity increased, the region also contains some notable fallers. For example, El Salvador (91<sup>st</sup>) now has the highest homicide rate in the world. In 2017, it suffered a fall in eight of nine Index pillars, with rapidly worsening Security, Social Capital, Business Environment and Governance all now cancelling out their gains from the last five years.



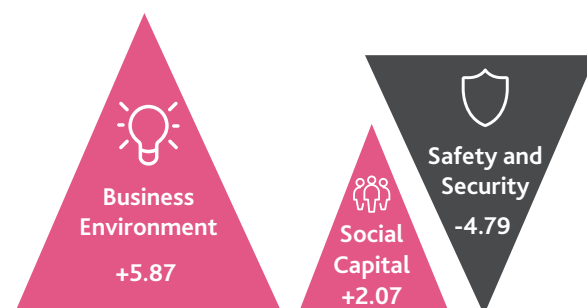
## Asia-Pacific makes the greatest gains

While prosperity improved around the world in 2017, no region grew as fast as Asia-Pacific. Gains came through a fast-improving Business Environment, especially in the population centres of India (100<sup>th</sup>), China (90<sup>th</sup>), Pakistan (137<sup>th</sup>) and Indonesia (59<sup>th</sup>). It is now easier to access credit, and intellectual property rights have improved.



## Western Europe overtakes North America

For the first time in the Index, Western European prosperity is higher than in North America, albeit marginally. Western European prosperity remained broadly constant; but North America fell faster than any other region, due to an increase in the number of homicides and greater societal pressure on citizens' freedom of religion.



## Decreasing Safety and Security in the MENA region

Despite gains in Social Capital and a strengthening Business Environment, overall prosperity in the Middle East and North Africa (MENA) has suffered in recent years through worsening Safety and Security. Casualties from both war and terrorism have increased, along with a rise in state-sponsored violence.





### Germany (11<sup>th</sup>)

Germany's prosperity fell slightly, although it maintained 11th place. Its Business Environment strengthened as a result of improvements to intellectual property rights. However, falling Social Capital and Safety and Security more than cancelled this out. In Social Capital, civic participation decreased, with fewer people volunteering or feeling able to voice their opinion.



### France (19<sup>th</sup>)

Decreasing tolerance, especially towards ethnic minorities and immigrants, has hit French prosperity this year. France also continues to experience weak Safety and Security, with only Greece ranking lower among Western European nations. However, Governance has improved in France, with a judiciary perceived to be more independent of government than last year, a greater ease in challenging regulation and more women in parliament.



### Brazil (54<sup>th</sup>)

The nature of prosperity in Brazil has experienced a significant shift. Health has improved, with people feeling happier and less beset by worry or sadness. Social Capital too has strengthened through wider opportunities to make friends and people being more willing to offer informal financial help. However, this has been counteracted by a weakening Business Environment, particularly as a result of reduced affordability of financial services.



### India (100<sup>th</sup>) makes gains on China (90<sup>th</sup>)

India has narrowed the gap between it and China in the Index to a quarter of what it was in 2012. In particular, India has significantly improved in the Economic Quality and Education pillars: for example, more people are now satisfied with their standard of living and household incomes. China, meanwhile, lost out in these two pillars – economically as people perceived greater barriers to trade and less encouragement of competition; and educationally through a falling primary school completion rate.



### Russia (101<sup>st</sup>)

Prosperity in Russia fell in 2017. Social Capital fell in almost all measures, especially indicators about willingness to help strangers and informal financial help. So too did Education – citizens are more negative about the quality of local schooling and feel less strongly than last year that young people are learning.



### Nigeria (128<sup>th</sup>)

Over the last five years, Nigerian prosperity has improved in almost every pillar, most notably Personal Freedom and Governance. All measures of Quality of Life (Natural Environment, Education and Health) also increased over the same time period. The only exception was Safety and Security, which fell through increased terrorism, as well as refugees leaving the country.

# The Legatum Prosperity Index™

2016 Rank*	2017 Rank	Country	Pillars								
			Economic Quality	Business Environment	Governance	Personal Freedom	Social Capital	Safety and Security	Education	Health	Natural Environment
2	1	Norway	8	8	2	8	5	3	4	7	1
1	2	New Zealand	3	2	3	1	2	23	16	17	13
3	3	Finland	14	10	1	9	12	15	3	14	3
4	4	Switzerland	6	9	5	19	20	8	1	3	16
8	5	Sweden	1	13	4	12	19	13	14	6	8
7	6	Netherlands	4	14	6	6	11	9	2	8	46
9	7	Denmark	5	11	8	14	4	14	11	21	19
5	8	Canada	15	4	9	2	6	24	13	24	18
6	9	Australia	20	7	14	15	1	22	5	10	10
10	10	United Kingdom	7	5	10	18	16	17	8	19	9
11	11	Germany	9	12	12	17	17	16	15	12	12
13	12	Ireland	19	16	13	5	8	10	10	27	27
14	13	Iceland	16	15	11	4	3	2	28	20	21
12	14	Luxembourg	11	31	7	3	22	11	30	1	6
15	15	Austria	12	18	16	22	15	6	12	5	15
16	16	Belgium	17	17	15	11	25	33	9	11	26
19	17	Singapore	2	6	17	97	26	1	6	2	11
17	18	United States	10	1	20	28	9	60	7	30	34
18	19	France	25	19	23	25	43	37	19	18	4
21	20	Spain	37	33	30	16	29	12	25	16	17
20	21	Slovenia	29	56	36	21	24	19	22	31	2
24	22	Malta	30	55	24	13	7	36	23	76	
22	23	Japan	23	22	18	46	101	4	18	4	43
23	24	Hong Kong	18	3	27	43	61	5	21	9	105
25	25	Portugal	35	37	25	10	46	21	63	36	25
27	26	Czech Republic	26	25	31	27	73	20	23	26	39
26	27	Estonia	28	28	21	32	60	36	27	57	7
28	28	Uruguay	52	39	22	7	33	58	72	37	71
29	29	Costa Rica	64	43	32	20	35	61	49	32	42
32	30	Italy	44	68	46	30	54	25	24	39	65
33	31	Cyprus	40	40	34	26	36	27	55	41	101
34	32	Poland	34	44	37	50	74	18	33	48	47
31	33	Chile	48	42	29	40	68	47	37	43	28
30	34	Mauritius	41	36	26	33	38	44	69	56	62
36	35	Slovakia	49	51	42	44	65	26	29	45	36
35	36	South Korea	31	35	39	74	93	29	17	15	90
37	37	Latvia	36	38	40	56	105	41	32	78	5
40	38	Israel	33	21	19	94	42	50	20	22	131
41	39	United Arab Emirates	13	24	51	118	27	30	65	25	37
39	40	Panama	39	23	60	29	48	72	68	72	41
42	41	Lithuania	50	52	38	45	135	43	42	67	33
38	42	Malaysia	24	20	45	120	30	59	31	38	50
43	43	Croatia	66	101	54	42	122	28	34	55	14
45	44	Trinidad and Tobago	68	57	49	48	18	81	66	81	40
47	45	Hungary	57	58	56	58	91	34	45	47	94
50	46	Romania	60	48	68	51	81	42	52	91	55
46	47	Qatar	22	34	72	101	32	45	96	13	69
49	48	Argentina	81	92	73	23	72	62	60	54	63
44	49	Greece	83	72	53	72	89	46	71	42	29
51	50	Suriname	97	138	55	31	66	51	70	49	24
57	51	Bulgaria	65	80	71	65	110	40	41	79	35
48	52	South Africa	93	30	35	24	37	124	77	121	48
56	53	Sri Lanka	43	76	57	107	13	75	56	40	58
52	54	Brazil	53	106	77	37	52	88	85	70	23
55	55	Jamaica	76	32	58	62	31	107	88	62	59
53	56	Macedonia	92	47	75	76	94	38	44	75	79
63	57	Dominican Republic	61	96	85	34	40	101	91	68	20
66	58	Serbia	88	79	67	52	109	31	40	84	107
61	59	Indonesia	47	61	44	119	10	57	74	101	66
64	60	Peru	58	45	69	69	86	96	84	76	32
65	61	Mexico	54	29	82	59	116	122	57	51	52
67	62	Bahrain	21	41	86	127	59	53	61	28	118
54	63	Botswana	86	64	33	60	100	99	87	89	60
60	64	Philippines	75	73	50	55	21	138	67	103	45
58	65	Montenegro	87	67	65	64	88	39	59	93	132
72	66	Colombia	72	27	88	36	63	142	78	61	53
62	67	Thailand	27	63	98	124	23	85	73	35	84
76	68	Mongolia	73	86	62	85	28	95	51	88	106
73	69	Paraguay	71	93	113	54	92	56	90	50	64
68	70	Namibia	117	62	28	35	57	115	110	106	82
59	71	Ecuador	91	110	102	66	39	91	83	64	22
82	72	Kazakhstan	46	53	99	128	85	55	35	60	95
70	73	Oman	69	50	96	104	69	32	79	29	137
80	74	Guyana	100	95	61	73	41	78	97	96	67
74	75	Albania	110	71	78	47	119	73	76	46	125

## The 9 Pillars of Prosperity



**The Economic Quality** pillar ranks countries on the openness of their economy, macro-economic indicators, foundations for growth, economic opportunity and financial sector efficiency.



**The Business Environment** pillar measures a country's entrepreneurial environment, its business infrastructure, barriers to innovation and labour market flexibility.



**The Governance** pillar measures a country's performance in three areas: effective governance, democracy and political participation and rule of law.



**The Personal Freedom** pillar measures national progress towards basic legal rights, individual liberties and social tolerance.



**The Social Capital** pillar measures the strength of personal relationships, social network support, social norms and civic participation in a country.



**The Safety & Security** pillar ranks countries based on national security and personal safety.



**The Education** pillar ranks countries on access to education, quality of education and human capital.



**The Health** pillar measures a country's performance in three areas: basic physical and mental health, health infrastructure and preventative care.



**The Natural Environment** pillar measures a country's performance in three areas: the quality of the natural environment, environmental pressures and preservation efforts.



# Rankings 2017

2016 Rank*	2017 Rank	Country	Pillars								
			Economic Quality	Business Environment	Governance	Personal Freedom	Social Capital	Safety and Security	Education	Health	Natural Environment
79	76	Bolivia	74	131	106	41	76	86	47	100	75
75	77	Vietnam	38	77	97	121	97	54	53	69	86
85	78	Saudi Arabia	63	66	94	135	51	74	64	34	77
81	79	Belize	85	129	79	61	98	84	95	65	31
71	80	Kuwait	62	100	101	109	44	48	94	33	98
92	81	Honduras	108	60	107	53	62	114	81	73	83
77	82	Kyrgyzstan	78	90	111	92	75	82	62	58	72
69	83	Nicaragua	82	104	104	57	77	103	107	83	30
84	84	Georgia	95	70	52	87	140	71	58	90	124
86	85	Guatemala	77	54	93	86	56	108	112	98	38
87	86	Ghana	94	83	43	70	50	93	111	119	85
88	87	Rwanda	96	26	47	79	84	106	123	82	115
78	88	Turkey	55	91	70	105	96	133	80	53	54
94	89	Nepal	45	114	84	39	83	83	115	107	126
90	90	China	32	49	122	139	139	63	38	44	135
83	91	El Salvador	80	75	81	67	112	131	92	63	114
89	92	Jordan	99	118	83	126	79	65	82	52	103
91	93	Cambodia	51	78	124	77	121	92	89	104	100
93	94	Tunisia	111	89	59	114	103	77	103	66	92
98	95	Belarus	42	98	134	133	129	52	43	86	97
99	96	Armenia	114	94	109	96	136	87	39	97	88
101	97	Morocco	79	88	116	112	144	35	119	77	49
96	98	Moldova	90	82	112	88	126	66	50	105	140
97	99	Kenya	107	46	76	103	14	132	104	117	104
104	100	India	56	65	41	100	82	134	99	109	139
95	101	Russia	70	85	115	143	130	109	26	102	56
100	102	Tajikistan	102	117	120	138	78	49	54	80	123
108	103	Zambia	127	59	66	99	45	102	117	116	74
109	104	Tanzania	101	69	64	102	108	110	114	122	73
105	105	Lebanon	89	97	126	122	114	64	102	85	87
103	106	Azerbaijan	98	81	128	123	137	70	46	71	138
106	107	Senegal	136	103	48	49	55	97	134	112	111
102	108	Laos	67	113	121	117	71	89	105	94	122
110	109	Malawi	124	107	80	78	104	112	121	114	51
113	110	Djibouti	109	144	123	93	128	68	86	113	68
114	111	Bangladesh	106	119	105	91	133	79	109	99	136
107	112	Ukraine	84	102	130	95	115	135	48	135	108
112	113	Burkina Faso	112	120	95	71	87	80	137	120	78
115	114	Lesotho	147	109	63	68	64	123	120	123	121
116	115	Uganda	59	87	100	110	49	129	122	141	112
111	116	Algeria	115	133	127	141	134	76	100	74	89
118	117	Iran	103	122	133	144	70	119	75	95	113
119	118	Zimbabwe	116	136	125	111	90	113	93	108	119
128	119	Benin	125	116	74	38	145	94	142	145	93
117	120	Egypt	104	84	118	146	123	116	98	92	133
123	121	Ivory Coast	118	105	90	82	127	120	136	138	70
122	122	Mozambique	140	123	92	63	95	105	135	143	91
120	123	Gabon	137	121	131	90	118	104	113	127	109
124	124	Madagascar	138	126	117	80	117	67	131	134	117
125	125	Sierra Leone	121	128	91	81	34	98	141	144	127
126	126	Togo	120	125	129	75	146	100	127	137	96
131	127	Comoros	143	134	119	108	99	69	129	124	110
135	128	Nigeria	131	74	114	113	47	145	118	142	102
127	129	Cameroon	113	115	135	129	111	136	116	130	80
129	130	Swaziland	141	99	140	137	80	90	106	111	134
133	131	Liberia	134	112	87	98	58	126	139	146	81
121	132	Venezuela	128	149	147	89	131	141	101	87	57
134	133	Mali	126	111	110	84	102	128	145	128	128
132	134	Ethiopia	119	135	108	130	125	121	128	118	129
130	135	Congo	144	132	148	83	132	130	124	140	44
136	136	Libya	132	147	146	131	53	140	108	59	142
139	137	Pakistan	105	108	103	132	113	143	125	115	149
138	138	Guinea	123	130	132	116	120	118	146	147	61
137	139	Niger	130	127	89	115	124	125	148	136	130
140	140	Burundi	146	139	141	106	149	137	130	110	116
141	141	Angola	148	145	137	125	138	117	132	139	141
143	142	Iraq	129	146	136	142	67	149	126	132	148
145	143	Dem Rep Congo	139	137	144	134	107	148	133	126	143
142	144	Mauritania	135	142	138	145	143	111	143	125	145
144	145	Chad	142	140	143	136	142	127	147	148	120
148	146	Afghanistan	122	124	145	147	141	146	138	133	147
146	147	Sudan	133	141	139	149	106	144	144	131	146
147	148	Cent African Rep	145	143	142	140	148	147	149	149	99
149	149	Yemen	149	148	149	148	147	139	140	129	144

The term 'country' is used to refer to the 149 societies included in the Index. These include 148 nations and one Special Administrative Region of China, Hong Kong.

\*as reported in the 2016 Prosperity Index

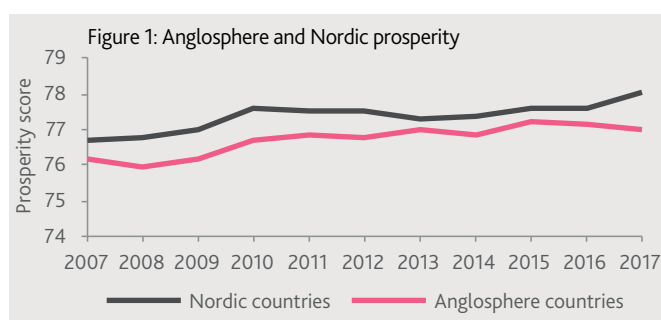








# Distinct Models of Success: Nordics and the Anglosphere



Norway comes first in this year's Prosperity Index, followed by New Zealand in second place, reversing last year's pattern. They each represent two distinct groups of countries and two distinct models for delivering prosperity: Nordic and Anglosphere. Both groups of countries have the highest prosperity scores in the world, and each group demonstrates that more than one path to prosperity is possible.

Since the middle of the last century, the Nordic countries (Norway, Sweden, Finland, Denmark and Iceland) have been regarded as model social democracies (with relatively homogenous populations). Their citizens enjoy some of the highest living standards the world can offer, with an economic model that offers minimal barriers to free trade, fosters private ownership and promotes socially egalitarian outcomes, in conjunction with a generous welfare state. A recent United Nations World Happiness Report ranked Nordic countries at or near the top in a number of its indicators, including healthy life expectancy, perceived freedom to make life choices, and freedom from corruption.<sup>1</sup>

Results from the Prosperity Index this year confirm this assessment. Treating each bloc, in turn, as an aggregate, the Nordics would rank second in the world for overall prosperity behind New Zealand, while the Anglosphere bloc (Australia, Canada, Ireland, New Zealand, United Kingdom)<sup>2</sup> would sit at seventh, between Denmark and Germany. The Nordics collectively enjoyed better prosperity when compared to their Anglosphere counterparts for the entire life of the Prosperity Index; and the gap between the two is now the biggest it has ever been, after Anglosphere prosperity fell in 2017 (Figure 1). Among the five Nordic nations, only Denmark failed to improve its prosperity this year; and even there, the decline in overall score was small. By contrast, all the Anglosphere nations, except Ireland, saw their scores fall.

In prosperity terms, the Nordics have stronger Governance, Economic Quality and Safety and Security, as well as better

Health and Natural Environment – and even more significantly, they have improved on their already strong position in all five areas in 2017. The Nordics lead the Anglosphere in all but seven of 33 sub-pillars of the Index (Figure 2).

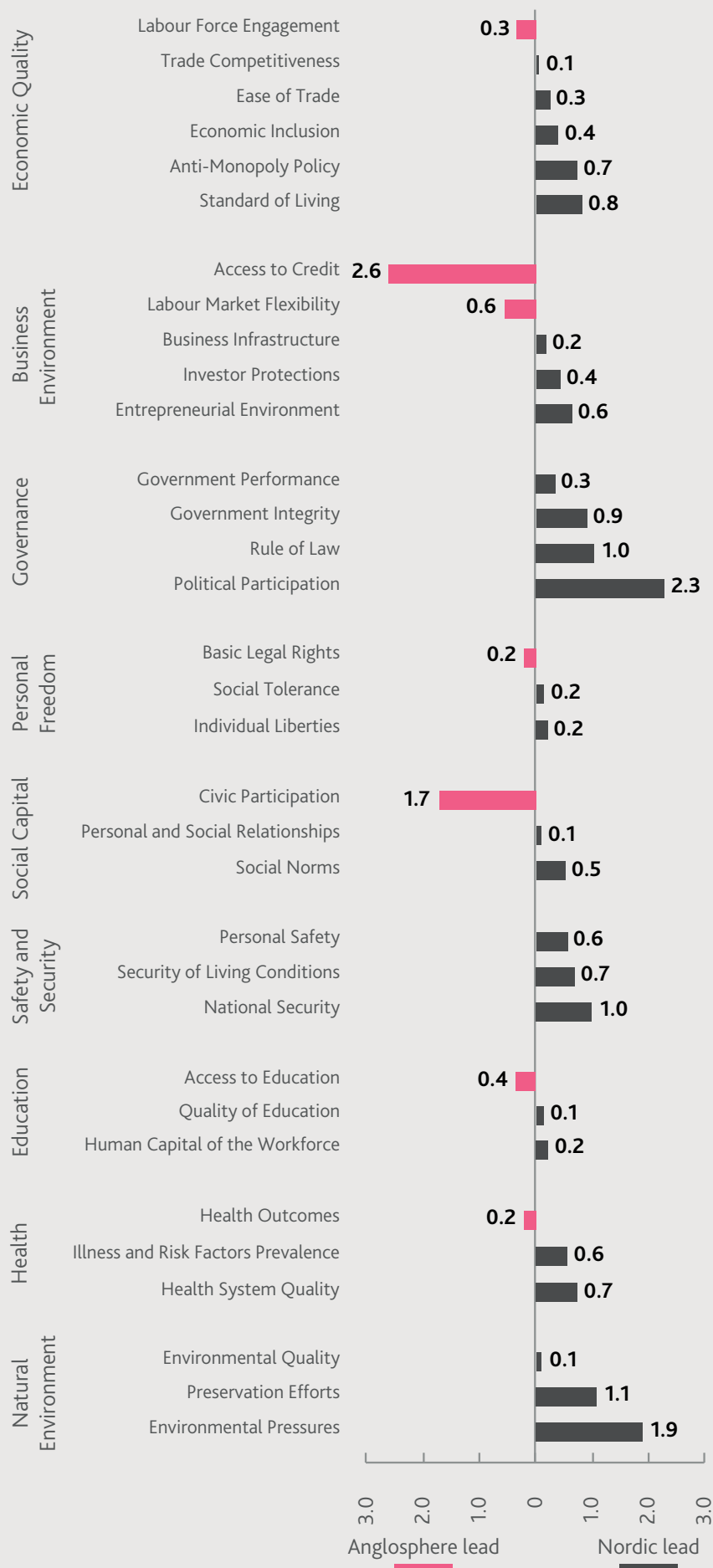
The Anglosphere nations lead in a number of key areas. They have a better Business Environment thanks to much greater access to credit, fewer hurdles in getting businesses started and a more flexible labour market. Per capita GDP growth in the Anglosphere has been faster in the last five years than in the Nordics, while a greater proportion of the Anglosphere's adult population is engaged in the labour force. There are also some clear Anglosphere strengths in Social Capital – a greater proportion of the population is engaging with society through informal donations and volunteering their time, and people are more likely to come to the aid of strangers. Personal Freedom and Education are broadly comparable across the two blocs.

The picture therefore is of two distinct routes to prosperity. The Anglosphere nations have presented themselves as more diverse centres of enterprise with thriving social capital, whilst the Nordic model has for a long time offered a high standard of living and egalitarian outcomes to its citizens. Yet there have been signs more recently of the two becoming increasingly similar. For example, the quality of Governance is strengthening in many Anglosphere countries; and the Nordics are increasingly opening themselves to enterprise. Stockholm now produces the second-highest number of billion-dollar tech companies per capita in the world, after Silicon Valley, and Swedes are the most optimistic in the developed world in terms of perceiving opportunity for business.<sup>3</sup> The Nordics score more favourably than the Anglosphere nations in anti-monopoly policy, and this improved in 2017. In other words, where heavily regulated economies existed in the past in which competition was less prevalent, Nordic markets are becoming far more open and dynamic – a precondition for a thriving economy.

It is not just the policy environment that has supported the Nordics' high levels of prosperity, but also culture. Indeed high levels of trust and mutual cooperation established over centuries is a major part of what has allowed the Nordic governance model of the last 50 years to come into existence. We can also see the effects of this culture of trust in the success of the Nordic diaspora abroad. The 12 million citizens in the US claiming Nordic origin, many of whom moved several generations ago in the 19th century, earn on average \$10,000 more than the US average, and they experience half the national poverty rate. Even with the passing of 150 years, the Nordic brand of culture and values continues to generate significant prosperity away from home. The two blocs have also differed historically in levels of

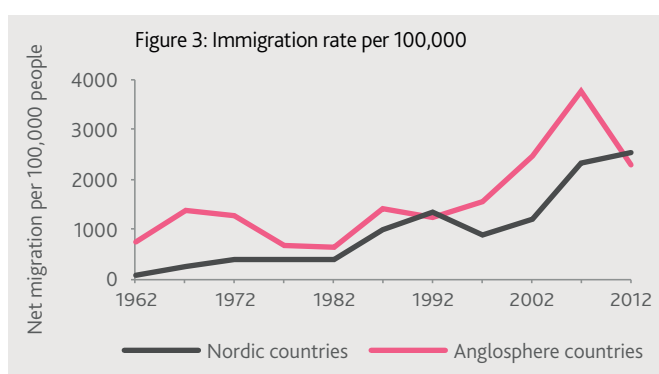


Figure 2: Differences in Anglosphere and Nordic prosperity (by sub-pillar)



immigration. Statistics on migration for the last 50 years indicate that people have far more readily been migrating into the Anglosphere than into the Nordic nations; even in per-capita terms, movement has been greater at almost every point in the last 50 years (Figure 3).

The challenges of immigration are not new to the Anglosphere – rather its nations have, over time, developed a route to prosperity that accommodates input from a diverse range of cultural backgrounds. Enterprise is strong, there is a sense of openness in relationships and the skills coming from abroad have enabled economies to grow and thrive. But the balance between the two blocs is now changing. More recent developments in Europe, such as the eastern expansion of the EU and then the refugee crisis, have meant that the difference between the Nordics and the Anglosphere in migration terms is not as pronounced as it has been in the past. In 2015, Sweden took in more asylum seekers per capita than any other European Union member state, with Norway and Finland fourth and fifth, respectively.<sup>4</sup> There may thus be signs that the Nordics are encountering some



of the same challenges to prosperity that the Anglosphere has long faced. Nordic citizens' confidence in the government has decreased in the last ten years, along with perceptions of the quality of public services – two areas in which the Nordics have led the Anglosphere nations. So too in safety terms – homicide rates have increased in Sweden in the last five years and the nation's citizens report that they feel less safe at night. As movement of people into the Nordics increases, the desire by their populaces to maintain universal high levels of welfare is being increasingly challenged. With the changing dynamics of its population comes a new landscape in which to foster prosperity, and with it an ever-greater likelihood that the Nordic nations will find themselves on some of the same paths as their Anglosphere counterparts.

#### NOTES

<sup>1</sup> United Nations. *World Happiness Report*, 2017.

<sup>2</sup> We have not included the USA in the Anglosphere, as it is unique in both economic and demographic terms and given the large size of its population, it would dominate the analysis.

<sup>3</sup> Semuels, A. 'Why Does Sweden Have So Many Start-ups?', *The Atlantic*, 28 September 2017.

<sup>4</sup> Tanner, A. 'Overwhelmed by Refugee Flows, Scandinavia Tempers its Warm Welcome', Migration Policy Institute, 10 February 2016.

#### Migration and prosperity

While migration adds great value to society in many areas – labour, expertise and cultural diversity to name a few – it can place stress on others. With large numbers of newcomers to a society, questions must be answered as to integration, the extent to which they adopt the social norms of the culture into which they are transitioning, and their rights to welfare, compared to those of the local population. Where these questions are not addressed, the social fabric of society comes under great stress.

In communities where there may have been a level of informal trust and mutual support across the wider society, large scale immigration can result in members of that society regarding more recent arrivals as not being as deserving of help and support as long-standing citizens. Public services such as healthcare and education are also put under stress, as more and more of the population (especially those most marginalised) find themselves in need of assistance.

Recent arrivals may find themselves isolated from the societies into which they have moved and this may be exacerbated by linguistic, technical, cultural or even psychological barriers. Poverty in turn can force its victims into illicit means of generating income – leading to worsening safety and even greater social isolation. The result is that whereas the majority of a nation may enjoy prosperity, it is sometimes neither felt nor shared by immigrants.

In terms of governance, those in leadership will find themselves in situations of ever-greater difficulty and compromise as they are forced to reconcile the views of an increasingly disparate electorate. The challenge of migration around the world shows how governments are called upon to consider the prosperity of not only its citizens, but also residents more broadly.





# Institutional Foundations of Prosperity

The Legatum Prosperity Index™ measures both wealth and wellbeing in society, based on nine pillars. Four of these pillars sit at the nexus of wealth and wellbeing: Governance, Personal Freedom, Social Capital and Safety & Security. They characterise both the formal and the informal rules that guide and constrain interactions between people, business and government. We have described these four pillars as the institutional foundations of the Prosperity Index, because they provide the basis for trust and constructive social and economic relationships. They form the civic framework within which wealth and wellbeing become sustainable in the following ways:

- **Governance** examines the institutions that empower and constrain government action. These institutions determine adherence to the rule of law and the quality of regulations. But they also determine the effectiveness, fairness and accountability of governments.
- **Personal Freedom** is about institutions, both legal and societal, that foster strong civil rights and personal freedoms, and encourage social tolerance.
- **Social Capital** is a measure of the extent to which people trust and support one another and have the support of their friends and family.
- **Safety and Security** is a measure of how well citizens and property are protected, which is often a consequence of the success or failure of other institutions.

We have chosen to focus on institutions in light of the evidence that they have a positive effect on wellbeing and economic growth. This is supported by the Prosperity Index: the best performing countries also have the strongest institutions.

The four Institutional Pillars (and ultimately all pillars of the Prosperity Index) are interdependent. As we note, government responses to improve Safety and Security can threaten Personal Freedom. Or declining Social Capital, particularly declining bridging Social Capital that links different groups of people together, threatens the quality of a nation's Governance if it gives rise to populist leaders who undermine the institutions designed to constrain their power.

Over the last five years, the Index has measured a strengthening in all of these pillars, except for Safety and Security. Governance is at its highest level in the history of the Index. Social Capital has improved more than any other pillar except Business Environment. Personal Freedom has also improved globally. However, the widespread decline in Safety and Security is placing pressure on these other pillars in many regions. Furthermore, within regions and countries there are some worrying trends within particular pillars.

The following features explore the developments in these four pillars of prosperity. They examine reasons for success and failure, and identify the challenges that lie ahead in strengthening institutional foundations globally.



# Governance: strengthening around the world, mostly

At its heart, Governance is a relationship between a nation's people and those who lead them. The nature of a country's Governance has a material impact on the economic and social wellbeing of its population, and thereby its prosperity.

The Prosperity Index measures four critical aspects of Governance. First, government must share a commitment to the rule of law, meaning that citizens have confidence in the strength and rules of society. Second, there must be government integrity: the government must operate in a transparent and predictable manner. Third, government must perform well, which means that they are effective at creating the conditions that allow businesses to grow and succeed, as well as providing opportunities for human flourishing through social policy. Finally, there must be political participation, so that as many people as possible feel appropriately represented in the political process.

Whilst some countries have maintained relative prosperity without exhibiting strength in all aspects of Governance, we have found that the world's most prosperous countries are those that have had consistently high Governance scores. Without secure Governance, countries cannot attract foreign investment, businesses find it harder to grow and citizens cannot hold a government to account.

## Risers in 2017

This year's findings reveal an overall improvement in Governance globally, with 98 out of 149 countries' scores improving. Furthermore, on aggregate, every region improved; and there are several encouraging examples of countries making significant progress on government accountability.

Tunisia appears to have seized a number of the opportunities presented by the Arab Spring. Some of this improvement has resulted from the implementation of its new constitution in 2014,<sup>1</sup> which has increased government transparency and accountability, and strengthened the integrity of several important institutions. It also declared men and women equal before the law. Political participation has also increased in the wake of the democratisation, which resulted from the uprisings of 2011, following the overthrow of former president Ben Ali.

However, Governance in Tunisia remains fragile. The Prosperity Index shows that government performance has been poor. Though improved, the ability of the government to deliver key services remains weak; and recent examples of state interference

in the media have reduced public confidence in the government's integrity. Subsequently, little progress has been made this year in generating economic growth, social capital and social wellbeing.

Argentina is another example of improving Governance. It has experienced a promising improvement in its rule of law in 2017, due largely to more business leaders perceiving that regulation is easier to challenge and that judges were more independent. This has helped to improve economic growth and additional private sector development. It is not only easier and more attractive to do business in Argentina, but there is greater confidence that investments will be protected. This improvement complements key economic reforms, initiated by President Macri following his election in 2015, such as the removal of tariffs and the floatation of the peso.<sup>2</sup>

## Breakdown of governance

This year's findings highlight a continued significant decline in the quality of Hungary's governance over the past decade, falling from 39<sup>th</sup> in 2007 to 56<sup>th</sup> in 2017. This has resulted from a steady deterioration in judicial independence and political rights. It was once a model country for its post-communist transition to a two-party parliamentary system, while also leading the way in applying for EU membership. However, Hungary today has seen its progressive political reforms take a different direction since Fidesz, the nationalist party led by the current Prime Minister Viktor Orbán, swept to power after winning a landslide victory at the 2010 elections.<sup>3</sup>

Holding two-thirds of the seats in parliament, the Orbán administration had a free hand to reset the tone in Hungary's political system. Step by step, it pushed through a new constitution, adopted a new electoral law, and appointed pro-Fidesz judges to a majority of seats on the Constitutional Court.<sup>4</sup> Unsurprisingly, Hungary's judicial independence is lower now than it was in 2007, and it has a lower rating in almost every other Governance indicator than it did a decade ago.

In Libya, there were promising signs that increased political participation would lead to other aspects of Governance improving after the overthrow of Colonel Gaddafi in 2011. In the aftermath, there were initial improvements to democracy and political rights, both captured by the Index. Yet promised reforms have not yet materialised and political participation remains limited.



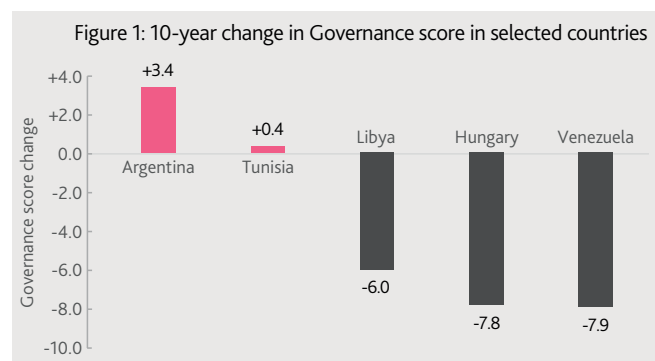
Turnout at the 2014 elections was just 16% of the total voting age population. Public confidence in political and other key institutions has worsened, especially the judiciary and the rule of law, due in large part to the lack of a single, central government. In the absence of an effective and accountable government, political and economic freedom has deteriorated, whilst instability and corruption have increased. Consequently, any improvements in political participation as a result of the Arab Spring have been lost.

The decline in Venezuela's ranking accelerated during 2017, continuing a steady deterioration of all aspects of Governance which began under President Maduro's predecessor Hugo Chavez. Chavez's widespread nationalisation of businesses showed a lack of respect for property rights of domestic and foreign owners, resulting in a predictably sharp decline in foreign investment and private sector development.<sup>5</sup> The failure to respect property rights has meant that there is now little incentive for foreign investment or private enterprise.

Further, political participation has become less meaningful. The result of the most recent election in 2015 was not respected. Following his party's defeat, President Maduro refused to hand over power, side-lining the National Assembly and replacing members of the Supreme Court.<sup>6</sup> It is not surprising, therefore, that the Index shows the percentage of people with confidence in the honesty of elections has fallen from 64% in 2007 to 21% in 2017.

Poor political participation leads to poor accountability for government. This has reduced the pressure on the Venezuelan government to be effective or to act with integrity. In turn, this is reflected in a number of indicators, for example the percentage of people with confidence in the national government has fallen from 63% to 16%.

This fall in the quality of Governance has had an enormous effect on Venezuelan prosperity, which has fallen from 85<sup>th</sup> to 132<sup>nd</sup> globally since 2007. Perhaps one of the most shocking examples is the recent food crisis, with the Index showing that 80% of people have had times in the last 12 months when they have not



had enough food to feed themselves or their families, up from 45% last year and 25% in 2007.

### Lessons for prosperity: what matters for good Governance?

This year's Prosperity Index again finds that countries with the highest prosperity scores generally perform well in all areas of Governance. The countries described display a number of strengths and weaknesses relating to how their governments' function. But the core difference between good and bad governance is how the rights of citizens are respected. Where they are not respected, there is poor representation and government does not constrain itself to the law. But where rights are respected, citizens are represented appropriately, their lives and property are protected, and government does not over-reach into their lives. This is the relationship between people and those who lead them that leads to greater prosperity.

#### NOTES

<sup>1</sup> United Nations Population Fund. 'Gender equality guaranteed in Tunisia's new constitution', 17 September 2014.

<sup>2</sup> 'Argentina lifts controls on the peso', *The Economist*, 17 December 2015.

<sup>3</sup> Dunai, M., Than, K. 'Hungary's Fidesz wins historic two-thirds mandate', *Reuters*, 25 April 2010.

<sup>4</sup> The Hungarian Helsinki Committee. 'Hungary's Government Has Taken Control of the Constitutional Court', 25 March 2015.

<sup>5</sup> 'Factbox: Venezuela's nationalizations under Chavez', *Reuters*, 8 October 2012.

<sup>6</sup> Vyas, K., and Kurmanaev, A. 'Maduro's Allies Stack Venezuela's Supreme Court', *The Wall Street Journal*, 23 December 2015.









# Protecting Personal Freedom in an insecure world

At the most basic level, there is little point in having high wealth, good services or a beautiful natural environment without the freedom to enjoy them. To be truly prosperous, individuals must have control over their lives and the ability to make decisions about what is best for them that are as free as possible from external constraints.

Personal Freedom as defined here has two distinct but complementary parts. First, we consider the classic liberty of individuals from state oppression: does the law protect the rights of people to life, liberty, property and the pursuit of happiness, and is the law upheld? Second, we analyse societal attitudes: is difference accepted and are people free to live their lives without hostility or undue social pressure?

The Prosperity Index reflects these questions, incorporating the separate dimensions into its measures. First, it asks about the level of basic legal rights in a country, accounting for factors such as freedom of association and expression, and press freedoms. Second, it explores the extent to which citizens have individual liberties, measuring areas such as LGBT rights and religious freedoms. Last, it accounts for social tolerance, in order to account for informal societal constraints on Personal Freedom; analysing items such as the tolerance of ethnic minorities, the LGBT community and social restrictions on practising religion. In each case, the principle remains the same: is an individual able to live their life unconstrained by external forces and able to make choices that maximise their happiness and wellbeing?

With the majority of nations exhibiting a rise in score in 2016-17, Personal Freedom reached its strongest point in the history of the Prosperity Index, contributing significantly to growth in overall global prosperity. As noted on page 51, this was driven by many different factors, with gains concentrated in Asia, Sub-Saharan Africa, and Latin America and the Caribbean. It is also worth noting that Iraq, despite ongoing conflict, has improved its Personal Freedom score significantly in the last five years. But despite this positive global picture, several regions saw decreased performances, including North America and parts of Western and Eastern Europe. In these cases, a decline in social tolerance appeared to be the driving factor.

## Prosperity and Personal Freedom

Personal Freedom also supports other pillars of the Prosperity Index. Individual liberty, embedded in both a country's legal system and its culture, is a necessary condition of sustained

prosperity. The most basic natural right, freedom of thought, is the foundation of all creativity and innovation; the rights to speak, to associate and to live one's life as one wishes are essential to the development of a healthy society. In short, free societies are much better positioned to make use of their stocks of human capital, more likely to safeguard the preconditions for economic success, and more likely to be cohesive, strong and unified.

This relationship between overall prosperity and personal freedom is strong, but indirect. In our 2014 report, we explored this relationship in detail, noting that all different types of freedom had significant impacts on prosperity, with economic freedom being most impactful, followed by freedom of choice and then tolerance. It noted that the relationship between freedom of choice and prosperity was stronger for those countries at the top of the income distribution, suggesting that economic freedom can help stimulate prosperity which, when gained, stimulates demand for other freedoms.

This explains the fact that, as we have reported in the Prosperity Index in recent years, it is possible for countries like Singapore to shoot ahead in the other pillars, particularly Economic Quality, while Personal Freedom lags behind. However, as the country solidifies its economic gains, we could see the lack of Personal Freedom begin to constrain the growth of further prosperity. Personal Freedom on its own does not create prosperity, but is best seen as both necessary for it to exist and a strong contributor to the conditions which allow it to flourish.

## Growing intolerance

In Eastern Europe, Personal Freedom has been in gradual decline over the past 10 years. In both North America and the Middle East and North Africa (MENA), however, it fell recently after a sustained period of increase. This suggests that, at least in some regions, 2016-17 represents a change of direction away from liberty.

Where Personal Freedom has declined, the key driver appears to be the growing intolerance towards immigrants and ethnic minorities, combined with increasing social pressure on practising religion. This reflects the heightened awareness of terrorism in the United States and Western Europe, the turmoil of war in Syria and Iraq and the refugee crisis, which has overwhelmed the MENA region and brought large numbers of migrants to Europe. It also reflects economic anxiety and paucity



of opportunity, which is frequently associated with hostility to immigration, as families and individuals seek to look after themselves and their loved ones first.

The extent of hostility towards foreigners is revealed in polling. According to the Pew Research Centre, in 2016, 59% of Europeans thought that more refugees would lead to more terrorism.<sup>1</sup> YouGov polling found that 52% of Italians, 47% of French and 44% of German respondents agreed that 'there are so many foreigners living round here, it doesn't feel like home anymore'.<sup>2</sup> There have also been several examples of policies which target specific groups, such as the case of US immigration restrictions against some Muslim-majority countries. Other nations such as France and Greece have seen widespread protests against refugees and migrants, suggesting an environment that is less welcoming to immigrants and a society with questions to answer about how it accommodates this sentiment whilst meeting its humanitarian duty to refugees.



### Trading freedom for security

There is a sense that Personal Freedom is improving worldwide. Sadly, though, this is not mirrored in other pillars of the Index, most notably Safety and Security. Many countries, particularly in the West, may be willing to constrain Personal Freedom in exchange for better security, or at least, the impression of better security.

When the cultural integrity of a country becomes involved in anxiety around security, political responses can significantly erode freedom. There is some indication that this has happened in Western Europe and North America, where reduced satisfaction with current levels of freedom has been one of the drivers behind lower recorded Personal Freedom in countries such as France, Greece, the United Kingdom, and the United States. It is also in these two regions that there is a correlation between declines in Safety and Security and Personal Freedom.

This suggests that greater perceived exposure to geopolitical threats, either directly through terrorism in the case of France,

the United Kingdom, and the United States or due to substantial refugee flows in the case of Greece, is linked with declining Personal Freedom. In practice this can take many forms, from legislation increasing surveillance passed in the United Kingdom,<sup>3</sup> to debates about whether the government should be able to access encrypted communications in France and Germany.<sup>4</sup>

What is clear is that in response to increased insecurity, laws and regulations that restrict individuals' freedom and privacy without violating their basic legal rights appear to be on the rise. This is the case in some parts of Western Europe, but is not universal; Cyprus was an exception, seeing the greatest gains in Personal Freedom in Western Europe this year, driven primarily by a reduction in the length of compulsory military service from 24 to 14 months.<sup>5</sup>

Despite these exceptions, the pattern we have seen elsewhere in Western Europe and North America would explain the reduced satisfaction with levels of freedom in these countries and reflects the tension governments face when balancing freedom and security. In an increasingly uncertain world, and with public opinion seeming to welcome more robust measures to combat terror, politicians will reach easily for measures that erode liberty. This may be the right approach, at least in the short term; but in the longer term, it risks eroding the foundations of prosperity.

### Lessons for prosperity: striking the balance

On the one hand, it is welcome that freedoms are being strengthened on the whole across Asia and Sub-Saharan Africa. It suggests that worldwide more people are able to live freely. The fulfilment of this ideal is at the foundation of prosperity. However, as we have seen, geopolitical trends – of increased migration and increased insecurity – threaten the continued growth of Personal Freedom. There are no clear or easy answers, but how governments manage the trade-off between security and personal freedoms will have implications for prosperity for decades to come.

#### NOTES

<sup>1</sup> Wike, R. Stokes, B. and Simmons, K., 'Europeans Fear Wave of Refugees Will Mean More Terrorism, Fewer Jobs', Pew Research Center, 11 July 2016.

<sup>2</sup> Smith, M., '37% of Britons say immigration has meant that where they live doesn't feel like home any more', YouGov, 5 December 2016.

<sup>3</sup> McGoogan, C., 'What is the Investigatory Powers Bill and what does it mean for your privacy?', *The Telegraph*, 29 November 2016.

<sup>4</sup> 'France, Germany press for access to encrypted messages after attacks', *Reuters*, 23 August 2016.

<sup>5</sup> Kolasa-Sikiaridi, K., 'Cyprus Drastically Reduces Mandatory Army Service to 14 Months', *Greek Reporter*, 15 July 2016.







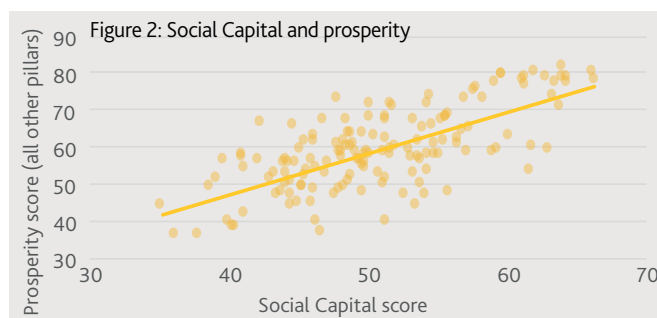
# Social Capital and prosperity

## Introduction to Social Capital

Material wealth, security, high quality services and a good environment are all important for prosperity. But people and relationships matter too. Societies in which people trust one another and where support is freely available, and which have extensive communities and social networks, will be better places to live – and tend to experience higher levels of economic growth. As noted in the 2012 Prosperity Index, this means that the types of values a society holds are intimately related to its level of prosperity.

Social Capital can take several forms. In his book, *Bowling Alone*, Robert Putnam defines two types.<sup>1</sup> The first is 'bonding' Social Capital, representing links between like-minded or already affiliated people; and the second is 'bridging' Social Capital – referring to links between different groups. High levels of bridging capital are necessary for a smoothly functioning economy, as they represent the level of trust required for institutions and legal systems to prosper. For example, they are central to economic activities such as saving and investing capital, or the levels of civic participation necessary to underpin democratic systems.

In contrast, where there are high levels of Social Capital but low levels of 'bridging capital', it might suggest that the majority of social ties are between families or other exclusive groups, possibly suggesting cronyism or a society orientated to the needs of a select few.



and contributing to other pillars of prosperity – including the environment in which businesses operate and the governance structures of democratic societies. Such impacts, and the mechanisms through which they take place, are crucial to developing the long-term foundations of prosperity.

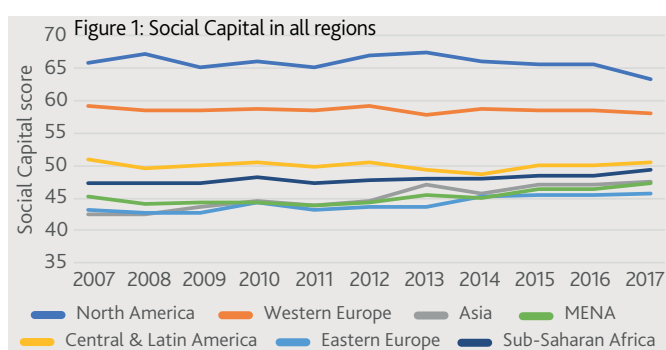
Aside from the ability to rely on friends or family for support, the other statistically significant influences on prosperity are the levels of trust in police, the levels of donations in society, voter turnout, and the extent to which people feel respected within society. These items involve relationships outside of immediate familial or social circles, and therefore speak to the wider definition of 'bridging capital', suggesting its foundational importance to overall levels of prosperity.

This can be seen clearly in the relationship between Social Capital and other pillars. For example, Social Capital correlates with scores in the Governance and Education pillars, suggesting that systems with high levels of Social Capital are also those with institutional strength and higher stocks of human capital (Figures 3 and 4). This would explain the documented links between Social Capital, innovation, and entrepreneurship.<sup>2</sup> This has been a consistent relationship over time; in the 2013 edition of the Prosperity Index, we found both that Social Capital was required for innovation to flourish, and that well-governed countries tend to have high levels of Social Capital. These points remain true today.

## Social Capital mostly strengthening

Given the link between Social Capital and Prosperity, it is heartening to see globally that Social Capital was on the rise in 2016-17 – but beneath this figure there are interesting regional trends (Figure 1). Whilst the rest of the world continued a slow pace of increase, the previous year saw sharp dips in the Social Capital of North America and a slight fall in Western Europe. In both cases this follows a consistent pattern since 2014-15 and suggests that the world leaders in prosperity may be grappling with new challenges.

This impact can be seen clearly in this year's findings. For example, China's prosperity is held back by a deficit in Social Capital. This is related to its incomplete economic reforms, which



## Prosperity and its relationship to Social Capital

The Prosperity Index captures the level of Social Capital in society across three sub-pillars: a measure of personal and social relationships, an account of the strength of social norms and the level of civic participation in society. As this pillar is necessarily more qualitative than some others, such as economic performance, it is constructed using an assortment of survey questions collected by Gallup.

The relationship between Social Capital and prosperity is multifaceted, both generating personal wellbeing for citizens,



have not yet addressed issues concerning a lack of accountability, higher levels of corruption, and cronyism within some of its state-owned enterprises and parts of local government.

Other factors too may be contributing to these trends, including increased concerns about inequality, and how technology is changing the nature of the workplace, social interaction and political activism.

### Lessons for prosperity: the importance of bridging capital

Which of aforementioned challenges is driving the declines in Western Europe and North America is unclear, but if they are sustained over the coming years then these regions will have cause to be concerned – especially if it signals a gradual decline in the 'bridging' Social Capital, which is so important to prosperity. Some see a result of these challenges as being a backlash against a technocratic elite, which is perceived not to have the interests of the people at heart, with the resulting in populist leaders rising up in the US and in continental Europe.

To maintain levels of Social Capital, leadership will have to be shown on issues such as immigration, so as to assuage concerns about safety and economic security and to ensure that a society with common sets of norms and values, and high levels of trust and bridging capital, is sustained. If allowed to erode unchecked, this decline could lead to a situation where people vote but do not believe that their vote has any real impact on the lives which they lead. Indeed, this is already the case for many.

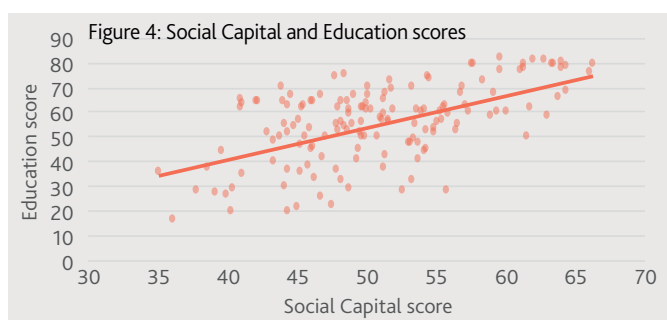
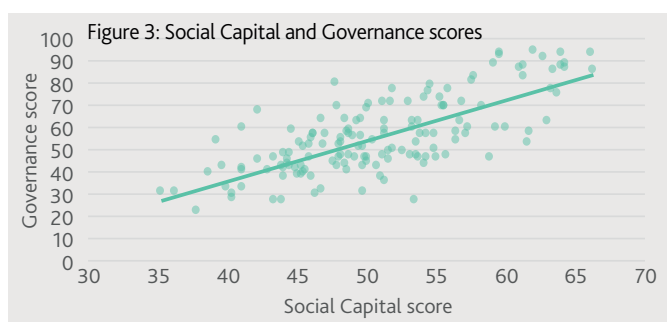
Whilst the story of Social Capital in 2016-17 is one of moderate improvement, performance varies highly both by region and by country. Those countries that are prosperous can rely on Social Capital to contribute to their prosperity by building and strengthening key foundations, primarily through improving trust and lawfulness in society, and providing the guarantees that people need in order to be entrepreneurial, take risks, and place their trust in institutions.

Historically, North America and Western Europe have led in these areas, but in the past few years they have begun to see stagnation and decline in their Social Capital performances. Identifying the source of this decline and how it can be addressed will be central to sustaining their prosperity in the longer-term; but if these societies see Social Capital decline further and their countries become increasingly polarised, it may then undermine the institutions and economic systems that currently help lead the world in prosperity.

#### NOTES

<sup>1</sup> Putnam, R. *Bowling alone: The collapse and revival of American community*, Simon and Schuster, 2001.

<sup>2</sup> See, for example: Stam, W., Arzlanian, S. and Elfring, T. 'Social capital of entrepreneurs and small firm performance: A meta-analysis of contextual and methodological moderators', *Journal of Business Venturing* 29(1), January 2014, pages 152-173.



Crucially, China's poor overall performance in Social Capital (ranked 139<sup>th</sup>) happens despite a 43<sup>rd</sup> place in the social norms sub-pillar, which incorporates how respected citizens feel and their level of trust in the police. Good performance in these categories is unsurprising given the nature of the Chinese state and society, but poor performances in civic participation and personal and social relationships (148<sup>th</sup> and 132<sup>nd</sup> respectively) illustrate a much deeper malaise: people feel safe but do not trust one another.

Comparatively, Indonesia ranks 10<sup>th</sup> in Social Capital, despite an 84<sup>th</sup> place finish in personal and social relationships. This is primarily due to the fact that other sub-pillars perform strongly, including a first place finish in civic participation, and a 24<sup>th</sup> place finish in social norms. This demonstrates a wider point — it is not enough for countries to perform well in just one dimension of Social Capital, as China does. What matters is how widespread trust and 'bridging' capital is across an entire society.

There are several explanations for the decline in Social Capital in the developed Western countries, where it is still highest. In the developed West, large sections of society, especially working and middle class families, have not seen real wages increase for significant periods of time. Many believe that the global economy is rigged against them and consequently have less trust in ordinary societal mechanisms to address their problems.









# Regional prosperity challenged by Safety and Security

A nation and its citizens can prosper only in a secure and safe environment. In his 2011 book *The Better Angels of Our Nature*,<sup>1</sup> Stephen Pinker argued that on nearly every metric the world was becoming safer than it ever had before and violence was on the decline. Compared to some of the violence of the 20th century this is undoubtedly true, but 2016-17 may have been a turning point – the Prosperity Index shows that even after a steady decline in the past decade, Safety and Security dropped even more dramatically in 2016-17, declining by five times more than any other pillar.

The fundamental importance of security to prosperity can be seen clearly in this year's findings. For example, in the Middle East and North Africa (MENA), strong Safety and Security scores for countries such as Oman, Qatar and the United Arab Emirates (UAE) help offset under-performance in areas such as Personal Freedom and Social Capital. Comparatively, countries such as South Africa see a lack of security detract substantially from the extent to which prosperity is shared.

## Regional conflicts spill over national borders

In the most basic sense, Safety and Security is about the ability to live life free from harm, and to be protected from threats to family or community. In practical terms this means protection from conflict and terror in all of its forms, including war, coups, state-sanctioned killings, disappearances, and political imprisonment, as well as not needing to flee to seek asylum. This is necessary for improving wellbeing, as well as attracting investment and sustaining economic growth. Low scores on this dimension materially impact the ability to secure prosperity, with a good example being Colombia's ongoing conflict, which means that it underperforms substantially, despite promising performance in other pillars.

In the past year conflicts have taken on a more regional dimension, spreading from their epicentres in places like Libya and Syria, to involve countries such as Niger, Chad, Iran and Turkey. This year's data demonstrate this phenomenon, with countries such as Yemen seeing their national security situation worsen and the number of refugees fleeing the country increase dramatically. This reflects estimations that since 2015 the conflict in Yemen has resulted in over 13,000 civilian casualties and left 82% of the population in urgent need of humanitarian assistance.<sup>2</sup>

There is also another dimension: when safety is not guaranteed people flee. The United Nations High Commissioner for Refugees estimates that some 28,300 people a day are forced to leave their homes due to conflict or persecution, with the total number of displaced people reaching 65.5 million people, a 300,000 person increase on the previous year. Around 55% of refugees came from either South Sudan, Afghanistan or Syria, demonstrating the way that regional conflicts have increased the flow of refugees.<sup>3</sup> Furthermore, large-scale migration is linked to issues such as increases in forced labour and modern slavery, to which some 40 million people are estimated to be subject.<sup>4</sup>

The impact of Islamic extremism has also been felt across the globe. Western Europe and North America experienced an increase in terrorist attacks, such as the Bataclan Theatre attacks and the Orlando nightclub shooting, driving a decrease in the score of both regions.<sup>5</sup> Thus, whilst regions such as North America and Western Europe rank much higher in Safety and Security, they too have seen national security worsen as a result of terrorist attacks. This is, however, to some extent offset by the decrease in violence that Eastern Europe has experienced – as the reduction in hostilities between Ukraine and Russia has resulted in both countries seeing some improvement in their national security scores.

## Mixed performance on law and order

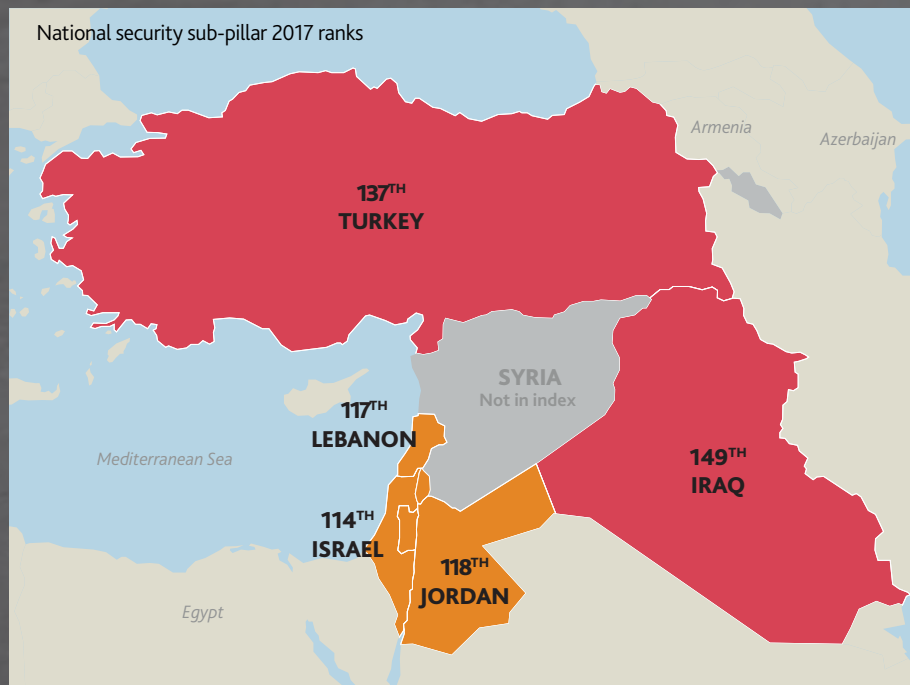
The Safety and Security of a society depends not just on threats from international or internal conflict, but also threats to personal safety, such as homicide and theft. Furthermore, perceptions of safety can affect prosperity: if people are afraid to go outside, or to travel, then this affects their wellbeing.

The overall picture of whether law and order is improving is mixed. Some countries, such as Serbia, Albania and Estonia show improvement across the board, with citizens reporting improvements such as an increased feeling of being safe at night and decreased homicides and theft rates. This suggests that law and order is becoming more embedded in these countries and that the influence of organised crime in post-Soviet states may be decreasing.

However, other countries have been less fortunate – with El Salvador in particular seeing an increase in homicide rates and theft, which likely indicates the violence associated with the



The conflict in Syria spilling over national borders meant that some neighbours saw their already poor national security rankings decrease further in 2016-17.



#### In 2016-17...

- Globally, Iraq ranked bottom in national security.
- Increased battlefield deaths, terrorism and levels of political terror caused Turkey's national security ranking to drop by 10 places.
- Jordan saw its national security ranking drop by 11 places, driven by increases in battlefield deaths and terrorism.
- Israel and Lebanon improved their national security rankings significantly, but still performed poorly overall, being ranked 114th and 117th respectively.

conflict arising from MS-13 gang activity. In other cases, those with the worst performances in this area, such as Malawi and the Central African Republic, continued their downward slide, suggesting that once the conditions that undermine law and order are in place, it is difficult to restore them.

#### Natural disasters sweeping away a sense of personal security

Protection from violence is important, but security as it relates to prosperity is about much more than that. For somebody to prosper they also need secure and consistent access to basic necessities such as food and shelter, as well as a safe living environment and infrastructure. Without them, they will perish or be forced to flee – and if their supply of either is not secure, they will be unable to set down roots, unable to take entrepreneurial risks, and unable to safeguard their family or benefit from anything other than a temporary boost in wellbeing. This can act as an important element of securing prosperity – for example, despite it being under threat in portions of Asia, strong security of living conditions underpin much of the prosperity

which countries such as Singapore, Japan, Hong Kong and South Korea have experienced.

In addition to conflict, natural disasters have been the driving force behind decreasing security in some countries, as 2016-17 has seen drought and famine threaten the livelihoods of large numbers of people. In Uganda, for example, droughts destroyed harvests, leading the Government to declare in November 2016 that over 1.3 million people were in need of food aid; and in Ethiopia the El Niño weather event caused the worst drought in decades, resulting in approximately 10.2 million people needing food aid.<sup>6</sup> This was not just an issue in Sub-Saharan Africa; in Thailand over half a million households were affected by the 2016-17 floods;<sup>7</sup> and in Ecuador some 720,000 people required humanitarian assistance after an earthquake rocked the country.<sup>8</sup>

With increased prosperity comes the ability to reduce the human costs of natural disasters. For example, the 2011 Christchurch earthquake in New Zealand claimed 185 lives, whereas a slightly larger earthquake in Haiti the year before had killed a quarter of





a million people. Many less prosperous countries are still unable to prepare or respond, and hence for them the threat to Safety and Security comes as much from the impact of natural events as from conflict.

### Lessons for prosperity: an increasingly insecure world

Escalating regional conflicts, natural disasters and a global terrorist threat are combining to mean that, for the first time in decades, the long-term trend of the world becoming safer and more secure may be reversing. These factors may also overlap; chaos and conflict cause humanitarian crises, the scarcity caused by famine and drought can lead to conflict, and lawless areas can offer a hotbed for terrorism to prosper. Without these issues being resolved, one of the foundations of prosperity may be under threat.

### NOTES

<sup>1</sup> Pinker, S. *The Better Angels of Our Nature: A History of Violence and Humanity*, (New York: Viking), 2011.

<sup>2</sup> United Nations Office of the Human Rights Commissioner. 'Over 100 civilians killed in a month, including fishermen, refugees, as Yemen conflict reaches two-year mark', 24 March 2017.

<sup>3</sup> United Nations High Commissioner for Refugees. 'Figures at a Glance', 2017.

<sup>4</sup> International Labour Organisation. 'Forced labour, modern slavery and human trafficking', 2017.

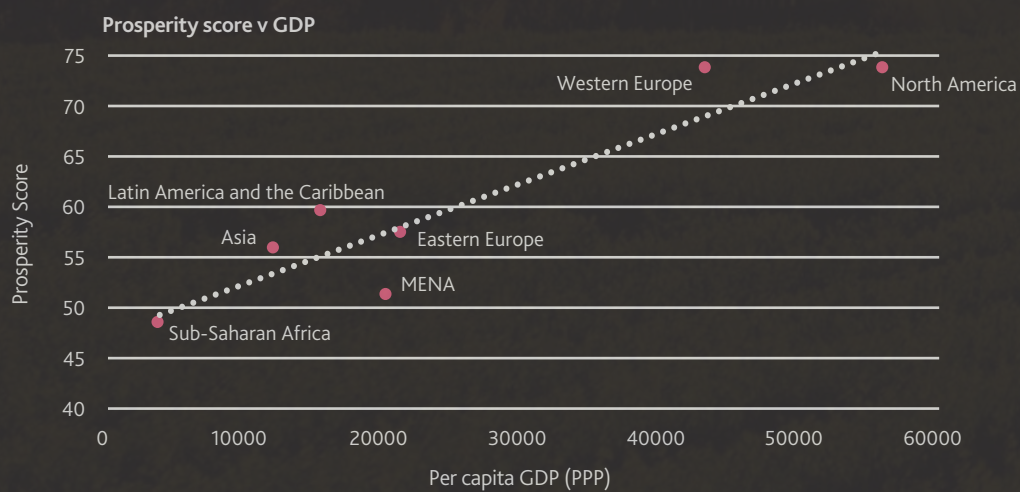
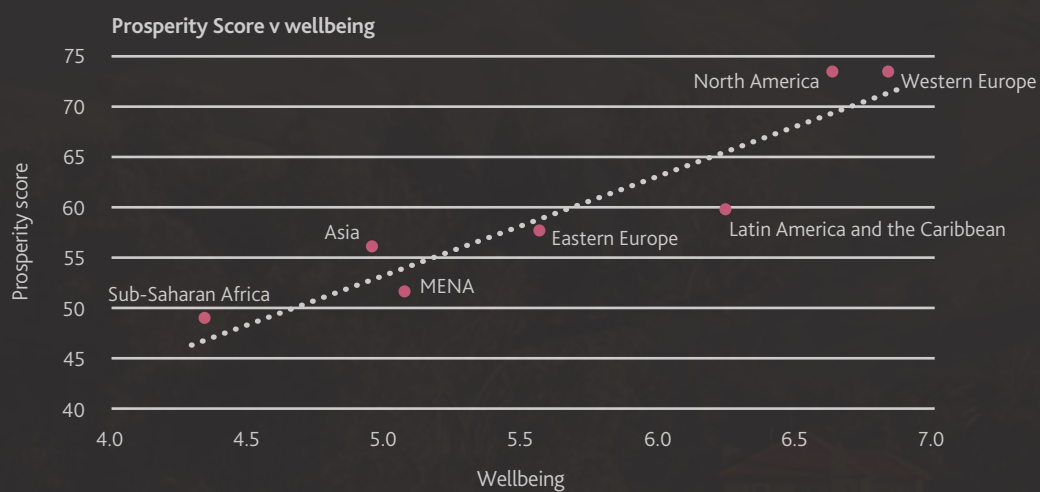
<sup>5</sup> N.b. The Prosperity Index averages fatalities from Terrorism over the past five years, meaning that these attacks were captured in the 2016-2017 data in addition to more recent events.

<sup>6</sup> United Nations International Children's Emergency Fund. 'Fast Facts - Ethiopia El Nino Emergency', April 2016.

<sup>7</sup> 'Flood toll: 85 killed, 4 missing', *Bangkok Post*, 23 January 2017.

<sup>8</sup> USAID. 'Ecuador - Earthquake Factsheet', 6 May 2016.





Wellbeing is measured using the Cantril Scale, which is the most widely used measure of wellbeing. Data is collected by Gallup.



# Focus on Regions

In 2017 Western Europe became the top-ranking region, primarily due to the decline in the prosperity of North America. The rankings of the other regions are unchanged this year.

- 1<sup>ST</sup> Western Europe
- 2<sup>ND</sup> North America
- 3<sup>RD</sup> Latin America and the Caribbean
- 4<sup>TH</sup> Eastern Europe
- 5<sup>TH</sup> Asia-Pacific
- 6<sup>TH</sup> Middle East and North Africa
- 7<sup>TH</sup> Sub-Saharan Africa

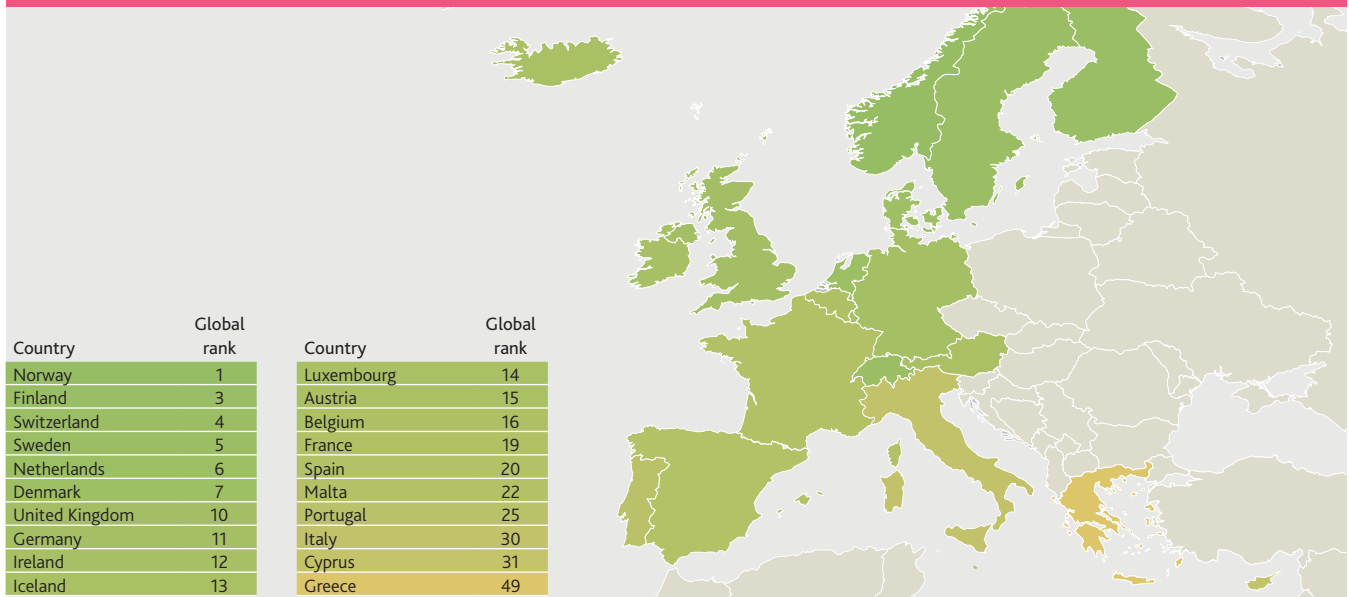
There is a strong relationship between the prosperity of each region and both its wealth (GDP per capita) and its wellbeing (Cantril's ladder), as illustrated in Figures 1 and 2. In fact this relationship is stronger than that between wealth and wellbeing.

The relative prosperity of different countries within a region can allow for analysis across more common geography, history, culture - while recognising that individual regions will still have many structural differences within them. Over the following pages, we look at seven global regions and the unique challenges and opportunities those regions face in strengthening future prosperity.

Note: these regional scores have been calculated on a population-weighted basis. This is so that the scores reflect the prosperity for people, rather than just taking a national view.



# Western Europe (1<sup>st</sup>)



## Overall picture of prosperity: overtaking North America

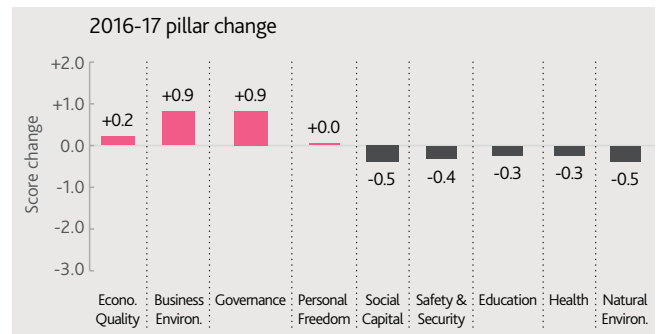
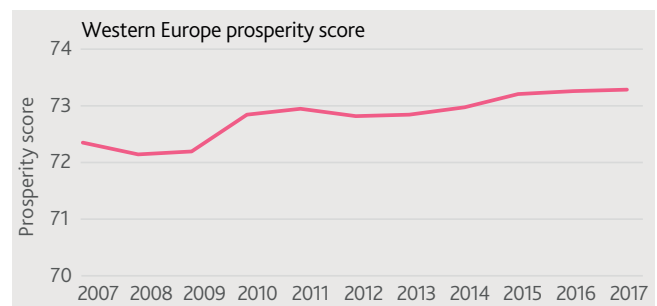
In 2017, Western Europe became the most prosperous region in the world, with its nations holding seven of the top 10 ranks. However, this result did not come from gains in its prosperity - in fact, Western European prosperity remained broadly constant this year, but North America fell a fraction behind into second place.

**Norway** and **Malta** saw the largest rises in their prosperity score this year, while **Greece** and **France** saw the largest falls.

## Pillar highlights: strengthening Business Environment and Governance, but weakening society

The key gains for Western Europe this year were in Governance and in Business Environment. Judiciaries were perceived as more independent of governments; there was greater freedom for the legal system to challenge regulation and more transparent policymaking. In Business Environment, the region saw better intellectual property rights and improved business infrastructure.

However, the region has continued to decline in Social Capital this year, especially in the area of civic engagement – people are donating to charity less, volunteering less and are less likely to voice their opinion to public officials. People are also reporting less opportunity to build friendships than last year.



## In the spotlight: risers and fallers

**Norway** rose to first place in the Index in 2017; and a notable contribution came from improving Health. Norwegians are significantly more satisfied with their healthcare than ten years ago, and measures of emotional wellbeing have improved. However, obesity rates have climbed a little.

**Portugal's** Governance improved fastest in Western Europe this year, due to improved regulatory quality and perceptions of government services, a more independent judiciary and more women in parliament. Citizens now have greater confidence in government and in the outcome of elections.

Economic Quality improved faster in **Ireland** than anywhere else in Western Europe. Businesses perceive more open trade and greater encouragement of competition from the government, unemployment has fallen and economic growth is on the rise.

**Greece** has struggled in almost all pillars this year, but particularly in Education. Primary completion rate recently fell to its lowest value for 40 years, people are increasingly dissatisfied with local schooling and also believe that young people are not learning.

Social Capital in **Switzerland** fell this year, as people were less inclined to help strangers, less willing to donate to charity and voiced their opinion in public less frequently.

**France** saw a decline in its Personal Freedom score, driven by reduced civil liberties, and in particular increased controls on dress and religious symbols caused by aggressive counterterrorism measures.

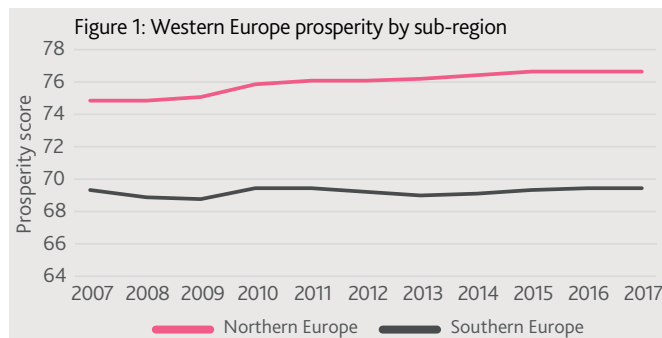
## Prosperity: strong but diverging

Western Europe's high levels of overall prosperity have been rigorously tested throughout the 11 years of the Index. This began with the financial crash in 2008, followed by the ongoing Eurozone debt crisis; and there has also been pressure on institutions, particularly in the wake of more frequent terror attacks. But perhaps most significant in terms of its effects on such a wide range of Index pillars has been the impact of the stark rise in migration into Europe in the last five years.

In spite of the pressure from all of these events, the region appears to have risen to its challenges, notwithstanding a lack of improvement over the last year. Western European prosperity has actually grown in the last decade; and having sat behind North America for the last ten years, it is now the most prosperous region in the world. But this growth is not at all uniform within the region, and in fact masks an ongoing disparity in prosperity between North and South.<sup>1</sup> All of the region's growth in the last ten years comes from the northern nations, which increased their score by 2.2% compared to 2007, while the South has actually stagnated over the same time period (Figure 1). In absolute terms, the North has a significant prosperity surplus over the South and the gap is growing – whereas the North would rank fourth overall if treated as a country, the South would sit in 22<sup>nd</sup> place, a shade ahead of the Czech Republic.

More than 100 years ago, sociologist Max Weber identified not only that the northern European nations enjoyed a higher standard of living than their counterparts in the South, but also that their academic institutions were of a higher quality and that they benefited from a far greater strength of social cohesion.<sup>2</sup> He recognised that the difference in fortunes between the two was not only a question of financial wealth, but it also had implications for citizens' social wellbeing. Looking to the Index, the disparities he identified between North and South persist today in 2017; and in addition we can now see the effect of the sub-regional split across a far wider range of social and economic measures.

For example, within the Economic Quality pillar, this disparity in standard of living persists; but there is also a strong surplus for the North in its encouragement of competition, ease of trade and participation in the workforce. In all but one of the thirteen indicators of the Economic Quality pillar, the Northern nations lead the South, the only exception being the diversity of exports. Whereas it is marginally easier to start a business in the South, it is far easier to access credit in the North, financial services



are more affordable, intellectual property rights are better and populations perceive there is greater worth to hard work. Governance is another area in which the gap is large – judiciaries are more independent in the North, governments are perceived by their citizens to be less corrupt and it is far easier to challenge regulation.

However, not all of Southern Europe's struggles in prosperity terms over the last decade have been endogenous. The recent migration crisis has placed a considerable burden on receiving nations such as Italy and Greece, who have borne the broader cost, being the first port of call for those risking the crossing from neighbouring MENA. Italy, and especially Greece, have experienced decreasing social tolerance, both of ethnic minorities and immigrant communities. For further consideration of these challenges see *Migration and prosperity*, page 15.

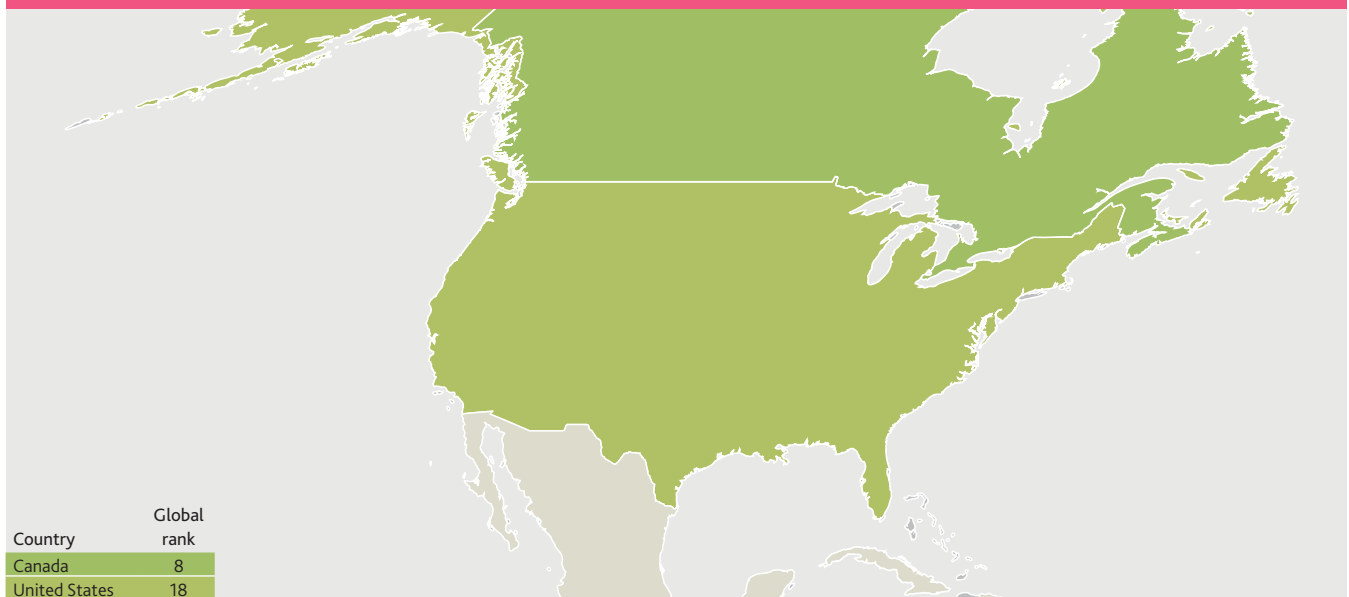
### NOTES

<sup>1</sup> 'North' – Austria, Belgium, Denmark, Finland, Germany, Iceland, Ireland, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom; 'South' – Cyprus, France, Greece, Italy, Malta, Portugal, Spain. It should be noted that references to 'North' and 'South' from this point are subsets within Western Europe, and do not include Eastern European nations.

<sup>2</sup> Weber, M. *Die protestantische Ethik und der Geist des Kapitalismus*. 1904.



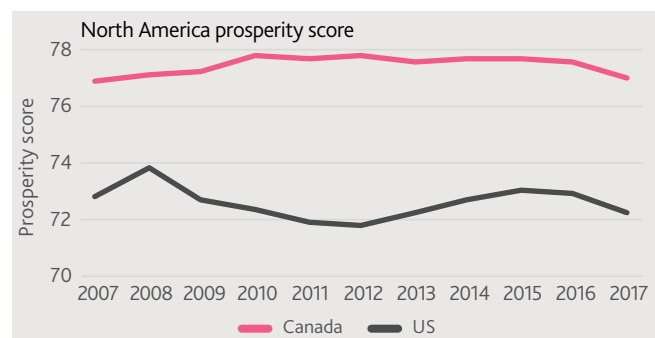
# North America (2<sup>nd</sup>)



## Overall picture of prosperity: North America falls in latest rankings

In 2017, North America fell behind Western Europe to become the second most prosperous region in the world. Prosperity in North America declined faster than in any other region in 2017. This decline was driven by weakening Social Capital, Personal Freedom and Safety and Security.

Despite being a region of only two countries, North America is home to 350 million people. Canada fell three ranks in the Index this year to eighth, and now has its lowest prosperity score since 2007. The US fell by one rank to 18<sup>th</sup>.



## Pillar highlights: falling freedom, weakening society

Despite some falls, North America still ranks first (as a region) in Business Environment, Economic Quality, Social Capital and Education. It ranks second in all other pillars. There has been an improvement in Governance and small improvements in both Business Environment and Economic Quality.

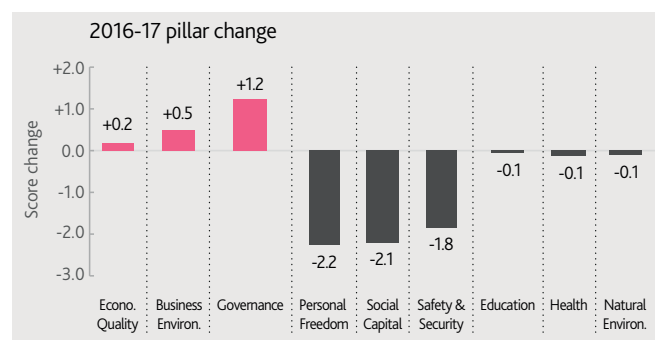
The US has the best Business Environment in the world; and in 2017 it improved due to better intellectual property protection. Canada is fourth best, but it slipped in its Business Environment ranking, as people felt financial services had become less affordable and thought that hard work was less likely to get them ahead.

Although confidence in elections among US citizens has dropped considerably, Americans' faith in governance increased, as citizens felt that the judiciary were more independent of government, and felt that the legal system could more easily challenge regulation. Businesses also felt that government policymaking had grown more transparent.

Despite the fall in Personal Freedom, Canada still ranks second for this pillar – in contrast to the US, which ranks 28<sup>th</sup>. This is in part due to its high social tolerance: Canada ranks second in the world for societal tolerance of other ethnicities and immigrants.

As stated above, Social Capital is declining in both the US and Canada – in both countries people are donating and volunteering less frequently.

Unlike in Canada, the US particularly saw worsening Safety and Security, due to the increase in homicides and terrorist attacks.



Canada has also struggled considerably in the last decade in Health and fell considerably in this pillar in 2017. A nationwide fall in vaccination rates has caused a growing incidence of preventable illness; Canadians also reported many more health problems in general. The US has also seen a decline in the health pillar over the decade. The US and Canada have fallen nine and ten rankings, respectively, in Health as a result.

Canada improved its score in Natural Environment through increased protection of land. Since 2007, both Canada and the US have improved significantly, with the greatest contribution coming through improved air quality.



## Social poverty

Overall prosperity in North America has been faltering for the past decade; and declined further in 2017. Having been the world-leading region for ten years, North America's prosperity score fell more than any other region and now trails that of Western Europe.

North America's shrinking Social Capital is perhaps one cause – in this pillar both Canada and the US fell dramatically this year. Civic engagement has declined in both countries: people are less likely to donate money to charity than last year and they volunteer less frequently – two measures in which North Americans had previously led the rest of the world. But Canada also fell in the area of personal and social relationships: people are now less open to offering informal financial help and fewer Canadians say that they have relatives or friends they can count on in times of need.

Social Capital in North America has not been the only pillar to fall this year; Personal Freedom has also weakened. In the US, people report that they have less freedom to make life choices than before and are experiencing much greater societal pressure on their religious freedom. The coincidence between these two pillars suggests at least some degree of causation: as citizens become concerned about their choices being increasingly limited – including in their freedom of religion – levels of trust are eroded. This then dents confidence in the market and in the give-and-take of all exchanges. Civic engagement is thus reduced, which in turn contributes to a more atomised society. The danger is that Social Capital may be weakening just as it becomes more, rather than less, important in our increasingly digital age.

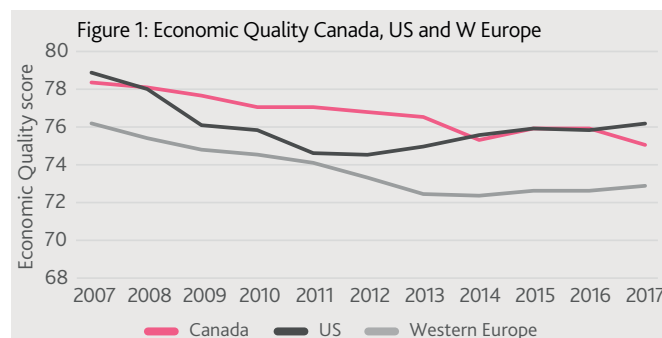
What lies behind this growing social poverty? It is clearly a challenge to address the problem on a national level without considering variation between states/provinces: these two nations have a widely diverse population, geographically and culturally. Yet this year the Index data offer some clues as to where the stress might originate.

## Economic Quality following the Global Financial Crisis

Data from the Prosperity Index show the US and Canada embarking on two quite different trajectories since the financial crash of 2008 (Figure 1). The US initially had a steep fall in Economic Quality, driven by rapidly growing unemployment and dissatisfaction with both standard of living and household income. Government was perceived to be doing much less to encourage competition and failing to deal with barriers to trade, while participation of the labour force dropped. Then, after a low in 2012, the US saw a resurgence in almost all of these measures and has since regained almost half of the ground it had lost.

Canada instead appeared to be weathering the economic storm more successfully. Having scored less than the US for the quality of its economy in 2007, by 2012 it enjoyed a clear lead over its neighbour. While Canada also suffered from trade barriers and scarce encouragement of competition, it did not suffer the same levels of unemployment, and people were actually happier with their standard of living in 2012 than they had been in 2007.

But since 2012, Canada's Economic Quality has declined, despite a marginal increase in growth and in satisfaction with household incomes. Whereas in the US, government is seen to be encouraging competition more than in 2012, the reverse is now true in Canada. In fact, Canadians now feel that the government is doing less to counter monopolies; as a result, for the first time in ten years, the US has regained its advantage in Economic Quality over Canada. In prosperity terms, Canada has suffered more than economically in the last few years. Whereas the US extended its lead as the best place in the world for business, Canada saw its Business Environment worsen because its citizens regard financial services as increasingly unaffordable. The nation's entrepreneurial environment suffered too, as people feel less convinced that working hard will get them ahead.



## The North American productivity puzzle

The US has improved economically since 2012 – as captured by our Index data – but this progress has not resulted in an increase in optimism among citizens: North Americans today are less likely than ten years ago to believe that hard work will get them ahead in life. Middle-class wage stagnation has long been regarded as the central challenge facing America's economy: while productivity is increasing, working Americans have received no subsequent gains in income. Instead of being a reward for greater output, the perception is that extra revenue is instead being channelled into the pockets of the wealthy: this has fuelled a widespread belief that capitalism in America is a broken model that rewards the elite rather than the hard-working many. A study from the Economic Policy Institute suggests that whereas increased productivity had a meaningful effect on wages in the mid-20th century, since 1970 productivity and wages have become relatively decoupled from one another.<sup>1</sup>

Some American economists and commentators have challenged this view, arguing that the real issue is not a broken economy, but a lack of productivity growth.<sup>2</sup> Data from the Census Bureau show that the median wage in the US actually rose by 5.2% in 2015, and then again by 3.2% in 2016. The nation's poverty rate fell in both of those years. Productivity, however, has grown at a historically low level of 1.1% in the same time period – had it increased by mid-20th century rates, median incomes would be \$40,000 higher than they are today. Whether productivity can ever be measured properly remains a puzzle; what is unquestionable, however, is that economic inequality persists and is growing in the US. The US will struggle to prosper more fully until it meets this challenge.

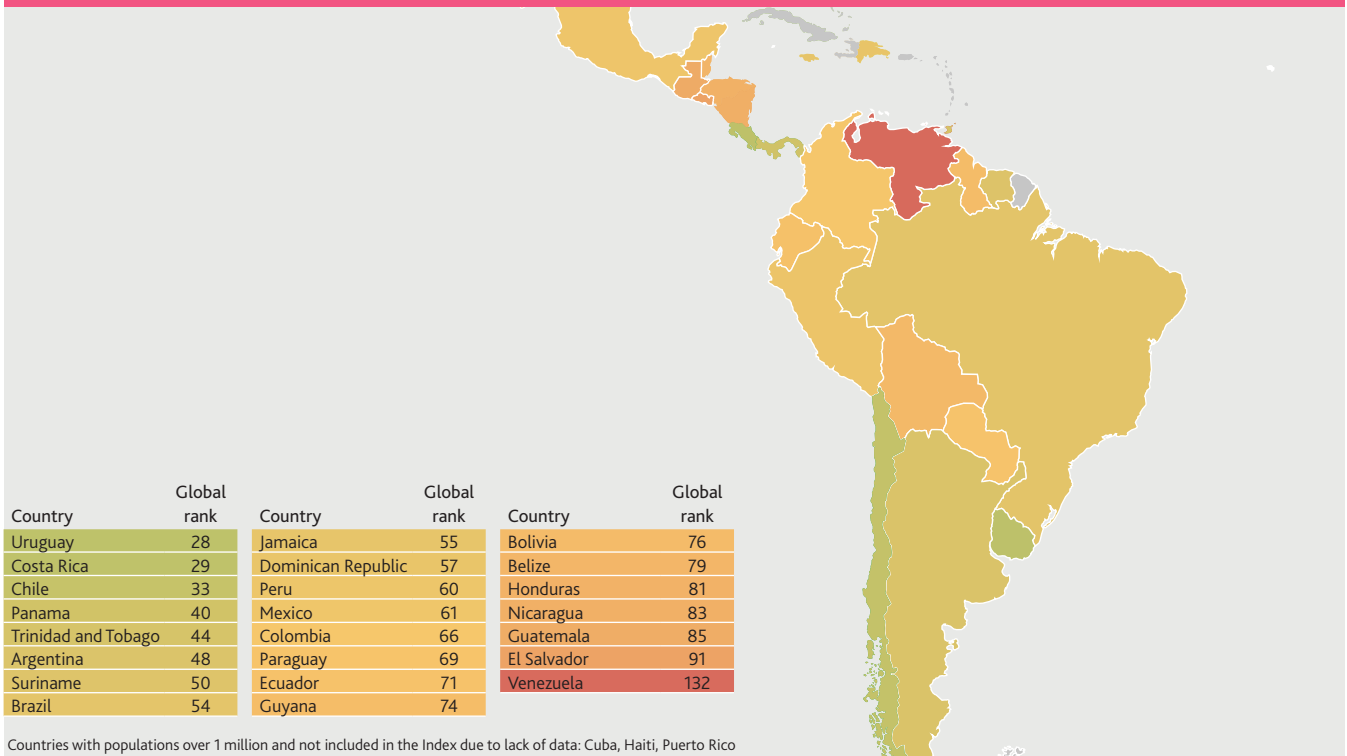


## NOTES

<sup>1</sup> Economic Policy Institute. 'The Productivity-Pay Gap', October 2017.

<sup>2</sup> Brooks, D. 'The Economy Isn't Broken', *The New York Times*, 15 September 2017.

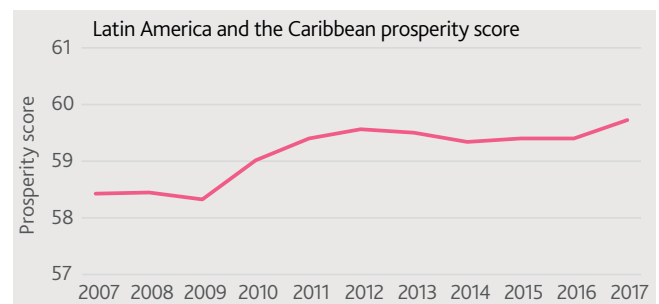
# Latin America and the Caribbean (3<sup>rd</sup>)



## Overall picture of prosperity: looking up

Latin America and the Caribbean is the third-highest ranking region in prosperity and one of four regions (on a population weighted basis) to increase its prosperity this year.

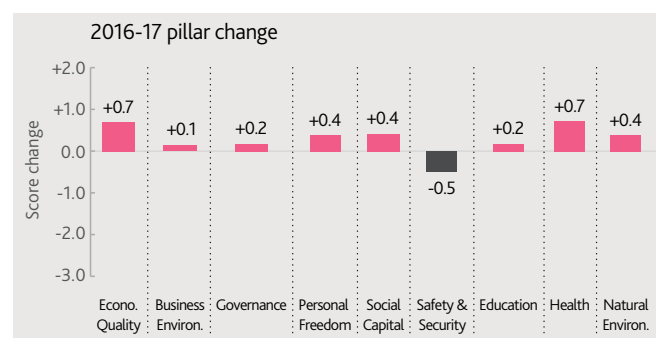
16 countries increased their prosperity in 2016-17 – and the biggest improvements in prosperity are concentrated outside of the top 10. For example, Honduras – ranked 81<sup>st</sup> globally – had the largest score increase. However, seven saw a decline. These include **Ecuador**, **Venezuela**, **Nicaragua** and **El Salvador**, which saw significant declines in prosperity.



## Pillar highlights: growing freedom

As a region, Latin America and the Caribbean outperforms world averages in both its level of Personal Freedom and the quality of its Natural Environment, but underperforms in areas such as Safety and Security, Governance, and Business Environment.

Across the region, Personal Freedom, Economic Quality, and Health have all strengthened in aggregate this year. But losses in prosperity have come from declines in Safety and Security, while sharp declines were experienced by some countries in Governance.



## In the spotlight: risers and fallers

Despite a small increase in overall prosperity, **Bolivia** has seen its Governance score decline, driven by systemic problems with judicial independence, as well as increased difficulty in challenging regulations.

**Honduras** saw the largest increase in Personal Freedom within the region, and the fourth-largest increase globally, driven primarily by increased satisfaction with levels of freedom in the country.

Social Capital rose sharply in **Ecuador**, demonstrated by increases in donations and volunteering.

**Guatemala** improved its performance in the Health pillar, driven by improved vaccination rates for measles.

A suite of new environmental regulation and preservation schemes have improved **Peru's** performance in the Natural Environment pillar.

## Undermined institutions endanger prosperity

As a region, Latin America and the Caribbean has seen its prosperity grow this year. However, the average regional performance masks the fact that in 2016-17, prosperity dropped sharply in four countries: Venezuela, Nicaragua, Ecuador and El Salvador. The Prosperity Index shows that, whilst driven by many factors, all of these countries were held back by weaknesses in their Governance and also Safety and Security.

The decline in their Governance standards illustrates a concerning trend. Whilst the underlying institutions of democracy ostensibly are operating, with three of the four countries having elections in 2016-17, the norms and values which normally underpin a democratic system are being eroded. This can be seen most clearly in Venezuela, where intimidation and suppression of opposition parties has been extensively reported on. It can also be seen in Nicaragua, where the Supreme Court was involved in the removal of the opposition leadership and free speech has been suppressed. Similarly, in Ecuador, Rafael Correa, the previous President, oversaw the erosion of judicial independence.

The results of these policies can be seen in the Prosperity Index, with decreased Governance scores being caused by: reduced judicial independence; decreased efficiency of the legal system; reduced confidence in the rule of law; declining transparency in policymaking; and through increases in perceived levels of corruption. Across these five indicators and four countries, a total of 18 out of 20 possible indicators have decreased.

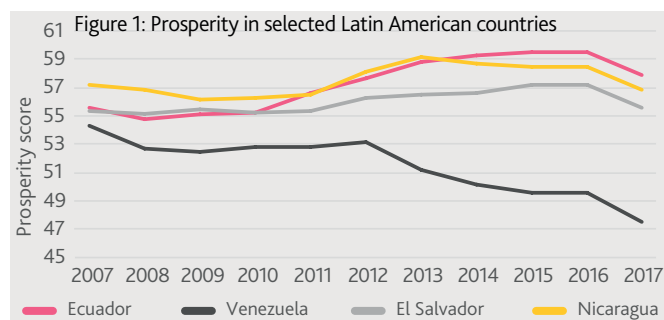
Clearly, whilst formal democratic institutions exist and political participation is high, the system of governance is underperforming. This is because sound institutions require public trust and a commitment by all parties to operate within the same set of rules and norms.

The relationship to prosperity is clear: democratic institutions are one of the key ways the public can steer their country, helping guide its policy priorities to the ones which improve their wellbeing, health, and status – away from ones which they view as damaging. When this link is undermined, governments often cling to power, and do not change course. In the worst circumstances, it represents the beginning of wider suppression and violence.

The results show that almost across the board Venezuela, Nicaragua, Ecuador and El Salvador saw declines in the quality of their Education, Health, Safety and Security, and their Business Environment. Clearly it is not the case that a lack of democracy is being traded for better social outcomes, but rather that it is associated with a worsening situation for ordinary citizens. For prosperity in Latin America and the Caribbean, 'soft' institutions and the norms they require to function are as important as formal institutions and participation. Without them, people lack the ability to make policy work for themselves – and what follows is a loss of prosperity.

What does this mean for the future? When faced with weakened institutions, there are two distinct routes which could be chosen: Venezuela's, where the Government has doubled down with greater suppression and violence, which has drastically reduced prosperity; or Ecuador's, where a new President has begun to take steps against corruption, which could lead the country to regaining its place in the regional top 10.

There is a wide regional warning, which should be heeded quickly: more prosperous countries such as Bolivia and Chile have also seen drops in their Governance score. If the experience of their neighbours is anything to go by, this may represent the start of a much larger threat to their longer-term prosperity.

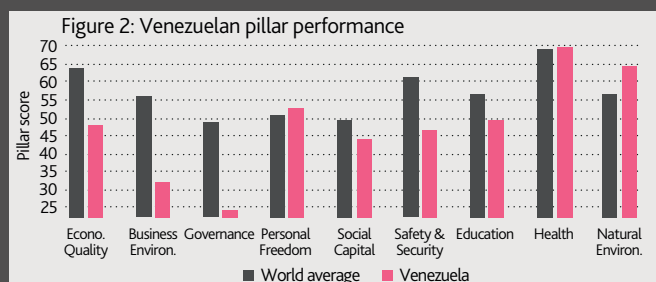


## Venezuela: a country in decline

The decline in Venezuela's prosperity has continued, with the country sinking by 12 places to 132<sup>nd</sup> on the Prosperity Index. This was its fifth straight year of declining prosperity, from a plateau in 2012, and reflected reduced performance across the board, with only three of Venezuela's pillars being in the top 100 globally, and three (Business Environment, Governance, and Safety and Security) performing in the bottom five globally.

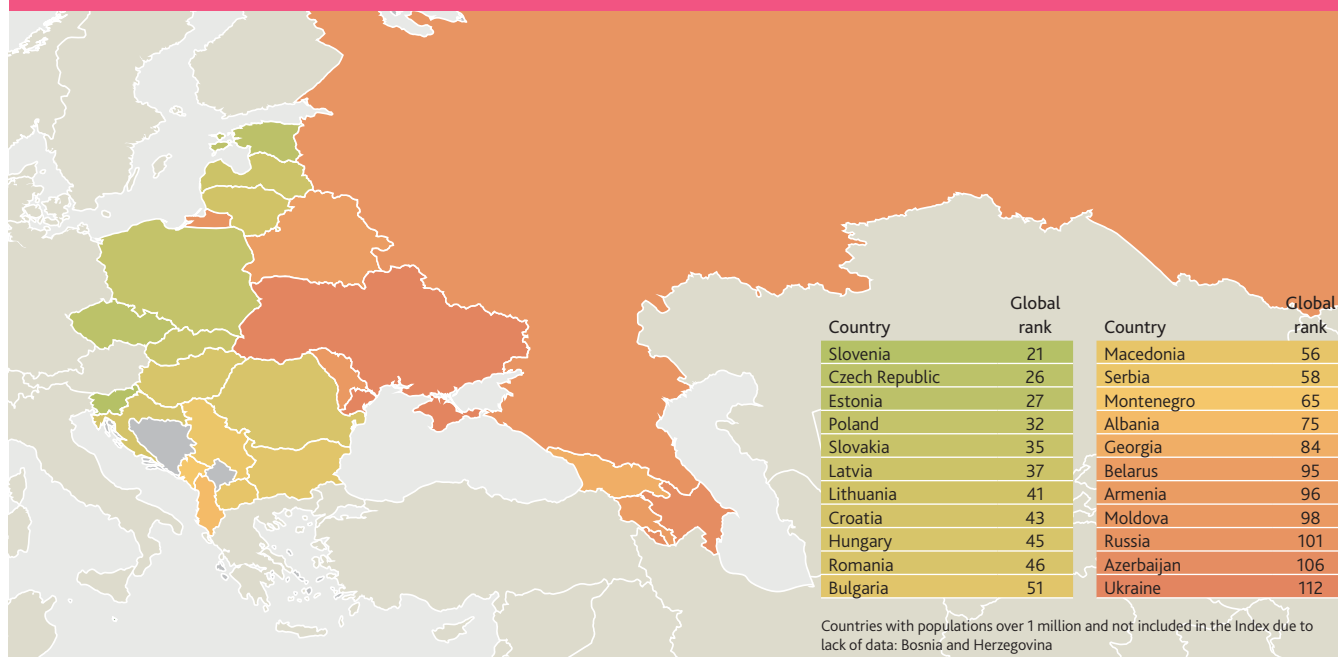
The security and governance challenges the country faces are well documented, but the Prosperity Index shows that this is only part of the story. Reduced prosperity has also come from social outcomes, including in Education and Health, which have both seen drops in the past year. In the occasional areas where the country appears to superficially score well, for example in Personal Freedoms (ranked 89<sup>th</sup>), the Index shows that this was due to an increase in social tolerance offsetting a reduction in formal legal rights and protections from the government.

This illustrates a wider point: that Venezuela's drop in prosperity is both deep and broad, with less than a third of sub-pillars performing in the top 100 globally, and nearly two-thirds declining in the previous year. More than anything, the lesson from Venezuela's plight is how interrelated each aspect of prosperity is – and how vulnerable prosperity is to damaging policy choices.





# Eastern Europe (4<sup>th</sup>)



## Overall picture of prosperity: Russia holding back the region

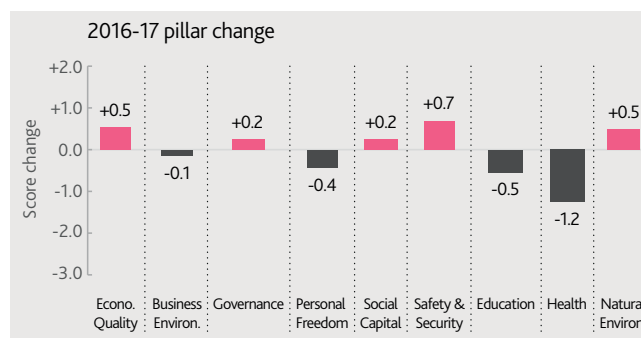
Eastern Europe is the fourth ranking region and growth in prosperity in 2017 has exceeded the world average. Although this growth has stalled, over half of Eastern European countries continued to improve their prosperity in 2016-17. But overall regional prosperity dropped, as Russia and the Ukraine the region's most populous countries, became less prosperous.

Prosperity is becoming more unequally distributed within the region. Improvements were concentrated amongst those countries which were already performing well, with most regional underperformers seeing their prosperity further decrease in absolute terms.

## Pillar highlights: low freedom and social capital

As a region, Eastern Europe outperforms the world average in areas such as Education, Safety and Security, and the Natural Environment, but trails in Social Capital and Personal Freedom. However, across the board Eastern Europe lags significantly behind neighbouring Western Europe, especially in areas such as Education.

Pillars which have strengthened this year include Economic Quality, Natural Environment, Governance and Social Capital. But losses in prosperity have come from a large drop in Personal Freedom and decreased Health outcomes.



## In the spotlight: risers and fallers

The top 10 most prosperous Eastern European countries remain unchanged from last year.

The **Czech Republic** has overtaken **Estonia** to become the second most prosperous country in the region, reflecting its current transition from an economy focused on low-grade manufacturing, to one characterised by high-end manufacturing and a policy environment supportive of innovation.<sup>1</sup>

The largest gains in prosperity have come from **Serbia**, which has improved across every pillar, particularly its Business Environment and Economic Quality. This partially reflects the structural reforms required for Serbia to move towards EU accession, but also demonstrates movement from a low base. For this trend to be sustained, a continued focus on creating the long-term conditions for prosperity will be required.

**Poland** saw its Personal Freedom score decline substantially, reflecting attempts by the governing Law and Justice (PiS) party to assert influence over institutions such as the judiciary and the press.

**Ukraine** has seen its Health score decline with lower vaccination rates. Public mistrust in vaccinations is widespread, with one third of parents opposing vaccinations.<sup>2</sup>

## Widespread and lasting reforms – the key to prosperity in Eastern Europe

Countries such as Estonia have facilitated an environment in which the economy can thrive through a combination of liberalisation and structural reforms, allowing strong institutions to take root. Other countries such as the Czech Republic are on the edge of becoming innovation economies, but require further improvements to areas like Social Capital in order to create lasting and stable prosperity. This experience has not been universal. Where reforms have only been partially implemented, such as in Romania and Ukraine, the result has been high levels of cronyism, a less dynamic economy and lower levels of trust.

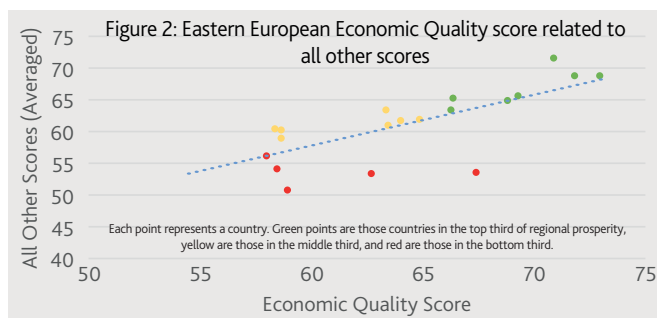
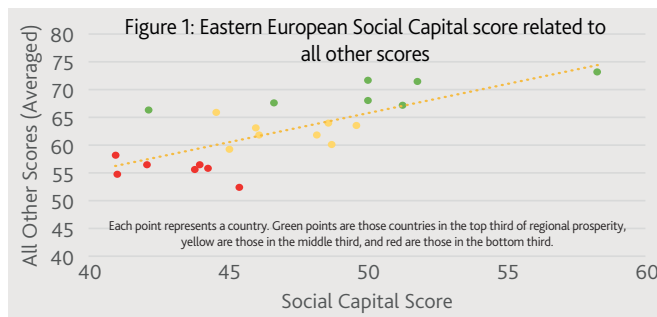
Market reforms and liberalisation need to benefit the whole of society. The experience of Eastern Europe demonstrates that they must be accompanied by wider-ranging reforms for good Governance to be supported and Social Capital developed – and for gains from liberalisation not to be captured by a small and corrupt elite. Without this, there will be reduced trust in businesses and government, and a gradual erosion of the foundations required to make market reforms work.

Economic Quality is a useful barometer of the degree to which a country has effectively liberalised, as it charts factors directly related to how well economic gains have been shared: these include the levels of poverty, unemployment and economic growth. The relationship between Economic Quality and other pillars of prosperity is clear: over the past three years, as economic performance has increased, the majority of countries have seen improvements to their Education and Health, as well as to the quality of their healthcare systems. This illustrates the strong relationship between Economic Quality and the other pillars of prosperity.

The countries which have been most able to convert this improved Economic Quality into prosperity are those that have embraced clear, wide-ranging reform, often with the goal of moving towards EU membership. Those which instead have only partially reformed have created an environment that would theoretically improve economic performance, but which benefits only a small minority. This has led to greater cronyism and has driven wealth out of the economy.

This can be seen in other areas, with one dimension of Eastern Europe's under-performing being Social Capital. Social Capital is an important precondition for prosperity as trust is key to everything, from business deals to political activism. While Social Capital has less direct impact than Economic Quality, it is a key to unlocking longer-term prosperity in the region and delivering a "prosperity surplus" beyond material wealth; the importance can be seen in the fact that countries in the region with higher Social Capital tend to perform better in other pillars as well.

There are two reasons for Eastern Europe's challenge with Social Capital. First, the legacy of the Soviet Union appears to be the major reason that its former states see lower levels of trust in societal and state institutions: this can be seen in the case of Latvia and Lithuania, who, despite good



performances elsewhere, still have low Social Capital scores, holding back their overall level of prosperity. Second, the existence of corruption and crony capitalism from partial reforms serves to reduce trust within society and therefore further erode Social Capital.

These challenges increase a risk facing Central and Eastern Europe: that of its young people leaving. Although there are some benefits to leaving, through the knowledge they acquire and benefits through remittances, the young are best able to contribute to their countries' prosperity if they stay. But for them to stay, they need to feel that hard work pays off, that they can make a difference, that they belong, and that they have a political voice.

Overall, the picture of the region is one of strong potential, although there are still serious sub-regional challenges, including the low prosperity of post-Soviet states and differences between regions within countries. If prosperity is to improve across the region then these countries should learn from their neighbours: their path to prosperity is through full and wide-ranging structural reforms, a commitment to reducing corruption and driving out cronyism, and fostering a society where Social Capital is nurtured.

### NOTES

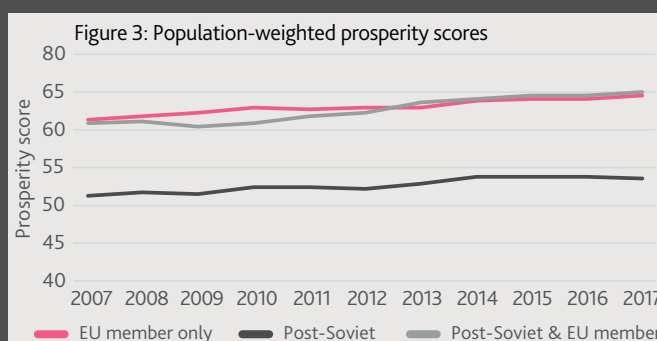
<sup>1</sup> Organisation for Economic Cooperation and Development. 'Czech Republic' *Economic Policy Reforms 2017*, 2017.

<sup>2</sup> Holt, E., 'Ukraine at risk of polio outbreak', *The Lancet*, 29 June 2013.

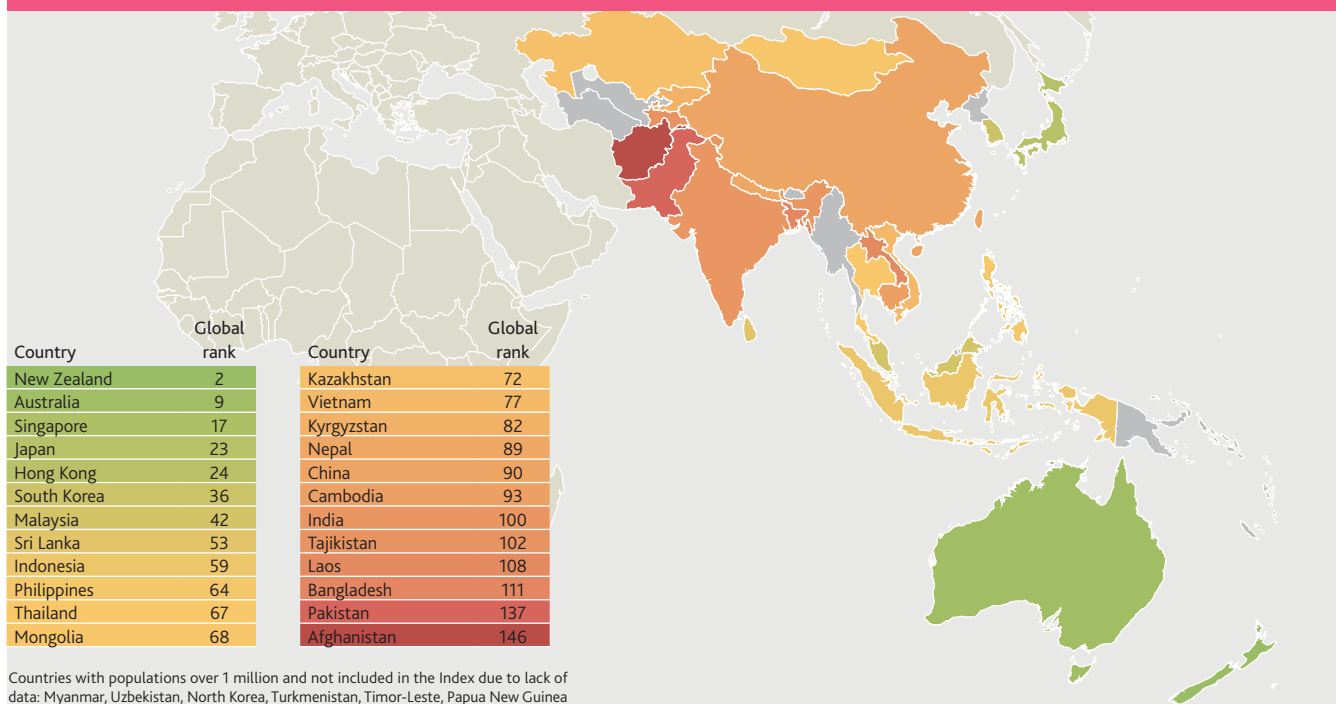
## The legacy of the Soviet Union, and the European Union ladder

The legacy of the Soviet Union is still apparent in Eastern Europe, with seven out of the ten ex-Soviet Union countries to be found at the bottom of region's prosperity rankings. The exceptions are Estonia, Latvia and Lithuania, which are all members of the European Union, and are in third, sixth and seventh positions respectively.

Post-Soviet states seem to suffer from lower Social Capital and Governance scores, but those that are now members of the European Union appear to have avoided carrying this over into poor Governance structures, Personal Freedom and Natural Environment. This may be in part due to the reforms required to meet membership criteria for joining the EU; however, the success that has led to their more rapid EU accession may also be the legacy of longer-term historical and cultural factors.



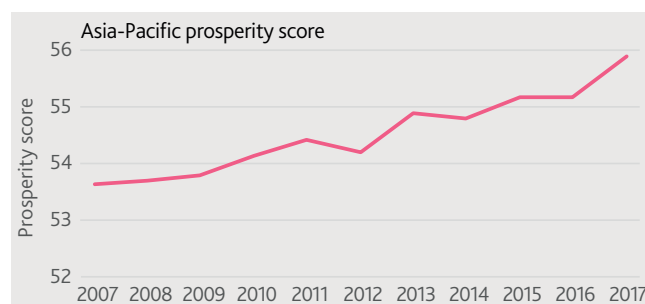
# Asia Pacific (5<sup>th</sup>)



## Overall picture of prosperity: a wide spread

Asia-Pacific is the fifth most prosperous of the world's seven regions. Prosperity in the region has grown faster than any other in 2016-17, and is now close to the world average. 12 countries rose, and 12 fell. The Asia-Pacific top ten has not changed since last year.

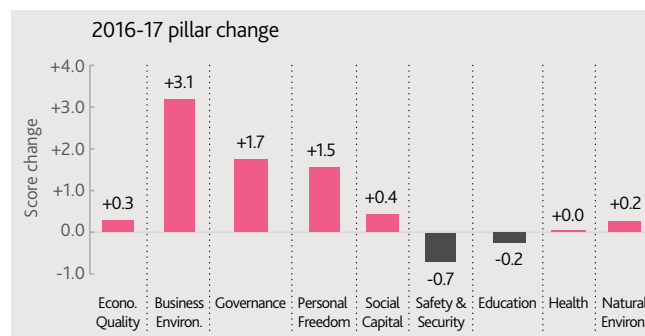
The countries within Asia-Pacific have the broadest spread of prosperity – **New Zealand** sits at number two and **Afghanistan** at 146.



## Pillar highlights: improving Business Environment and poor Natural Environment

The pillar that has improved the most across the region since 2007 is Business Environment, particularly in East Asian countries such as **China** and **Indonesia**. Governance across the region has also seen positive change. A notable example is legislation in **India** that increased the ability to challenge regulation in the legal system.

Asia-Pacific is the weakest performer of any region on the Natural Environment pillar, mainly due to air pollution and access to clean drinking water. Asia-Pacific countries occupy the bottom eight places of the Index for air quality, with **China** at the very bottom.



## In the spotlight: risers and fallers

**Kazakhstan** has improved its prosperity ranking by 11 places, led by improvements in Social Capital, Governance and Health. For example, there were a higher number of vaccinations against diphtheria, and more people were satisfied with the quality of healthcare.

**Bangladesh** has improved by three places, through gains in Personal Freedom, Governance and Education. In Education, it improved its primary completion rate and adult literacy, which has increased from 47% in 2011 to 73% in 2016. There is also a greater perception amongst parents that their children are learning at school

**India** closed in on China, improving four ranks through gains in Business Environment, Economic Quality and Governance. In Economic Quality, this is due to the proportion of the population with bank accounts, which increased from 35% in 2011 to 53% in 2014.

**Thailand** saw the largest fall in availability of shelter. The number of people saying there had been times when they did not have enough money to provide adequate shelter for themselves or their family rose from 11% to 35% since last year.

**Indonesia** and **India** saw the largest falls in reported availability of adequate food since last year. In **India**, the number of people saying there had been times when they did not have enough to eat rose from 26% to 35%. In **Indonesia** it rose from 32% to 41%.



## A lack of personal freedom is holding back prosperity in many Asian countries

Economic growth in Asia-Pacific has lifted millions out of poverty and many Asia-Pacific countries have achieved, or are on their way to achieving, significant material wealth for their citizens. After North America and Western Europe, Asia-Pacific has the best Economic Quality and Business Environment. Countries such as South Korea, Singapore and Japan have demonstrated how a country can move from poverty to prosperity within a generation. Since 2007, real GDP per capita in Asia-Pacific has risen by 36%.<sup>1</sup>

But prosperity is more than just economic success. An important feature of prosperity is Personal Freedom. As noted earlier in this report, Personal Freedom matters because it contributes to material prosperity and, more importantly, because it allows individuals to make choices about their own happiness and wellbeing that are unconstrained by external forces.

It is here that Asia-Pacific performs particularly poorly, albeit with some notable exceptions, such as New Zealand and Australia. The region sits second from bottom in the world for Personal Freedom, above only the Middle East and North Africa; and it is weak across all aspects of the pillar. For example, 17 out of 24 countries in the region still have the death penalty; it is sixth out of seven regions for press freedom and sixth out of seven for tolerance of immigrants.

There are two possible reasons for this poor performance. First, cultural and social attitudes contribute to restricting the broader aspects of Personal Freedom. For example, Sri Lanka, which is ranked 53<sup>rd</sup> for prosperity overall, but 107<sup>th</sup> for Personal Freedom, has one of the lowest social tolerance scores in the world, ranking 131<sup>st</sup>. This is partly to do with societal restrictions on religion, which the country's Prime Minister has acknowledged needs to be addressed, given recent attacks on Muslims.<sup>2</sup> This hostility has led to violence: in 2014, for example, anti-Muslim riots in Beruwala and Aluthgama resulted in four people being killed and 80 injured.<sup>3</sup> It remains to be seen whether the Prime Minister's intent becomes action that improves religious freedom.

Religious hostilities can lead governments to restrict individual freedoms and basic legal rights. Malaysia, which is ranked 20<sup>th</sup> for Business Environment, but 120<sup>th</sup> for Personal Freedom, saw a decline in overall prosperity because of increased societal restrictions on religion, where it now ranks 132<sup>nd</sup>. On government religious restrictions it ranks 140<sup>th</sup>. While the Constitution protects freedom of religion, there have been increasing examples of hostilities to minority faiths. For example, there have been

cases of restrictions on the use of the word "Allah" for non-Muslims and of some faiths being declared illegal.<sup>4</sup>

Secondly, in some of these lower-ranked Asian countries, it appears that the desire to pursue economic growth and political stability has often been the motive and reason for sacrificing individual personal freedoms. For example, Singapore, which has had a dramatic rise in economic success since its foundation just 50 years ago, is now the most prosperous country in the region after New Zealand and Australia, but ranks 95<sup>th</sup> in the world for Personal Freedom. This low ranking comes in part from a lack of press freedom, where it sits at 112<sup>th</sup> in the world. Despite the constitution providing for freedom of speech, there have been multiple cases of the government, or its members, using court action to silence negative media coverage. The Government also restricts the practising of some religions – it ranks 133<sup>rd</sup> in the world for restrictions on religion – and retains the death penalty, with the most recent execution taking place in July 2017 for importing heroin.<sup>5</sup> The reason for some of these restrictions is a desire to maintain social order, which is perceived by some to support Singaporean prosperity.<sup>6</sup>

In the long run Personal Freedom is an essential part of prosperity. This is particularly true as countries become richer and people have the resources to realise freedom of choice. Personal Freedom also fosters diversity, which can foster innovation. Countries in Asia-Pacific need only look at New Zealand and Australia to see that Personal Freedom is compatible with material wealth.

There are promising signs: since a low point in 2012, Personal Freedom in the region has been improving, particularly in individual freedoms and social tolerance, although basic legal rights have weakened slightly. Nevertheless, it is clear that more can be done to provide freedom to citizens of the Asia-Pacific region.

### NOTES

<sup>1</sup> World Bank Data. 'GDP per capita', own calculation

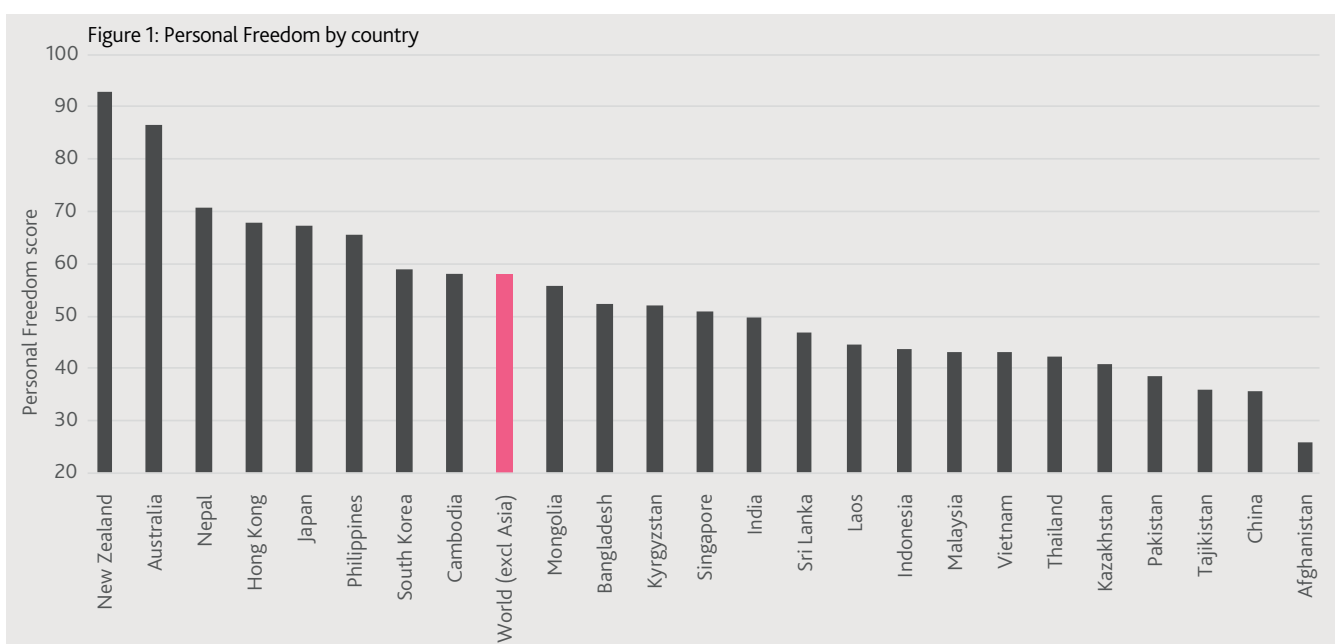
<sup>2</sup> Srinivasan, M. 'Ready for law to curb religious intolerance', *The Hindu*, 14 June 2017.

<sup>3</sup> Colombage, D. 'In Pictures: Sri Lanka hit by religious riots', *Al Jazeera*, 18 June 2014.

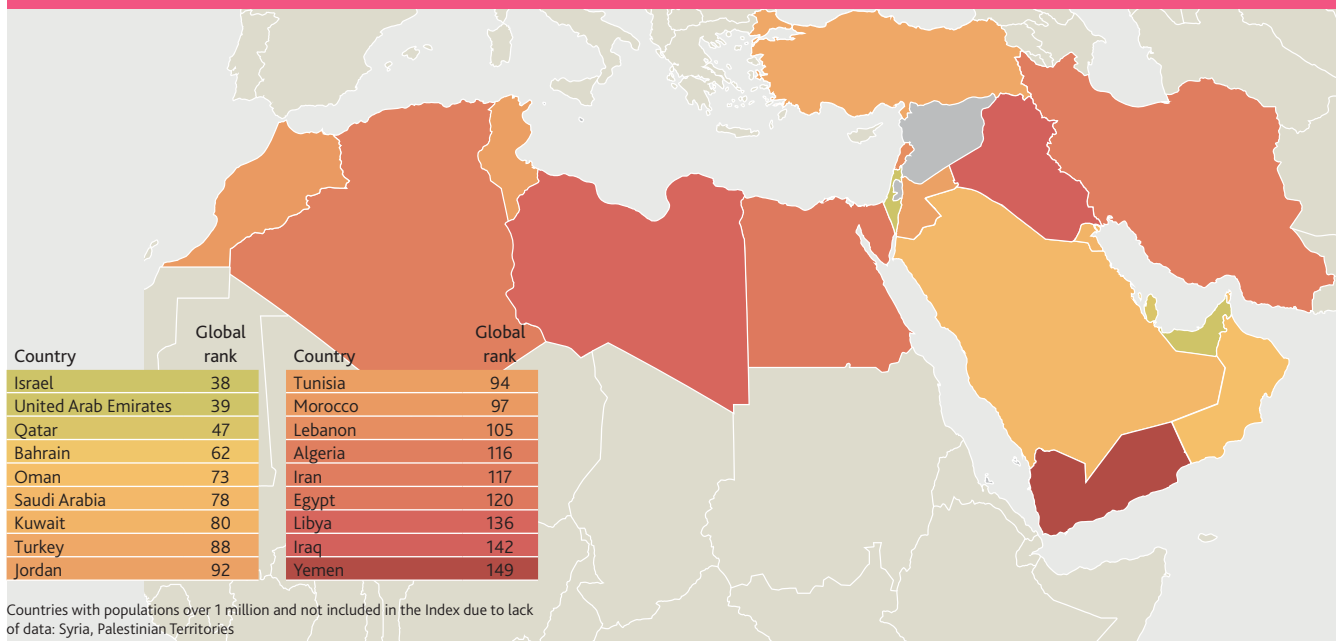
<sup>4</sup> United States Commission on International Religious Freedom. *2017 Annual Report*, April 2017.

<sup>5</sup> 'Singapore execute Malaysian for drug trafficking', *Channel News Asia*, 14 July 2017

<sup>6</sup> Ng, K. 'Govt to toughen laws to safeguard religious harmony: Shanmugam', *Today Online*, 8 September 2017.



# Middle East and North Africa (6<sup>th</sup>)



## Overall picture of prosperity: decline

The Middle East and North Africa (MENA) region ranks sixth in world prosperity, above only Sub-Saharan Africa; and in spite of ever-increasing wealth, overall prosperity in MENA has declined now for two straight years. The regional picture of prosperity is mixed; **Israel** was the region's fastest riser in 2017, due to improving judicial independence and government effectiveness (in Governance), along with a reduction in battlefield deaths and political terror (in Safety and Security).

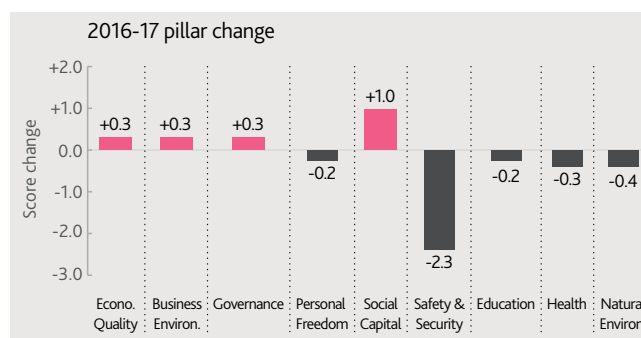
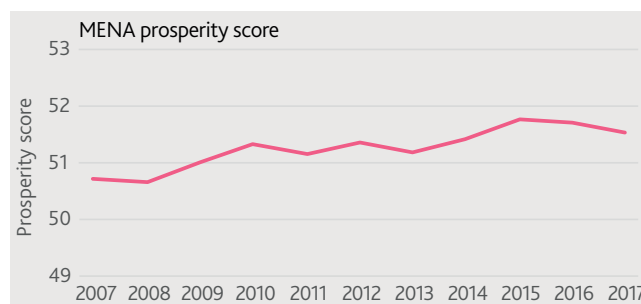
As well as falls in Safety and Security, **Turkey** has experienced a decline in Personal Freedom due to decreasing freedom of the press and reduced civil liberties.

## Pillar highlights: the freedom deficit

The majority of MENA's falling prosperity in 2017 was in Safety and Security, with **Egypt**, **Turkey** and **Libya** the worst performers. Within MENA, only **Morocco**, **Oman** and **Qatar** have seen their Safety and Security scores rise in the last five years. (For more, see feature on page 27)

Natural Environment, Education and Health have all improved in MENA over the last decade, yet made losses this year.

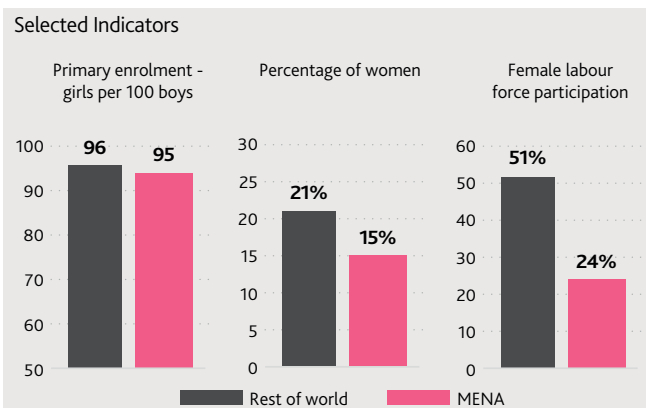
Personal Freedom remains the pillar in which MENA has the most significant deficit in prosperity. Only **Israel** at 94<sup>th</sup> ranks in the global top 100.



## In the spotlight: women in the economy

Data from several indicators reflect the fact that women are far less engaged in society in MENA than in the rest of the world. While there is growth in the representation of women in parliament, they are hugely under-represented in the labour force – in 2016 just 24% of female adults in MENA participated in the labour force, compared to 51% in the world as a whole.

As well as having an impact on wellbeing, this represents a significant economic drag on the region. Glimmers of change are perhaps on the horizon – for example, a recent landmark ruling in **Saudi Arabia** has granted women access to driving licences – but there remains a long way to go for women to be fully integrated into the economy.

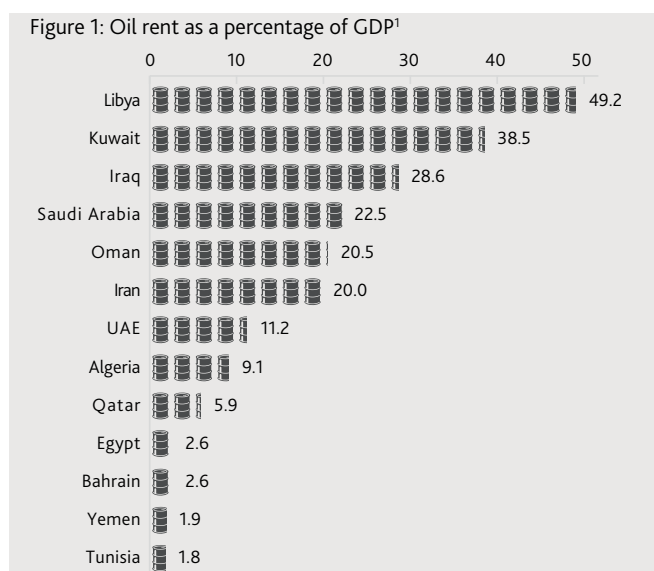


## Economic Quality – managing MENA's growing wealth

MENA has seen significant growth in the living standards of its citizens. United Arab Emirates (UAE) has seen the greatest increase in standard of living in the world in the last ten years; and there has also been an increase in people's satisfaction with their standard of living right across into North Africa.

However, there are significant challenges across broader dimensions of wealth generation. While the UAE has the third best score in the world for ease of trade, trade in MENA as a whole is still weak and is showing no signs of improvement. The region has by far the world's lowest levels of labour force engagement. This is especially weak in terms of youth unemployment – the regional level is nearly double the world average. In countries such as Egypt, with a large youth population, this leaves huge numbers of young people without work; and the emerging youth bulge in many parts of the region will only add to this pressure.

The existence of state oil revenues is what permits such an imbalance – but as has been illustrated in our previous reports, countries that rely on single commodities for income are generally not successful generators of overall prosperity. Some nations in MENA, such as Kuwait and Iraq, generate an enormous share of their wealth through oil rent (a measure of a country's income from oil production, Figure 1) whereas others such as the UAE have reduced this through economic diversification, and have benefited in prosperity terms.



While the UAE may have found a more secure route to prosperity than its oil-rich peers (see the 2016 Prosperity Index), the nation has nonetheless lacked corresponding growth in other indicators of economic performance. The proportion of adults in the labour force has actually fallen slightly in the last five years, while for trade competitiveness (ie the diversity and value of exports) the UAE ranks 97th in the world.

### The growing threat of 'diabesity'

A key component of the MENA region's growing prosperity at the beginning of the last decade was improving Health. Today, MENA performs relatively well – the majority of nations in the region sit above the world average. But in the last six years this upward trend has reversed, and now MENA's gains are shrinking. So how healthy is MENA?

MENA has a distinct fingerprint across measures of Health. On the one hand people live relatively long lives and have good healthcare infrastructure. Qatar is third in the world for satisfaction with healthcare; and the UAE, Bahrain and Saudi Arabia are all in the top 20. But counter to this is the reality that people are generally dissatisfied with life, scoring low in measures of joy and sadness, and also have the worst diabetes and obesity problems in the world. Perceptions don't seem to match reality – in

the Gulf, where obesity is most prevalent, people generally do not perceive themselves as having health issues.

Obesity is not only highly prevalent in MENA compared to the rest of the world; data from the World Health Organisation show that it is actually getting worse. And while higher food consumption may be a lifestyle choice to which citizens feel entitled in light of increasing wealth across the region, it has potentially devastating long-term consequences. A 2015 report by Morgan Stanley demonstrated a clear link between the quality of a nation's diet and its economic growth; and they identify 'diabesity' as having serious negative effects on the strength of the workforce, public expenditure and GDP growth.<sup>2</sup> In their projections, economic costs paid by nations suffering from 'diabesity' may exceed 30 percent over the next 20 years.

At present, it may seem that the region can financially afford to sustain a more consumptive lifestyle without a mobilised labour force. But as the need for productivity increases in future, the costs that have been incurred in health terms through poor diet and lifestyle choices may begin to bite.

### Social Capital – weathering the prosperity storm

MENA has undergone a social renaissance over the last five years. Although historically it has had a strong culture of hospitality, its Social Capital has hitherto been weak, with only Eastern Europe scoring lower; and yet in 2017, Social Capital increased more than in any other region. People in the region are now more likely to come to the assistance of strangers than before and are seeing greater opportunities for making friends. Taking Iraq as an example: while its prosperity has been hit hard by the presence of ISIS, Social Capital has improved more than any other pillar over the last five years. Over the same timeframe it has seen a greater increase in Social Capital than any other country. The sense here is that in the midst of violence, Iraqis do not let go of their relationships; rather, they strengthen them. And further west in Libya, strong personal and social relationships have withstood several years of war and terrorism, with citizens now being third-most likely in the world to come to the aid of strangers.

Comparing MENA's Social Capital with the rest of the world, it has a surplus in two indicators – people are more likely to receive help from strangers and are more likely to report being treated with respect. However, one area in which the region is still underperforming compared to the world average is civic participation, both informally within communities (making donations, volunteering) and more formally within the nation (voicing opinion, turning out to vote). There is a disjunction – while the strength of personal relationships has been increasing, growth has not inspired citizens to engage more readily with the establishment or society as a whole.

However, this deficit is not entrenched in the whole of the region; instead it illuminates some important sub-regional differences. In the Middle East and the Gulf, informal civic engagement within communities is actually improving, with volunteering and donations to charity more frequent in eastern nations such as the UAE and Iran. But at the same time Northern Africa is showing few signs of catching up; and the gap between the east and west of MENA is growing. In terms of more formal civic participation (voicing one's opinion, turning out to vote) the Gulf states are the exception, falling behind faster than all others (following the political upheaval of the Arab Spring). By contrast, in neighbouring Jordan there are signs of increasing liberalisation, as more and more people feel able to engage politically through voicing their opinion.

In short, when considering the whole region, MENA's growth in Social Capital is hard to characterise. Looking beneath the surface at the individual components of Social Capital reveals a much more varied cultural and political landscape in which change is taking place, as populations build on their unique setting and experiences over the last decade.

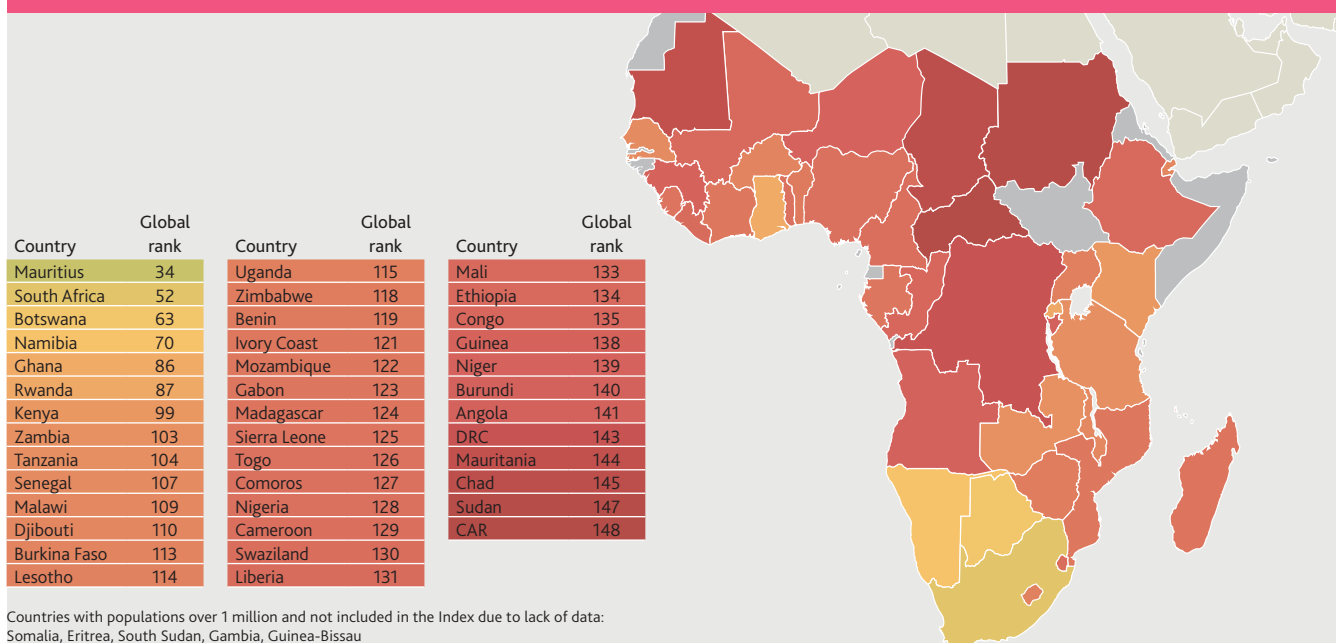
#### NOTES

<sup>1</sup> World Bank data.

<sup>2</sup> Morgan Stanley. 'Sugar Economics: How Sweet It Isn't', 14 May 2015.



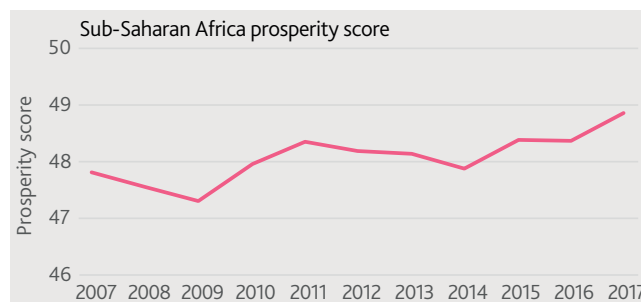
# Sub-Saharan Africa (7<sup>th</sup>)



## Overall picture of prosperity: growth from a low base

Sub-Saharan Africa remains the weakest-performing region in the world, as it has been since 2007. Nonetheless overall Sub-Saharan African prosperity grew considerably this year.

In the last year, 21 countries in the region have increased their Prosperity, while 19 have seen it decrease.

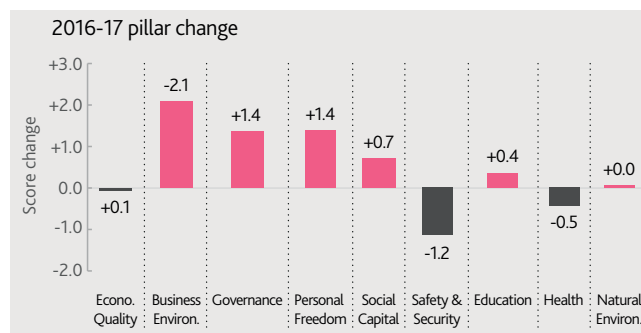


## Pillar highlights

Sub-Saharan Africa performs most strongly relative to the rest of the world in the Natural Environment pillar. In particular, Sub-Saharan Africa is impacted less by Environmental Pressures than other regions of the world, comprising 10 of the 20 best performing countries in that sub-pillar.

The region is a long way behind others in both Education and Health. In Education, it is the weakest performing region in 10 out of 12 indicators. In Health, it is last in six out of 12 indicators.

Safety and Security is the pillar that has declined the most in the last year. This is led by **Niger**, **South Africa** and **Congo**, but 31 others have also seen a decline, due in part to increased battlefield deaths. For example, in **Niger**, there were an estimated 274 deaths caused by conflict with Islamic State.



## In the spotlight: leaders and improvers in prosperity

**Nigeria** has risen six places, driven by improvements in Business Environment, Economic Quality, Social Capital and Personal Freedom. Within Personal Freedom, the percentage of those satisfied with the freedom to choose what to do with their lives rose from 68% to 79% over the last year. This was a return to a level similar to its 2011 score.

**Democratic Republic of Congo** rose four places, driven by improvements in Business Environment, Social Capital and Personal Freedom. In Business Environment, for example, domestic perceptions of the Democratic Republic of the Congo as a good place to start a business have increased from 64% to 74%.

The number of women in parliament increased across Sub-Saharan Africa. The largest increase in 2017 was in **Ethiopia**. Rwanda, Senegal, South Africa and Namibia are in the global top ten for most women in parliament.

**Benin** improved by one ranking globally through better Personal Freedom. It abolished the death penalty following a ruling by the Constitutional Court at the beginning of 2016.

14 Sub-Saharan African countries are in the world's top 20 for labour force as a share of the population, with **Madagascar** topping the global rankings.

## Continuing gains in Business Environment and Governance show the region's potential for greater prosperity

Sub-Saharan Africa has improved considerably in 2017 in two essential elements of Prosperity: Business Environment and Governance. For Business Environment, this represents the continuation of a promising trend towards creating a more entrepreneurial climate. Scores have improved by 22% since 2007, with all but one nation (Sudan) in the region witnessing improvement. This year saw 31 out of 40 Sub-Saharan countries improve their Business Environment score.

While Business Environment has improved across most indicators, the ease of starting a business has had a pivotal impact on African prosperity. This is largely the result of the priority that it has been given by many countries in the region. In 2009 Tanzania aimed to improve its performance in the World Bank's Ease of Doing Business rankings, by joining the top 100 countries within two years. While they have not yet achieved this, there have been notable improvements in the Tanzanian Business Environment. These include the ease of resolving insolvency and of getting credit, prompted by Tanzania expanding its credit bureau borrower coverage.

Rwanda, which tops the Sub-Saharan Africa Business Environment Pillar, is also guided by the World Bank Ease of Doing Business framework. Among this year's major reforms were improving online registration and streamlining post-registration procedures, as well as easing the resolution of redundancy. In the past, Rwanda has also shortened registration procedures and reduced registration fees.

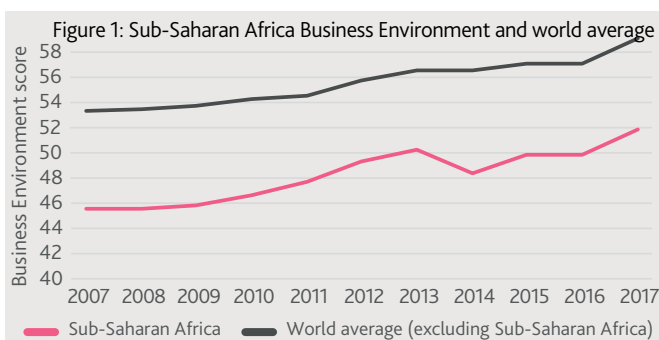
Though encouraging, Sub-Saharan Africa's Business Environment remains poor compared to the global average, still ranking sixth out of seven regions. This reflects many of the region's wider challenges, including the lack of essential business infrastructure and investor protections. For example, Sub-Saharan Africa ranks bottom in three core indicators of business infrastructure: broadband subscriptions, cost of obtaining an electricity connection and the World Bank's Logistics Performance Index.

While the region is improving its Business Environment, it is being consistently out-performed by others (see Figure 1); while every country except one in Sub-Saharan Africa has improved their Business Environment rankings since 2007, so did 81 other countries around the world. Although positive for global prosperity, it also highlights the dangers of not continuing to push forward with reform in Sub-Saharan Africa.

Improvements in Governance in Sub-Saharan Africa have also helped to secure the region's progress towards greater prosperity. Adherence to the rule of law and effective and accountable governments are increasing steadily across the region. There are some notable examples of good performance: Mauritius is ranked 26th in the world for Governance, above South Korea and Israel. Most recently, improvements in Governance have been driven by gains from Tanzania, Zambia and Uganda (among others), mainly due to increased confidence in judicial independence and in elections.

Yet despite this improvement, Sub-Saharan Africa performs poorly in Governance. For example, it is the worst out of all regions on regulatory quality. Businesses cannot prosper without a government that obeys the rule of law and implements regulations which foster innovation.

There is much work to be done to improve Prosperity in Sub-Saharan Africa. While the challenges should not be underestimated, the region has improved significantly since 2007 and holds enormous potential for the future. As the Business Environment Pillar shows, Sub-Saharan African countries have taken up reform willingly and entrepreneurship is flourishing. Nevertheless, future economic and social wellbeing is dependent on addressing persistent insecurity and investing in human capital and the quality of institutions. Until this is achieved, the pathways towards greater prosperity will remain limited for many Sub-Saharan African nations and their peoples.









# Pillar Profiles

Prosperity is multi-dimensional. This means that in order to measure and track prosperity we need to consider a broad set of indicators. The following pages examine some of the developments within each of the nine Pillars of the Prosperity Index.

## Economic Foundations

The world's **Economic Quality** has recovered from a low in 2012, although it has improved only fractionally on 2007 levels. There are now fewer people in absolute poverty and a higher number of people reporting satisfaction with their standard of living. However, on the other hand, economic growth has slowed and labour force participation stalled.

The world's **Business Environment** has improved more than any other of the nine pillars in the last decade. It is now easier to start a business, investors are better protected through property rights and insolvency procedures, and business infrastructure is much improved.

## Quality of Life

**Education** has improved in the world in the last ten years; however, there has been a fall in 2017, particularly in Europe. The most notable improvement worldwide has been in adult literacy, which has increased by 3% since 2007.

Having risen strongly at the beginning of the last decade, world **Health** is now beginning to decline – driven by deteriorating emotional wellbeing, with increased levels of sadness and worry, and people perceiving more frequent health problems.

**Natural Environment** has improved in every year of the Index except 2012, with the greatest gain over the last decade coming through wider access to drinking water.

## Institutional Foundations

All regions of the world saw **Governance** improve in 2017, with Asia-Pacific rising fastest. On average, people perceive judiciaries to be more independent of government than last year and that legal systems can more readily challenge regulation



**Personal Freedom** has continued to recover from a 2012 low, with Asia and Sub-Saharan Africa registering the strongest growth this year. The indicator that has improved the most since 2012 is people's satisfaction with the freedom to choose what to do with their life.

Over the last ten years, the world's **Social Capital** has improved more than any other pillar, except Business Environment. Asia-Pacific has been the long-term stand-out regional performer, although this year, the greatest gains were for the Middle East and North Africa (MENA) and Sub-Saharan Africa.

The decade-long worldwide fall in **Safety and Security** continued, with nearly two-thirds of the 149 nations in the Index worsening, led by declines in the MENA region. Eastern Europe is the only region where Safety and Security improved.

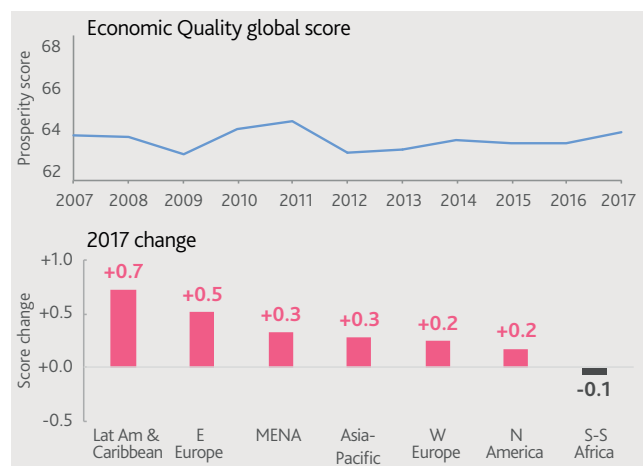


# Economic Quality

The world's Economic Quality has improved only fractionally on 2007 levels, although in the last five years the score has recovered from a low in 2012. Latin America and the Caribbean rose fastest in 2017 and only Sub-Saharan Africa fell.

In terms of gains, there are fewer people now in absolute poverty, with a higher number of people reporting satisfaction with their standard of living than ten years ago.

This is counteracted by slowing economic growth, signs that governments are less open to competition and a less engaged labour force.



**Standard of Living** measures whether citizens have access to a range of affordable goods and services, and whether economic growth is persistent.

*Indicators – satisfaction with household income, satisfaction with standard of living, five-year economic growth rate*

- **Asia** saw a marked increase in 2017 in the satisfaction of its citizens with their standard of living.
- **Venezuela** has seen the largest drop in citizens' satisfaction with living standards in the last five years.

**Economic Inclusiveness** means the degree to which everyone has the resources and opportunities to enable them to participate in society.

*Indicators – absolute poverty (% population living below \$1.90 per day), relative poverty, percentage of adult population with a bank account*

- Only 3% of people in the **Central African Republic** have bank accounts, compared to 99.7% in **Sweden**.
- In terms of the number of people living on less than \$1.90 per day, 29 of the 30 most poverty-stricken nations in the Index are in **Sub-Saharan Africa**. The only other nation in the bottom 30 is **Bangladesh**.

**Anti-Monopoly Policy** measures whether producers can compete freely in the marketplace and consumers have choice in what to purchase.

*Indicators – perceptions about effectiveness of anti-monopoly policy*

- **Israel** saw the greatest improvement in perceptions about the effectiveness of anti-monopoly policy.
- Among regions, only **North America's** citizens perceived their nations to be more open to competition now than last year.

**Labour Force Participation** assesses the extent to which population is participating in the workforce.

*Indicators – labour force participation rate (age 15+), female labour force participation rate (age 15+), unemployment rate*

- Of the bottom 10 nations for female labour force participation, seven are in **MENA**.
- In **Madagascar**, although 86% of citizens over 15 are in the workforce, the country still has some of the worst poverty in the world.

**Trade Competitiveness** looks at the extent to which an economy produces a diverse range of valuable goods and services in an internationally competitive manner with a wide set of trading partners.

*Indicators – export diversity index, export quality index*

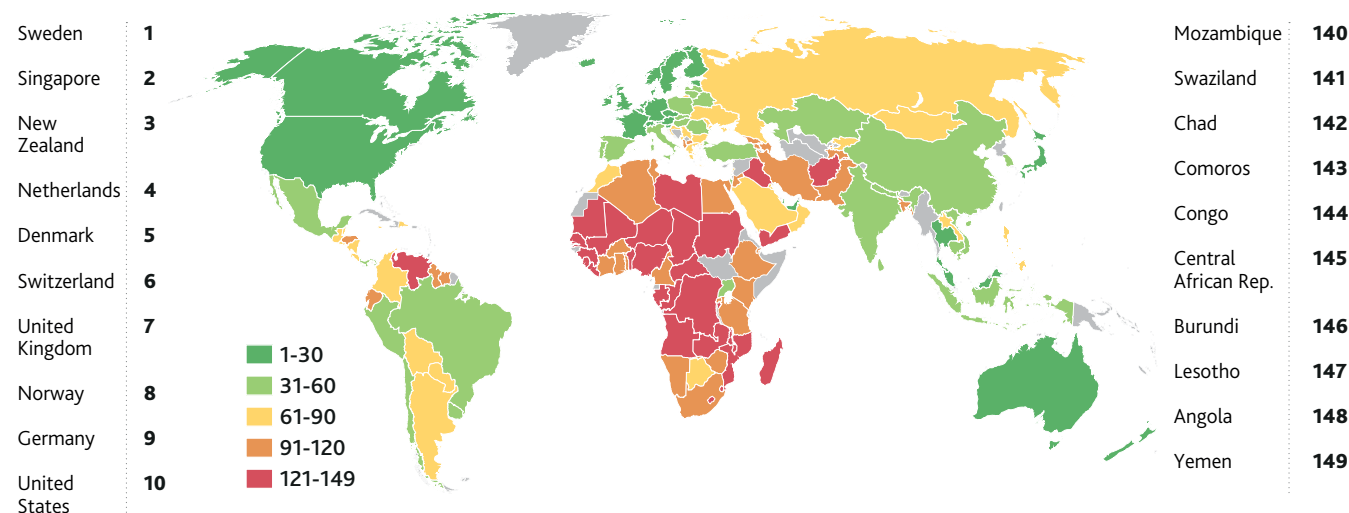
- Despite ranking 44<sup>th</sup> overall for Economic Quality, **Italy** ranks third in the world for the quality and diversity of its exports.
- With oil rents amounting to 29% of GDP, **Iraq** ranks bottom in the world for the diversity of its exports.

**Openness to Trade** is about how well an economy welcomes domestic and international trade.

*Indicators – perceptions about non-tariff barriers to trade*

- **Sweden's** citizens perceived far fewer barriers to trade than last year, as the nation increasingly is opening itself for business.
- Businesses in **Ecuador** perceive worse non-tariff barriers to trade than any other nation in Latin America.

## Economic Quality 2017

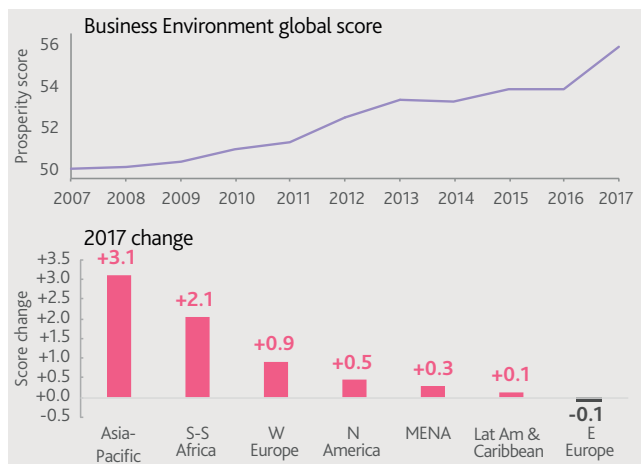


# 💡 Business Environment

The strength of a nation's Business Environment is a critical factor in determining its prosperity. A strong business environment provides an entrepreneurial climate, enabling new ideas and opportunities to be pursued, which lead to more wealth and greater social wellbeing.

The world's Business Environment has improved more than any other of the nine pillars in the last decade, increasing in score by more than ten percent. Compared with ten years ago, it is now easier to start a business, investors are better protected through property rights and insolvency procedures, and business infrastructure is much improved.

In 2017 only Eastern Europe failed to improve – while Asia-Pacific grew more than any other region.



**Entrepreneurial Environment** assesses whether businesses are easy to start and run, and how easy it is to get ahead.

*Indicators – perception that business is easy to start, perception that working hard gets one ahead, ease of starting a business*

- **Oman** has recently removed the requirement to pay minimum capital within three months and streamlined employee registration for businesses.
- Despite having the world's best business infrastructure, **Japan** ranks 137<sup>th</sup> in the world for entrepreneurs due to complicated regulations around starting a business.

**Business Infrastructure** examines the infrastructure that enables market access for individuals and firms, which includes transport/logistics, utilities and communications.

*Indicators – logistics performance, broadband subscriptions rate, cost to obtain electricity connection (% of GDP per capita)*

- **South Africa** saw the largest increase for this sub-pillar, due to reduced electricity connection costs and an improved Logistics Performance Index. It was followed by **India** and **Tanzania**.
- Only **Latin America and the Caribbean** saw its Business Infrastructure score fall among regions, as the cost of obtaining electricity increased.

**Access to Credit** assesses whether individuals and businesses are able to get credit at an affordable rate to finance their ideas and thereby foster entrepreneurship.

*Indicators – ease of getting credit, perceived affordability of financial services*

- **Pakistan**'s business gains in 2017 came through increased access to credit – specifically by guaranteeing borrowers rights to inspect their own data and the credit bureau expanding its borrower coverage.
- **El Salvador** by contrast fell fastest in the world in Access to Credit, as ease of getting credit worsened.

**Investor Protections** measures the strength of rules around ownership and rights, particularly around intellectual property.

*Indicators – perceived level of intellectual property protection; duration, cost and effectiveness of insolvency resolution*

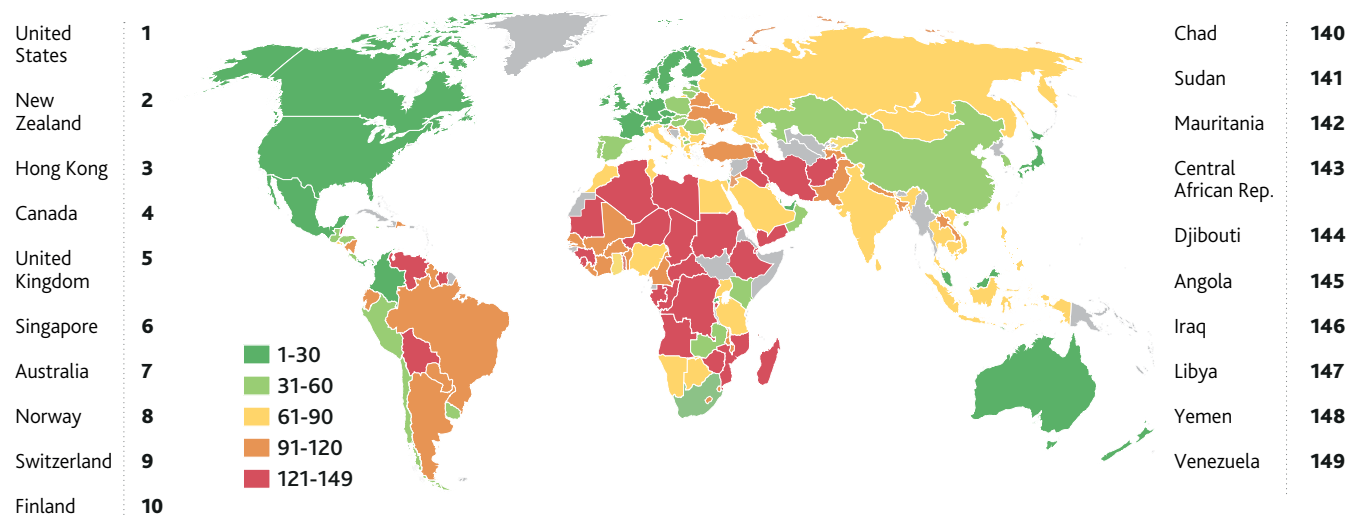
- **India**'s gains in Business Environment were driven by improving intellectual property rights.
- **Qatar** saw its score fall, as resolving insolvency became more difficult.

**Labour Market Flexibility** measures the ability of businesses to adapt to new challenges by hiring people they need, or to losing people and positions they don't need, without being impeded by costs and regulations.

*Indicators – redundancy costs in weeks of salary, perceived regulatory barriers to hiring and firing*

- Businesses in the **Netherlands**, **Germany** and **Norway** are perceiving increasingly fewer regulatory barriers to hiring and firing.
- **Australia** is the only country in Asia-Pacific to have increased the cost of redundancy in the last 10 years.

**Business Environment 2017**

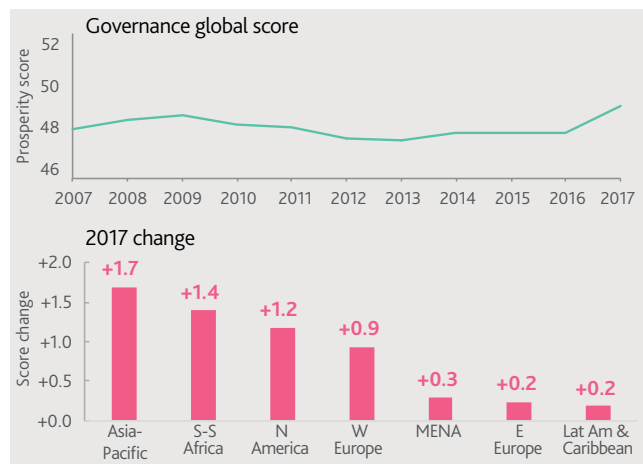




## Governance

The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions and regulatory quality contribute significantly to economic growth. Effective, fair and accountable governments increase public confidence, and, ultimately, result in higher levels of life satisfaction among citizens.

Having fallen sharply for four years, from a high in 2009, the quality of Governance around the world has now rebounded and is now at its highest level in the history of the Index. All regions of the world saw Governance improve in 2017, with Asia-Pacific rising fastest. This year's increase was much weaker for MENA, Eastern Europe and Latin America and the Caribbean.



**Rule of Law** assesses confidence in the rules of society: in particular this refers to the law being applied equally to all and to the quality of contract enforcement, property rights, the police and the courts.

*Indicators – World Bank Rule of Law index, independence of the judiciary, perceived ease of challenging government regulation*

- **Ethiopia** was the fastest riser in 2017, thanks to improvements in judicial independence.
- Despite improving Governance in 2017, **Poland** saw a fall in Rule of Law, as judicial independence fell.
- **Latin America and the Caribbean** was the only region to fall in this sub-pillar in 2017, as judicial independence and ease of challenging regulation fell. It now has the worst regional score in the world.

**Government Integrity** measures how well government operates in a transparent and predictable manner with minimal corruption. Citizen engagement with the political process further strengthens government accountability.

*Indicators – perceived transparency of government policy change, public sector corruption*

- **Sub-Saharan Africa** had been in decline in this sub-pillar until this year – both corruption and government transparency improved in 2017.
- Although it ranks in the bottom 20 for Governance, **Belarus** was the best improver in the whole of Europe in 2017, as people perceived a reduction in corruption.
- **Qatar** on the other hand was the fastest faller, as the government was perceived as more corrupt than last year.

**Government Performance** assesses the performance of the civil service, and how well regulation and policy incentivise businesses.

*Indicators – perceived ability of government to formulate and implement good policy, perceived quality and independence of public and civil services, citizens' confidence in national government*

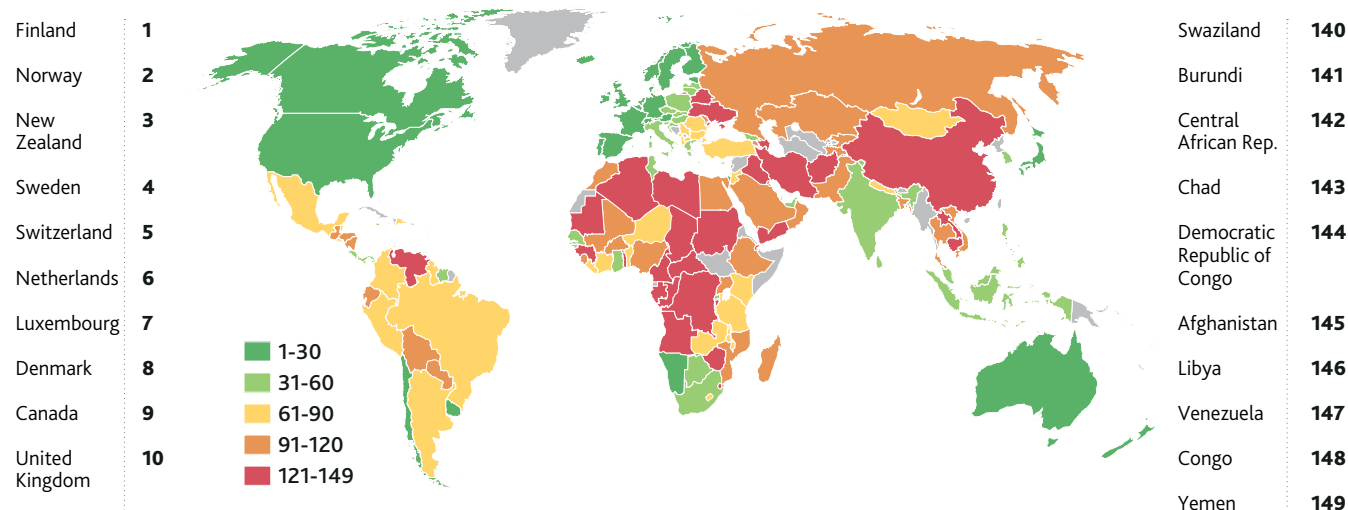
- Confidence in **Guatemala's** government increased more than in any other Latin American country.
- Despite improving regulatory quality and government effectiveness, **Iran's** government lost confidence among citizens in 2017.
- **Greece** saw the largest fall, as people's confidence in the national government dropped sharply.

**Political Participation** looks at whether there is active representation and participation in the political process by everyone.

*Indicators – ability of citizens to participate in political process, Center for Systemic Peace democracy/autocracy score, citizens' confidence in honesty of elections, voter turnout, % female representation in national parliament*

- **MENA** has by some margin the lowest score in this sub-pillar, and has fallen considerably since 2012.
- **Thailand** has registered a larger five-year fall than any other nation in this sub-pillar, due to a huge decrease in democracy score and political rights. Turnout has also fallen, as has female representation in parliament.

### Governance 2017

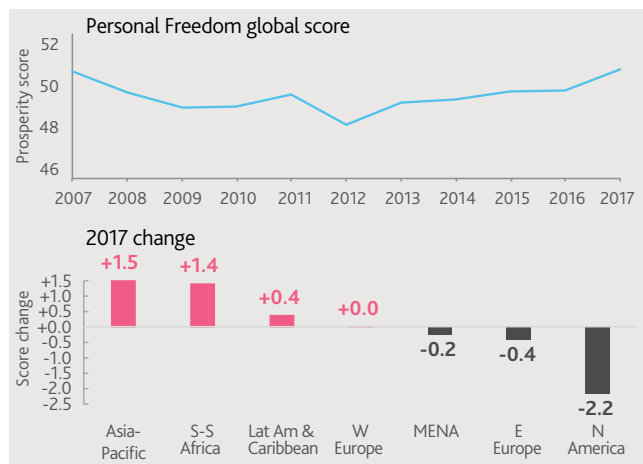


# Personal Freedom

Societies that foster strong civil rights and freedoms have been shown to enjoy increased levels of satisfaction among their citizens. Furthermore, a country benefits from higher levels of national income when its citizens' personal liberties are protected and when it is welcoming of the social diversity that stimulates innovation.

Personal Freedom has recovered from a worldwide low in 2012, bettering its 2007 level for the first time. Asia and Sub-Saharan Africa registered the strongest growth this year, with Latin America and the Caribbean also making improvements.

In 2016-17, Personal Freedom in North America fell by more than in any other region.



**Basic Legal Rights** measure the degree of personal autonomy. These mean a lack of interference and coercion from the state, and the right of association. They include the right to one's own person and freedom around what information they can publish and consume.

*Indicators – freedom of expression and association independent from state interference, presence/absence of death penalty, length of military conscription, level of press freedom*

- Only **Latin America and the Caribbean** marginally improved its score in 2017 in this sub-pillar.
- MENA** was the fastest faller – through decreasing freedom of expression and also a sharp decline in press freedom in the last five years.
- Cyprus** was the fastest riser in the whole of Europe, as it reduced the length of compulsory military service by half.
- Poland** meanwhile saw the largest drop, in light of decreased civil liberties. Its press freedom also fell more than any other nation in 2017.

**Individual Liberties** means citizens have the opportunity and capability to choose how to live their own life. This includes belief and religion, alongside the right to own property regardless of gender.

*Indicators – governmental religious restrictions, satisfaction with freedom, legal status of LGBT individuals, gender-equality of property and inheritance rights*

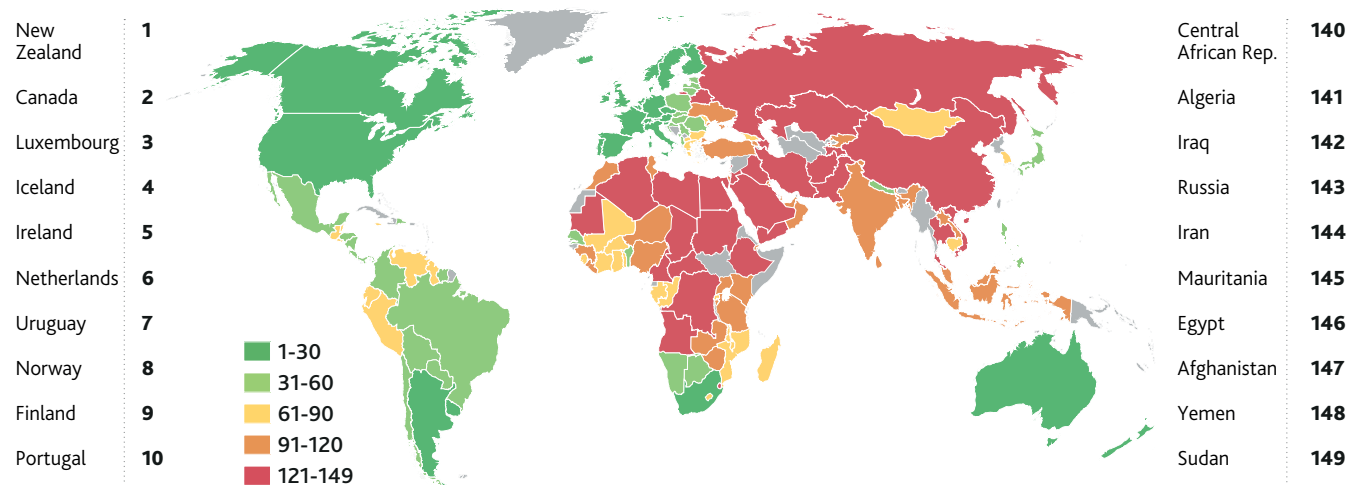
- Iraq** has seen the greatest increase in its citizens' satisfaction with their freedom in the world over the last five years.
- In the last ten years, **Togo** and **Nepal** have seen the greatest rise in satisfaction with freedom.

**Social Tolerance** measures how well society respects and benefits from a diversity of peoples' religious beliefs, ethnicities, origins and sexualities. Cultural and religious diversity have positive economic impacts, with new ideas, new markets and a general culture of creativity and innovation emerging from the interaction of people from different backgrounds.

*Indicators – perceived tolerance of ethnic minorities; perceived tolerance of LGBT individuals; perceived tolerance of immigrants; social barriers to freedom of religion*

- Despite its plummeting overall prosperity, citizens of **Venezuela** reported a greater level of tolerance toward ethnic minorities, LGBT individuals and immigrants in 2017.
- The greatest share of **North America's** large fall in Personal Freedom came through decreasing Social Tolerance, in particular reduced social tolerance of freedom of religion.

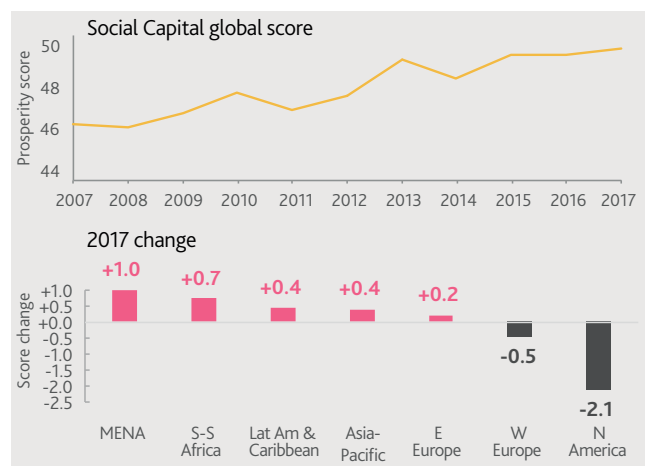
## Personal Freedom 2017



# Social Capital

Social networks, and the cohesion a society experiences when people trust and respect one another, have a direct effect on the prosperity of a country. 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. Societies with lower levels of trust tend to experience lower levels of economic growth. Thus the word "capital" in "social capital" highlights the contribution of social networks as an asset that produces economic returns and improves wellbeing.

Over the last ten years, the world's Social Capital has improved more than any other pillar except Business Environment. Asia-Pacific has been the long-term stand-out performer, although this year the greatest gains were for MENA and Sub-Saharan Africa. Meanwhile North America and Western Europe, which have long sat well in front of the rest, have seen decline – and in North America's case it cost them their lead in overall prosperity.



**Personal and Social Relationships** measures the strength of bonding Social Capital in the form of personal relationships, family networks and genuine community. These relationships improve subjective wellbeing and also provide material support.

*Indicators (all survey variables) – perceived level of opportunity to make friends, ability to count on family/friends for help, frequency of helping strangers, frequency of giving informal financial help*

- The global improvement in Social Capital over the last decade has come for the most part through strengthened personal and social relationships, particularly in **Asia-Pacific**.
- **Libya** rose to first in the world in 2017 in this sub-pillar due to people giving more financial help; there was also an increase in the number of people who said they had friends or family who would help them.
- The five countries with the greatest falls in their scores in 2017 were also in Sub-Saharan Africa – **Tanzania** was the worst, with a big drop in levels of voluntary financial help.

**Social Norms** measures bridging Social Capital, which is manifested in civic norms, social cohesion and engagement. In particular, this encompasses trust in institutions (such as the police), and the level of respect people with which people treat each other.

*Indicators (both survey variables) – perceived level of respect, confidence in local police force*

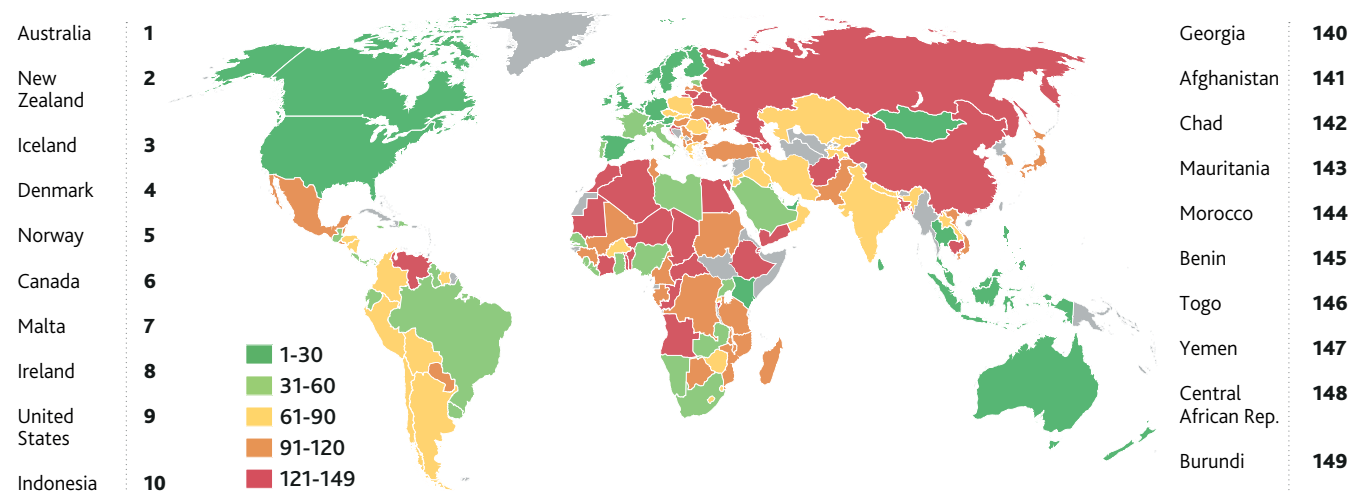
- **Malaysia** has seen declining levels of respect and police trust, in spite of other forms of Social Capital – personal relationships, civic participation – improving in the last five years.
- The inverse is the case for the **Czech Republic**, where trust in the police has improved greatly, in spite of people's dwindling civic participation.

**Civic Participation** measures the linking Social Capital, which is the civic and political participation of a citizenry. These link people together, through volunteering and donating, and through the political process through political participation.

*Indicators – frequency of donations to charity, frequency of volunteering, frequency of voicing opinion to a public official, voter turnout*

- **Jordan** has seen informal participation of its citizens grow in the last five years, through increased donations and volunteering – there are signs that the formal aspect (voicing opinions and voting) are also increasing.
- **Chile's** citizens are now more reluctant to engage in formal civil society than five years ago – while people are volunteering more, they are much less politically engaged through voicing their opinion or voting.

Social Capital 2017





# Safety and Security

Safety and security are integral to securing prosperity. A secure and stable environment is necessary for attracting investment and sustaining economic growth. People's wellbeing is dependent on having secure living conditions and personal safety. In short, a nation can prosper only in an environment of security and safety for its citizens.

Safety and Security has seen a worldwide decline over the last decade and 2017 was no different — this score fell more than in any other year of the Index. Nearly two-thirds of the 149 nations in the Index saw their situation worsen, led by declines in the MENA region.

However, the story is not all bad news. Eastern Europe saw Safety and Security improve. Further, many individual countries saw improvements. For example, while Latin America and the Caribbean's overall score fell, around half of its countries saw their score improve.



**National Security** measures how well people within a country are kept safe from conflict and violence, which include coups, state-sanctioned killings, torture, disappearances and political imprisonment.

*Indicators—battlefield death rate, civil and ethnic war casualty rate, political terror scale (state violence and repression), refugees by country of origin, terrorist death rate*

- The drop in global Safety and Security has been led by declines in national security for the last seven years.
- **Turkey** has fallen to 137<sup>th</sup> in the world for national security, in the wake of increased civil unrest leading to terrorism, political terror and battlefield deaths.
- In contrast, **Russia** gained 4 places, thanks to decreases in political terror and battlefield deaths.

**Personal Safety** examines how well the safety of property and person are respected and kept secure on a day-to-day basis. This includes levels of theft, homicides and safety while walking alone.

*Indicators—intentional homicide rate, stolen property from yourself or household member, feeling of walking alone safely at night*

- Asia-Pacific occupies the top three spots in personal safety: **Singapore, Hong Kong** and **Japan**.
- **Cyprus** has seen the greatest five-year improvement in personal safety, due to a reduction in homicides and theft, and people feeling safer at night.
- **Sub-Saharan Africa** is the only major region to decline, with increased property theft and fewer people feeling safe at night.

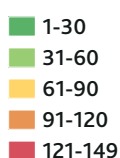
**Security of Living Conditions** looks at how safe and secure people are in their daily lives. This means secure housing and food supply as well as the safety of the living environment and infrastructure.

*Indicators—availability of adequate food, availability of adequate shelter, road death rate*

- In Eastern Europe, **Azerbaijan, Poland** and **Croatia** saw the largest gains for this sub-pillar, driven by the increasing availability of food and shelter.
- **Venezuela's** decline in Safety and Security needs little introduction, although its starkest fall in prosperity terms has come through reported lack of food – in this indicator, it is now second-bottom in the Index.

## Safety & Security 2017

Singapore	1
Iceland	2
Norway	3
Japan	4
Hong Kong	5
Austria	6
Malta	7
Switzerland	8
Netherlands	9
Ireland	10



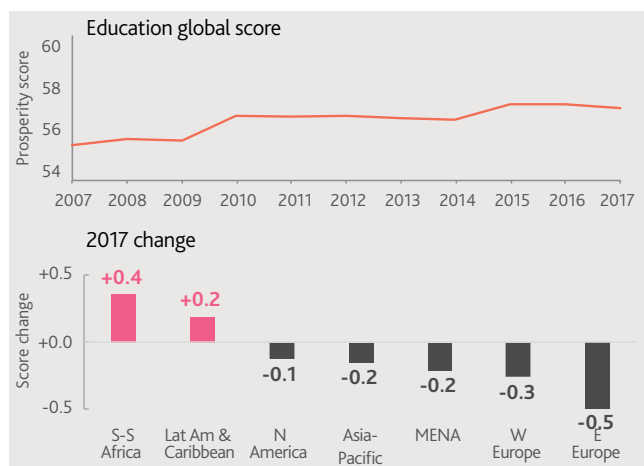
Libya	140
Venezuela	141
Colombia	142
Pakistan	143
Sudan	144
Nigeria	145
Afghanistan	146
Central African Rep.	147
Democratic Republic of Congo	148
Iraq	149

# Education

Education and Human Capital are building blocks for prosperous societies. The accumulation of human capital contributes to economic growth, making a case for the non-diminishing effect of education on rising per capita income levels. Furthermore, increased exposure to education allows people to lead more fulfilling lives. A better-educated population is better able to contribute to their society.

Education has improved in the world in the last ten years, in spite of a slight fall in 2017. The most notable improvement worldwide has been in adult literacy, which has increased by 3% since 2007.

Sub-Saharan Africa improved the most in 2017, due not only to improving adult literacy, but also as a result of increasing numbers of girls enrolling in primary education. Furthermore, the region's primary completion rate has also significantly improved in the last ten years.



**Access to Education** examines how wide-ranging access to, and enrolment in, education is. This includes access across genders and the literacy rate amongst adults and youth.

*Indicators – adult literacy rate, youth literacy rate, Gini coefficient of education distribution, girls to boys enrolment ratio*

- **Bangladesh** improved fastest in Asia-Pacific in this sub-pillar in 2017, following significant growth in the adult literacy rate among its citizens.
- **Armenia** improved significantly due to growth in girls/boys primary enrolment ratio.
- Despite ranking first in the world for in Education, **Switzerland** is 71<sup>st</sup> for this sub-pillar, because education is unevenly distributed among its citizens.

**Quality of Education** measures the quality of education attained by citizens. This quality is reflected in the numbers achieving primary and secondary education, public perception of schooling and the international reputation of universities.

*Indicators – perception among citizens that children are learning, education quality by primary and secondary attainment, number of top universities, satisfaction with local schooling, primary completion rate*

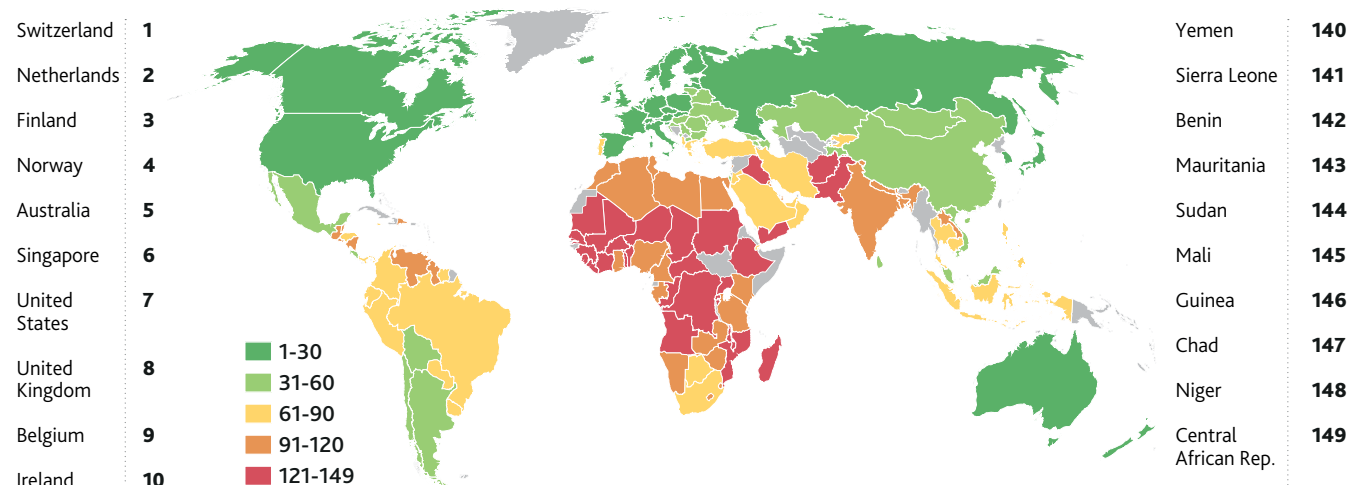
- Quality of education has increased considerably in **Eastern Europe** in the last ten years, with more years of secondary education per worker and a much better perception that children are learning at school.
- **Ecuador's** citizens are increasingly satisfied with the quality of local schools and are more confident now that children are learning than ten years ago.
- Primary completion rate has significantly improved in **Niger** this year, adding to significant gains over the last decade.

**Human Capital of the Workforce** measures the levels and skills in the workforce that encourage research and development. These are measured at secondary and tertiary level.

*Indicators – secondary education years per worker, tertiary education per worker, proportion of secondary pupils enrolled in technical/vocational training*

- **Eastern Europe** has the second best human capital score in the world among regions, behind North America.
- **Peru** has seen the largest decline in this sub-pillar in the last decade, primarily because of a fall in tertiary education per worker.

## Education 2017

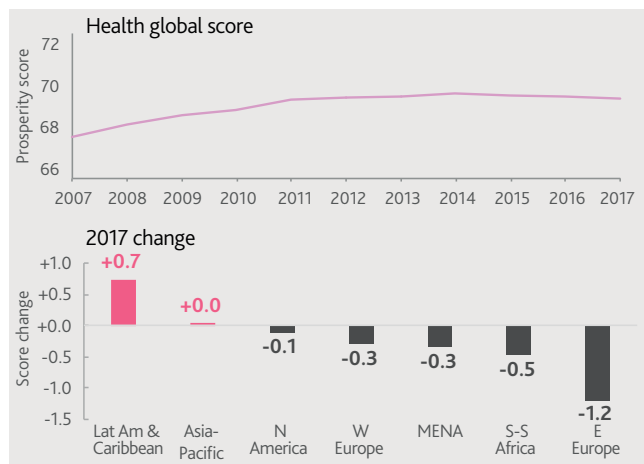


## Health

For a nation to truly prosper, its citizens must have good Health. Those who enjoy good physical and mental health report high levels of wellbeing; and an effective health infrastructure is critical for sustaining per capita income. Poor health keeps people from fulfilling their potential.

Having risen strongly at the beginning of the last decade, world Health is now beginning to decline. Aspects of Health causing the score to fall this year were worsening emotional wellbeing (increasing reports of sadness and worry) and people perceiving more frequent health problems.

Latin America and the Caribbean was the only region to exhibit a meaningful rise in its Health score, as it improved vaccination rates. Its citizens are also reporting the highest level of joy since 2010.



**Health Outcomes** are the basic outcomes expected by members of a prosperous society. This includes mental and emotional wellbeing, as well as basic measures of mortality and life expectancy.

*Indicators – life expectancy at birth, mortality rate, perception of health problems, feelings of joy, feelings of sadness and worry*

- **Saudi Arabia** saw the largest improvement in the last year. As well as citizens perceiving themselves to have fewer health problems, they are also feeling happier and experiencing less sadness and worry.
- **Sub-Saharan Africa** has declined in this sub-pillar more than any other region in the last five years. While life expectancy has increased since 2012, people are experiencing much more sadness and worry, and reporting increased struggles with health problems.

**Health Systems Quality** looks at the adequacy of health infrastructure, service quality and preventative care (including sanitation, immunisation and broader public health). This is reflected in people's satisfaction with their healthcare.

*Indicators – satisfaction with healthcare, quality of sanitation facilities, vaccination rate for diphtheria, vaccination rate for measles*

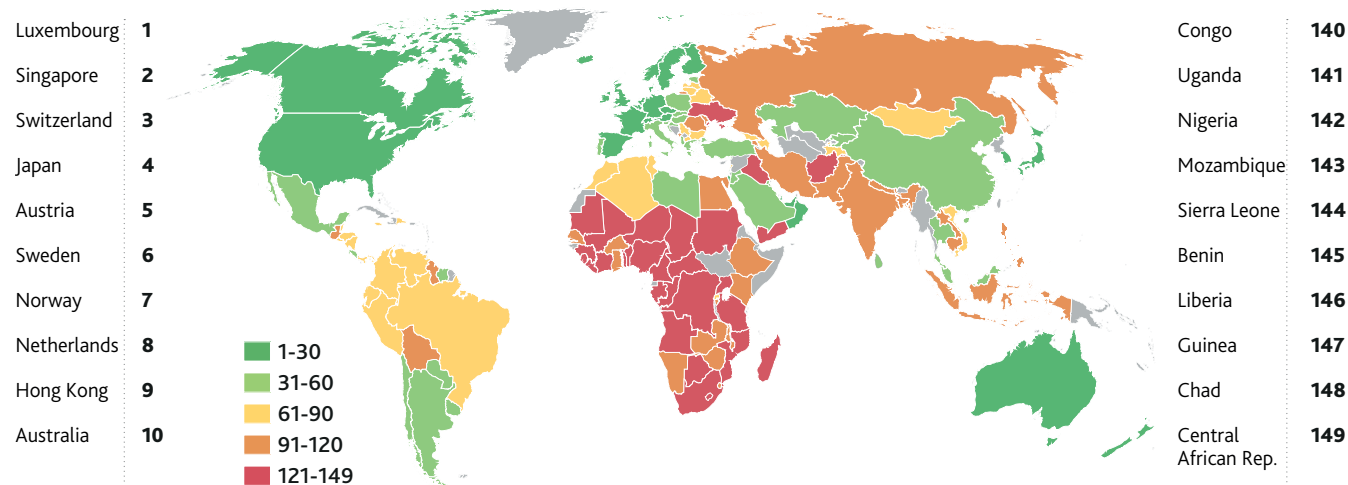
- **Latin America and the Caribbean** saw a large increase in Health Systems Quality in 2017. **Guatemala** saw the largest global increase in vaccinations against measles this year.
- **Ethiopia** has greatly increased its coverage for measles and diphtheria vaccinations in the last five years, giving its health score a boost.
- **Ukraine**, by contrast, has witnessed a sharp drop since 2012 in its vaccination coverage. Ukrainians are also among the least satisfied in the world with their healthcare.

**Illness and Risk Factors** measures the extent to which the health system's coverage and performance are effective at maintaining the health of the population.

*Indicators – quality-adjusted life years lost to tuberculosis, adult diabetes rate, obesity rate*

- **Japan** is the best performer in this sub-pillar thanks to its having the fourth-lowest rate of obesity in the world.
- The world's five most obese nations are all in the Gulf – **Qatar** is the worst, in spite of ranking first in the world for the quality of its health systems.

### Health 2017



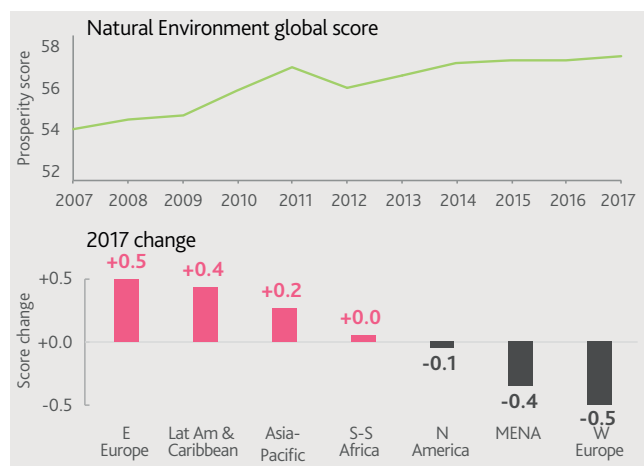


# Natural Environment

A high-quality natural environment conveys a sense of wellbeing and satisfaction to a country's population through characteristics that may be physical (such as air quality), social (such as green areas in which to meet) or symbolic (such as national parks).

Natural Environment has improved in every year of the Index except 2012, with the greatest gain over the last decade coming through wider access to drinking water. Eastern Europe gained the most in 2017, coming from more sustainable use of freshwater, along with increased satisfaction with governments' preservation efforts.

However, some indicators have worsened across the world. Water supplies (as measured by freshwater withdrawal), along with fish stocks, are now more stressed than they were in 2007.



**Environmental Quality** looks at the extent to which the natural environment enhances human welfare. Attributes of environmental quality such as clean air and water bring immediate health and wellbeing benefits.

*Indicators – air pollution levels, % population with convenient access to drinking water*

- **Eastern Europe** improved its environmental quality more than any other region in the last decade, through reductions in air pollution. The world's fastest 12 improving nations for air quality since 2007 are all Eastern European, led by **Ukraine**.
- **China** meanwhile has the worst air pollution in the world, and sits second bottom in this sub-pillar, just above **Bangladesh**.

**Environmental Pressures** measures the exploitation of natural resources. Over-exploitation can restrict the ability of the natural environment to support biodiversity. Sustainable agriculture and fisheries can increase long-run productivity through the slowing of degradation, which acts as a long-run drag on productivity.

*Indicators – fraction of fish stocks in national waters overexploited/collapsed, domestic freshwater withdrawal as % of renewable resource*

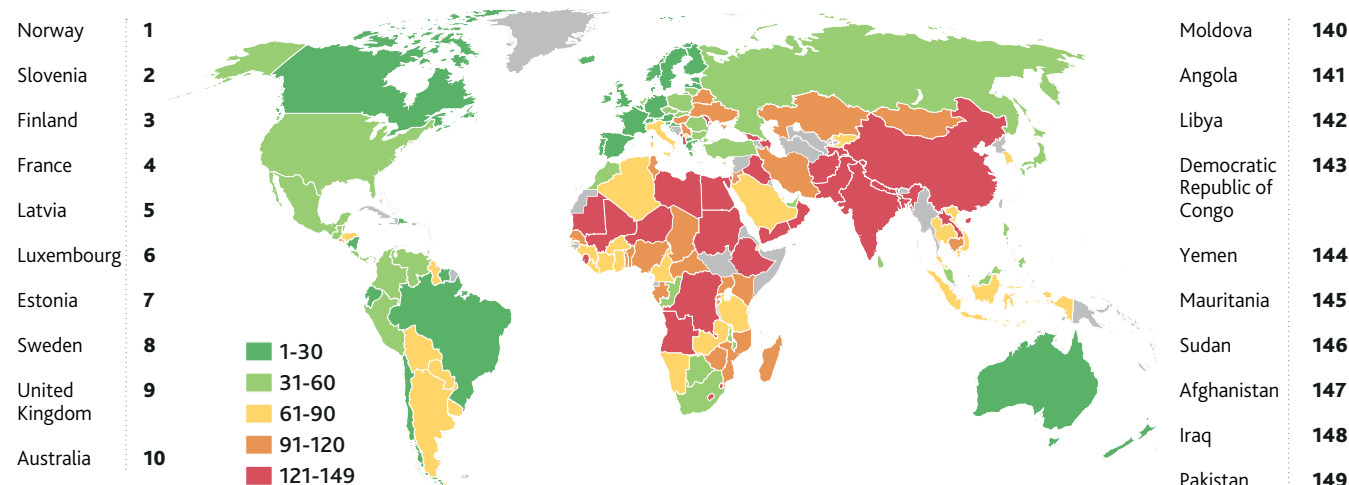
- Out of the top five countries that have improved the most in the last five years on Environmental Pressures, four are from Eastern Europe: **Moldova, Lithuania, Ukraine and Hungary**.
- **Russia** considerably improved the sustainability of its fish stocks in the last decade, making it the fastest riser in this sub-pillar.
- Despite being in the top 10 for overall prosperity, the **Netherlands** ranks 149<sup>th</sup> in the world for environmental pressures, due to stressed fish stocks and high freshwater withdrawal.

**Preservation Efforts** measures how well countries take steps to preserve and protect the natural environment. This includes the extent to which they avoid contamination of the environment through pollution (such as wastewater or pesticides).

*Indicators – protected marine area (% of total), protected terrestrial area (% of total), regulation of harmful pesticides, anthropogenic wastewater treatment, satisfaction with preservation efforts*

- **Western Europe** improved the most in the last decade among the world's regions through improved treatment of wastewater and reduced air pollution.
- **Slovenia** improved the most in this sub-pillar since 2007, as the nation moved to protect almost 100% of its territorial waters.
- In the last 10 years, **Indonesia** saw the largest increase in people saying they were satisfied with preservation efforts.

## Natural Environment 2017









# Methodology

The *Legatum Prosperity Index™* is a framework that assesses countries on the promotion of their citizens' flourishing, reflecting both wealth and wellbeing. It captures the richness of a truly prosperous life, moving beyond traditional macro-economic measurements of a nation's prosperity, which rely solely on indicators of wealth such as average income per person (GDP per capita). It seeks to redefine the way we measure national success, changing the conversation from what we are getting to who we are becoming. This makes it an authoritative measure of human progress, offering a unique insight into how prosperity is forming and changing across the world.

In moving to "GDP and beyond", to cover both wealth and wellbeing and not just one or the other, the Prosperity Index faces the challenge of finding a meaningful measure of national success. We endeavour to create an Index that is methodologically sound. This is something that the Legatum Institute has strived to achieve with academic and analytical rigour over the past decade.

For the 2016 issue, the Prosperity Index was refreshed following a two-year methodological review, with the input of academic and policy expert advisors. The objective of the review was to get closer to a measure of prosperity that is transparent and policy-relevant, constructed by combining established theoretical and empirical research on the determinants of wealth and wellbeing. The Index captures the breadth of prosperity across nine pillars of prosperity using 104 indicators. We ensured that all indicators displayed a statistically significant and meaningful relationship with at least wealth or wellbeing. The 2016 edition of the Prosperity Index covered more countries and more variables, added a new pillar on the Natural Environment and reflected new sources of data.

We also published 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 2017, we have retained the methodology established last year. For more information on the methodology, please refer to the *Methodology Report* published at [www.prosperity.com](http://www.prosperity.com).

A country is given a score for each pillar. This score is based on that country's performance with respect to each of the indicators in that pillar, and the level of that importance—the weight assigned to each indicator—which is discussed in the methodology report. Finally, the pillar scores are averaged to obtain an overall prosperity score, which determines each country's rank. Each pillar contains around 12 indicators; and for this year's report we have also aggregated the indicators into sub-pillars, to capture an intermediate perspective. While the Index score provides an overall assessment of a country's prosperity, each pillar (and sub-pillar) score serves as a reliable guide to how that country is performing with respect to a particular foundation of prosperity.

We also continuously monitor the quality and availability of global data, which is not constant. Under the Economic Quality pillar, for example, we have drawn on World Bank data for labour market participation (overall and female). Our past measure has been the ILO estimate of overall, and female, labour force participation rate as percentage

of the population aged 15-64. However, these two data-sets have been discontinued, thus we have replaced them with close analogues, the labour force participation rate as a percentage of the population aged 15+. These new metrics also include the labour force participation of older workers. Consequently, there have been some changes in the rankings for these indicators - countries with smaller 64+ populations tend to have more favourable scores – yet on the level of the overall Prosperity Index, this switch of indicators has had negligible impact on rankings.

## Pillars



The **Economic Quality** pillar measures countries on the openness of their economy, macro-economic indicators, foundations for growth, economic opportunity and financial sector efficiency.



The **Business Environment** pillar measures a country's entrepreneurial environment, its business infrastructure, barriers to innovation and labour market flexibility.



The **Governance** pillar measures a country's performance in three areas: rule of law, effective governance, and democracy and political participation.



The **Education** pillar measures access to education, quality of education and human capital.



The **Health** pillar measures a country's performance in three areas: basic physical and mental health, health infrastructure and preventative care.



The **Safety & Security** pillar measures countries based on national security and personal safety.



The **Personal Freedom** pillar measures national progress towards basic legal rights, individual liberties and social tolerance.



The **Social Capital** pillar measures the strength of personal relationships, social network support, social norms and civic participation in a country.



The **Natural Environment** pillar measures a country's performance in three areas: the quality of the natural environment, environmental pressures and preservation efforts.







## Step by step

1

### Selecting the variables

We carried out an extensive literature review in each pillar looking at the academic literature on economic development and wellbeing. We identified more than 200 variables that have an effect on wealth and wellbeing. This was refined based on input from academic and policy experts in each pillar area, who advised on the reliability of data sources, alternative measures and the credibility of variables' measurement. This left us with a final list of 104 variables, distributed fairly evenly across the nine pillars.

2

### Standardisation

The variables in the Index are based on many different units of measurement, such as numbers of individuals, years, percentages and ordinal scales. These different units need to be normalised for comparison between variables and countries to be meaningful. A distance to frontier approach is employed for this task. The distance to frontier approach compares a country's performance in a variable with the value of the logical best case as well as that of the logical worst case. As a result, the country's relative position can be captured by the distance to frontiers score generated. This approach also enables us to compare Index scores over time.

3

### Variable weights

Each variable is assigned a weight, indicating the level of importance it has in affecting prosperity. Weights fall into four buckets: 0.5, 1, 1.5, and 2. Each variable by default is weighted as 1 and, based on their varying significance to prosperity their weight, may be adjusted downwards or upwards accordingly. For example, a variable with a weight of 2 means that it is twice as important in affecting prosperity as most other variables. Weights were determined by three factors, ordered according to priority: (1) the relevance and significance of the variable regarding the accumulation of material wealth and the enhancement of wellbeing as informed by the academic literature; (2) expert opinions offered by the Index's special advisors; and (3) the degree of compatibility with the Legatum Institute's view of prosperity as human flourishing across wealth and wellbeing.

4

### Pillar scores

In each of the nine pillars, variables' distance to frontier scores are multiplied by their weights and then summed to generate countries' pillar scores, with the countries are then being ranked according to their scores in each pillar.

5

### Prosperity Index score

The Prosperity Index score is determined by assigning equal weights to all nine pillars for each country. The mean of the nine pillar scores yields a country's overall Prosperity score. The overall Prosperity Index rankings are based on this score.

# Acknowledgements

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*Design, Visualisation, & Infographics by [wond.co.uk](http://wond.co.uk)*

Tree of Prosperity illustration by Andrew Davidson

Unless otherwise stated, all data is from the 2017 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).

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 2017 *Legatum Prosperity Index*™.

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#### ABOUT THE LEGATUM INSTITUTE

The word 'legatum' means 'legacy'. At the Legatum Institute, we are focused on tackling the major challenges of our generation—and seizing the major opportunities—to ensure the legacy we pass on to the next generation is one of increasing prosperity and human flourishing. Based in London, we are an international think tank and educational charity which seeks to provide evidence-based solutions for those who would see free, just and flourishing societies. We do this through our research and by bringing together those who wish to work towards creating a better, more prosperous world. At the Legatum Institute, we believe that prosperity is not just a journey of accumulation, but one of transformation.

For more information about the Prosperity Index or to speak to one of the Legatum Institute's experts, please email [info@li.com](mailto:info@li.com)





CREATING THE PATHWAYS FROM POVERTY TO PROSPERITY

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## PROSPERITY INDEX

The Legatum Institute is an international think tank and educational charity whose mission is to promote policies that create the pathways from poverty to prosperity

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