



THE 2011 LEGATUM PROSPERITY INDEX™

AN INQUIRY INTO GLOBAL WEALTH AND WELLBEING



www.prosperity.com

The 2011 Legatum Prosperity Index™ Rankings



■ High ranking countries (top 30)
 ■ Medium ranking countries (middle 50)
 ■ Low ranking countries (bottom 30)

OVERALL PROSPERITY RANK	COUNTRY	ECONOMY	ENTREPRENEURSHIP & OPPORTUNITY	GOVERNANCE	EDUCATION	HEALTH	SAFETY & SECURITY	PERSONAL FREEDOM	SOCIAL CAPITAL
1	Norway	3	8	12	4	4	2	3	1
2	Denmark	14	1	3	5	16	8	5	2
3	Australia	7	7	6	1	14	14	4	4
4	New Zealand	24	13	2	2	22	9	2	3
5	Sweden	6	2	4	11	12	5	8	7
6	Canada	5	9	5	10	15	7	1	8
7	Finland	15	3	7	3	13	4	16	6
8	Switzerland	2	10	1	29	2	12	17	13
9	Netherlands	9	12	10	14	9	17	7	5
10	United States	18	5	9	13	1	26	12	9
11	Ireland	35	11	14	12	11	3	9	10
12	Iceland	71	6	15	8	3	1	6	11
13	United Kingdom	21	4	8	19	17	23	13	12
14	Austria	11	18	11	17	8	16	25	16
15	Germany	8	16	17	27	6	20	15	15
16	Singapore	1	14	13	51	20	6	30	32
17	Belgium	19	23	16	18	10	19	19	18
18	France	16	20	18	16	7	28	11	36
19	Hong Kong	4	17	19	39	33	18	21	20
20	Taiwan	12	15	32	9	29	13	32	29
21	Japan	20	21	20	23	5	11	51	25
22	Slovenia	31	24	25	15	25	10	23	33
23	Spain	28	28	23	7	18	30	14	28
24	South Korea	22	19	29	6	21	32	50	52
25	Portugal	39	29	28	21	27	15	24	60
26	Czech Republic	30	27	30	30	24	21	40	35
27	United Arab Emirates	23	22	34	37	34	22	42	30
28	Poland	45	35	36	24	30	25	36	22
29	Uruguay	48	56	24	38	37	24	10	56
30	Italy	27	30	38	20	19	40	39	58
31	Chile	25	34	21	56	41	36	28	62
32	Slovakia	52	31	39	26	26	33	38	45
33	Estonia	41	26	22	35	38	34	70	46
34	Costa Rica	37	37	26	57	45	47	20	42
35	Kuwait	26	32	37	47	39	31	68	49
36	Hungary	62	42	33	33	31	27	53	77
37	Panama	33	38	53	50	62	37	35	38
38	Israel	29	25	27	28	28	99	93	24
39	Argentina	46	49	84	36	36	46	27	40
40	Greece	55	41	50	25	23	38	78	85
41	Croatia	59	40	46	40	32	29	56	93
42	Brazil	32	48	52	72	50	69	22	59
43	Malaysia	17	36	35	46	46	53	96	75
44	Lithuania	95	39	42	31	40	35	71	66
45	Thailand	13	53	57	55	70	71	100	17
46	Kazakhstan	56	60	80	42	53	49	64	27
47	Trinidad and Tobago	74	45	54	74	57	51	33	70
48	Bulgaria	79	46	61	52	47	39	58	74
49	Saudi Arabia	36	54	49	61	48	78	92	19
50	Belarus	75	64	100	22	35	48	76	21
51	Latvia	90	33	40	32	43	43	81	96
52	China	10	59	63	54	67	86	91	26

Overall Prosperity Rank	Country	Economy	Entrepreneurship & Opportunity	Governance	Education	Health	Safety & Security	Personal Freedom	Social Capital
53	Mexico	34	61	66	71	49	84	63	31
54	Tunisia	49	44	55	43	51	45	102	73
55	Jamaica	91	47	64	80	60	52	47	41
56	Belize	63	58	68	78	52	63	48	47
57	Paraguay	42	76	86	86	66	54	34	53
58	Romania	84	51	67	49	54	42	60	103
59	Russia	72	50	96	34	42	82	87	48
60	Mongolia	80	57	79	53	85	41	72	44
61	Colombia	54	55	56	65	64	108	43	57
62	Vietnam	40	78	58	82	73	50	74	79
63	Sri Lanka	67	75	45	69	71	103	45	34
64	Uzbekistan	65	83	95	75	63	57	67	23
65	Jordan	66	68	47	45	58	59	101	72
66	Philippines	43	70	59	60	82	95	57	64
67	Botswana	92	67	31	83	93	60	29	84
68	Peru	47	63	73	73	79	79	44	92
69	South Africa	86	43	43	79	94	77	55	65
70	Indonesia	44	80	78	66	83	61	83	51
71	Morocco	38	72	69	93	74	70	105	14
72	Dominican Republic	68	66	72	77	84	87	41	67
73	Venezuela	70	71	106	41	56	90	65	69
74	Ukraine	105	62	99	44	59	56	98	37
75	Turkey	78	52	48	76	55	81	95	99
76	Macedonia	89	65	65	63	44	58	85	106
77	El Salvador	64	77	62	85	68	74	66	98
78	Ghana	106	85	51	94	87	55	18	71
79	Moldova	85	69	85	58	76	67	88	80
80	Namibia	94	82	44	87	90	64	37	89
81	Syria	57	97	81	67	69	92	94	43
82	Lebanon	58	81	94	48	77	73	77	102
83	Ecuador	69	74	102	59	81	88	49	95
84	Guatemala	50	73	90	89	80	94	75	50
85	Bolivia	51	91	93	70	89	76	54	94
86	Nicaragua	98	93	88	84	78	66	52	83
87	Honduras	93	87	87	81	75	72	80	88
88	Algeria	60	84	92	62	72	83	106	87
89	Egypt	88	79	76	68	65	75	109	90
90	Mali	81	107	70	109	102	44	31	55
91	India	53	90	41	88	95	97	73	104
92	Senegal	103	100	82	102	91	62	26	76
93	Nepal	87	101	91	101	86	93	69	81
94	Cambodia	61	95	71	90	97	68	99	101
95	Bangladesh	73	92	89	91	88	98	46	109
96	Tanzania	101	105	74	95	101	89	62	61
97	Iran	76	88	107	64	61	100	107	107
98	Rwanda	97	99	60	96	100	65	84	110
99	Cameroon	82	106	103	92	103	91	61	97
100	Uganda	102	94	83	98	104	104	59	68
101	Zambia	107	102	75	100	108	85	90	63
102	Kenya	109	89	97	97	99	102	82	82
103	Mozambique	77	98	77	104	109	80	86	105
104	Nigeria	99	104	108	106	106	105	89	54
105	Sudan	83	96	109	108	92	110	103	39
106	Yemen	100	103	104	103	98	96	108	91
107	Pakistan	96	86	98	105	96	109	104	100
108	Ethiopia	104	108	101	107	107	106	110	86
109	Zimbabwe	110	109	110	99	105	107	97	78
110	Central African Republic	108	110	105	110	110	101	79	108

The 2011 Legatum Prosperity Index™ Rankings Table

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Welcome to the 2011 Legatum Prosperity Index™

The Prosperity Index is the signature annual report of the Legatum Institute and is central to our ongoing inquiry into the nature of prosperity and the pathways of successful countries.

The Legatum Prosperity Index™ provides the world's only global assessment of prosperity based on both income and wellbeing. Our purpose is to promote a holistic understanding of national prosperity by providing a framework for its measurement that will be useful to policymakers, scholars, and the globally curious.

Traditional measures of national prosperity are based entirely on indicators of a country's income, represented either by Gross Domestic Product (GDP) or by average income per person (GDP/capita). Yet most human beings understand intuitively that 'prosperity' is not just about money, it is also about satisfaction with our lives and our future prospects. Thus, recent efforts to 'move beyond GDP' have focused on wellbeing, happiness, social mobility, and other indicators to the exclusion of wealth.

What makes the Prosperity Index unique is its focus on both dimensions. Indeed, it is the first global index to provide an empirical basis for the intuitive sense that true prosperity is a complex blend of income and wellbeing. Our Index is also the first to examine the correlates of both income and wellbeing across different dimensions of society, and to explore how these factors may influence a country's income and the happiness of its citizens. We have found that the most successful countries are those that enjoy a 'virtuous cycle' of certain fundamental, and mutually reinforcing elements.

This brochure includes a brief overview of how the Index was created; the country rankings; five regional analyses; six features focusing on key aspects of the data; and four Index Insights about some of the most pressing public policy issues facing the world today. Further information on the Index, including a more detailed explanation of the methodology and data sources, comprehensive country profiles, and tools that allow you to explore the data can be found at **www.prosperity.com**.

We hope that you find this year's Index both engaging and thought-provoking. The Index is central to the Legatum Institute's ongoing inquiry into economic and political freedom across the globe, and we seek to improve the Index – and our analysis of it – each year. We therefore welcome any comments or feedback that you might have (please email us at: **info@li.com**). Please visit us at **www.li.com** for more information about our research, products, events, and initiatives.

More information on the Prosperity Index, including profiles of each country and interactive tools for further exploration, can be found at **www.prosperity.com**

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Down Under Moving Up **p25**

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



Senator Robert F. Kennedy

“Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts... nuclear warheads and armored cars for the police to fight the riots in our cities...

Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile.”

Index Insights

The Prosperity Index is about more than country rankings. It is an exploration into the sources of prosperity and how they relate to each other. This section contains some of the many interesting insights revealed by the Index's unique analysis.

It is our hope that readers will join us in exploring the Index as a way to confirm or challenge the consensus on emerging trends, test conventional wisdom, and find new policy applications for national income and wellbeing.

1 Arab Spring Countries Could Look to Indonesia and Malaysia

There can be no single model for the post-revolutionary Middle East and North Africa. While Turkey may be a model for some, Arab Spring countries could look to Indonesia and Malaysia.

2 Freeing the Entrepreneurial Spirit of Africa

African citizens are among the most optimistic in the world for entrepreneurship. Yet, this resource remains underused because of various constraints, most notably poor infrastructure.

3 India vs. China: Who is Best Positioned to Tackle Corruption?

Both countries are plagued by similar levels of corruption. But, ultimately, India – with its open democratic society – is better placed than China to tackle this crippling problem.

4 The European Crisis: Time to Rethink Integration?

The European project is in crisis. The Prosperity Index suggests that top-down integration has done little to equalise differences among European countries.



Insight 1: Arab Spring Countries Could Look to Indonesia and Malaysia

perspective...

The country where the Arab Spring began is probably in the best position to continue on a path to prosperity. Tunisia's performance in the 2011 Prosperity Index is regionally strong, and is one of only four Arab countries that place in the top half of the Index. The other three are UAE, Saudi Arabia, and Kuwait. Indeed, Tunisia outperforms Turkey on all but two sub-indices – Governance and Personal Freedom. If Tunisian President Ben Ali's departure allows, in fact, a freer trajectory in Tunisia's politics, then that country may become a leader in building a better future for the region.

There can be no single model for the region after the Arab Spring. Each country's path to prosperity is unique. For some in the region, Turkey is a model. What does the Index show about the wisdom of that choice? It depends on our focus. If our focus is on effective democratic governance, then Turkey, may be to some extent, a good model among Muslim countries. In other areas, though, notably the economy, the post-Arab Spring countries could just as usefully look to other countries like Indonesia and Malaysia.

What, then, do we see when we turn to Indonesia and Malaysia? As the graph illustrates, Indonesia outperforms Turkey on the Economy sub-index, ranking 44th while Turkey places 78th. Indonesia's success partly comes from having the 19th largest market in the world. Indonesia's market recovered well from the 1997 Asian financial crisis, and this has enabled that country to reduce poverty levels and maintain robust economic growth even during the recent global downturn. Job market expectations have continued to improve since 2008, while satisfaction with living standards has risen from 44% in the 2009 Index to almost 70% in this year's Index.

With regard to democratic governance, Indonesia presents a mixed picture. Despite its economic successes, democratic Indonesia still suffers from high levels of corruption and low levels of rule of law. Most notably, Indonesia, which started its transition from autocracy to democracy in 1998, has seen a decline in



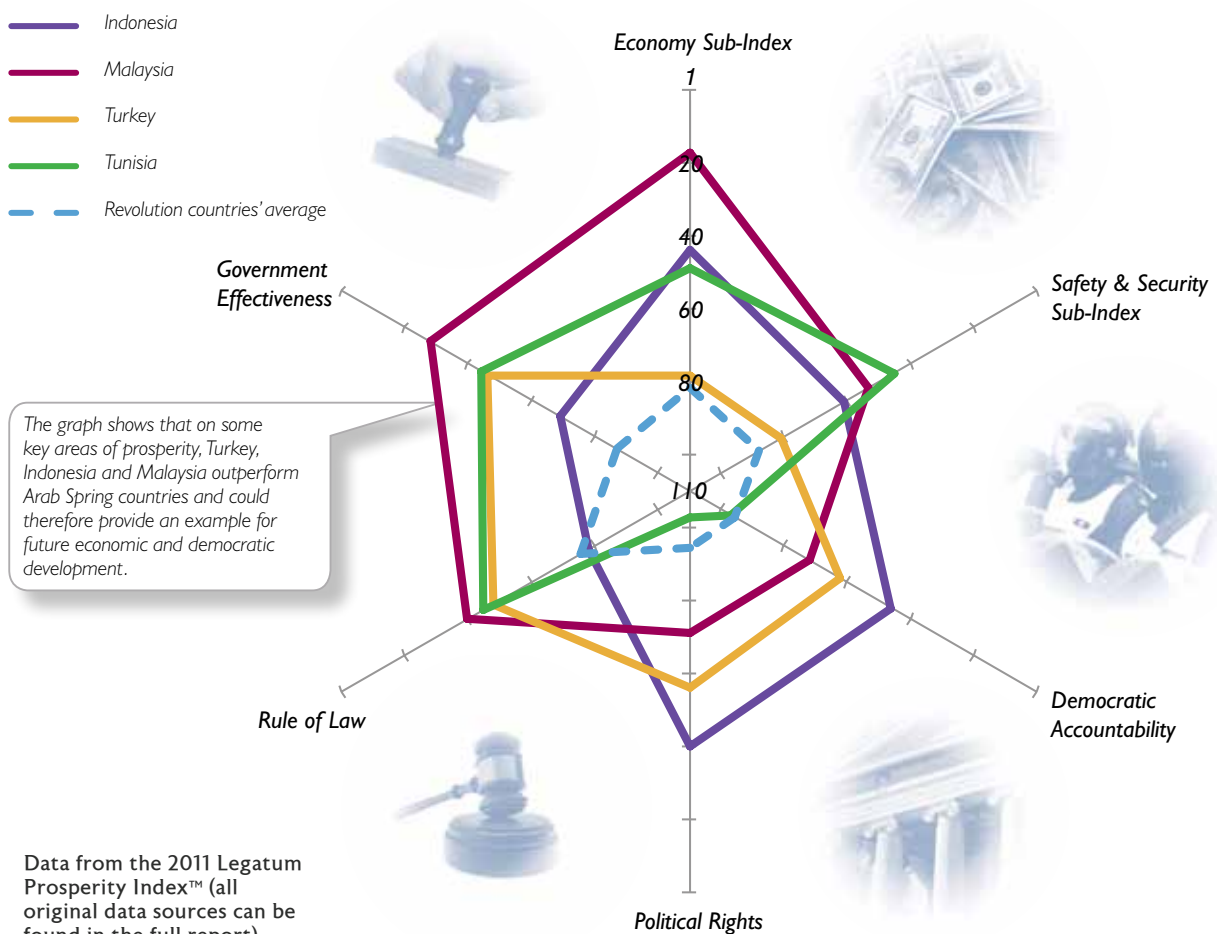
voter support for Muslim-oriented parties over the last two elections. In 2004 religious parties won 38% of the vote, but in 2009 that share had dropped to 28%¹, the lowest ever in Indonesia. Unlike the AKP in Turkey, which has benefited from that country's economic successes, the religious parties in Indonesia seem to have suffered.

In terms of economic prosperity, Malaysia looks like a model, ranking 17th globally on the Economy sub-index. This economic success is largely due to export-led industrialisation, fuelled by foreign direct investment. In addition, the country has low unemployment and high public confidence in financial institutions at 87%. Less exemplary is Malaysia's effective yet relatively unaccountable governance. In 2008 Malaysia saw a breakthrough for opposition parties for the first time since its independence, but the recent crackdowns on political expression and protest mark a worrying trend.

The power of example – the need for a model to inspire positive change – should not be underestimated. But because no model can ever be perfect, it is prudent to hold up more than one, and to keep in mind what the Prosperity Index continues to demonstrate: that the world changes, regions and countries change, but the foundations of national prosperity remain the same. A commitment to free markets and democratic governance are central to success.

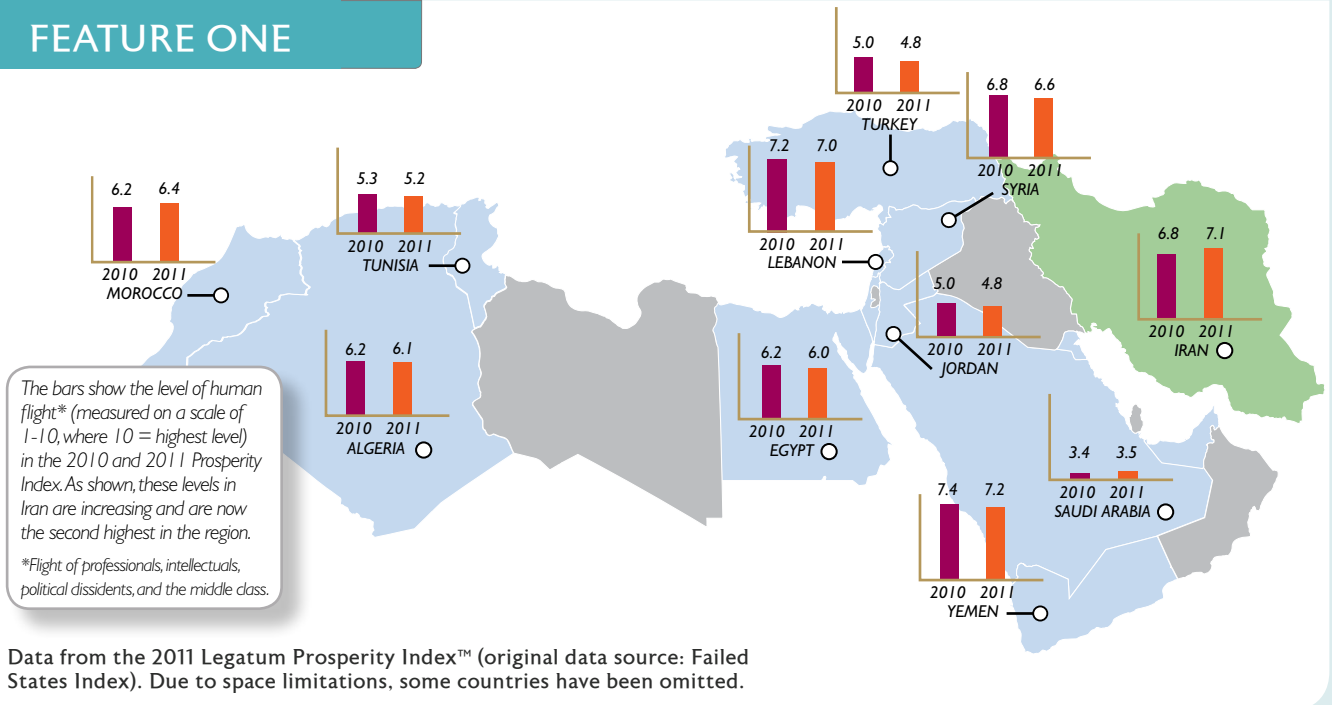
¹ Marcus Mietzner, "Indonesia's 2009 Elections: Populism Dynasties and the Consolidation of the Party System", Lowy Institute for International Policy, (May 2009)

Turkey, Indonesia, and Malaysia: Example for Arab Spring Countries?



"Revolution countries' average" is the average value for Egypt, Yemen, and Syria. Graph shows variable and sub-index rankings (1-110)

FEATURE ONE



All Quiet on the Persian Front?

The 2009 elections in Iran sparked some of the most dramatic anti-regime protests in recent memory. Yet the 2011 Arab Spring has not set off a similar uprising in Iran. On the contrary, those who were expecting a resurgence of the Green Movement have so far been disappointed.

This begs the question: why is Iran so quiet? Could it be that the Iranian economy is robust enough to keep the population off the streets? The Index suggests otherwise. Iran sputtered along with roughly 3% growth between 2005 and 2009, but other economic fundamentals remain poor. The latest figures on inflation and non-performing bank loans in the 2011 Index are high, at over 13% and 25% respectively. Unemployment measured over 10% in 2008 and is estimated to remain at a similar level.

Since 2010 Iran has dropped five places, from 92nd to 97th. But this does not reflect a drop in absolute performance. Rather it is a relative decline, reflecting an improvement in the position of other similarly ranked countries. Moreover, Iran's overall prosperity performance is difficult to gauge because the Index has no survey data from 2009 onwards. The reason for this is that after the crackdown on the Green Movement, which involved everything from house arrests to public

executions, the Gallup World Poll was unable to conduct surveys in Iran.

That same repression may explain another finding: Iran's score in the Safety & Security sub-index has decreased since 2009. In particular, Iran has experienced one of the highest levels of emigration of professionals, intellectuals, and dissidents in the region over recent years. In the 2011 Index, Iran is now only second to Yemen regarding levels of human emigration in the region, as shown above.

This human flight suggests that many influential Iranians are either discouraged from seeking change, or fearful for their safety. And in turn, the departure of so many educated, middle-class people may explain the relative calm that seems to have settled over Iran.

Revolutions require catalysts. Usually these are a combination of intolerable conditions and human beings willing and able to take action against them. But revolutions also require a spark. Many observers expect next year's parliamentary elections to provide one such catalyst. But without enough human catalysts the spark might never catch light.

*‘No society can surely be
flourishing and happy, of which
the far greater part of the
members are poor and miserable.’*

ADAM SMITH, THE WEALTH OF NATIONS

Insight 2: Freeing the Entrepreneurial Spirit of Africa

perspective...

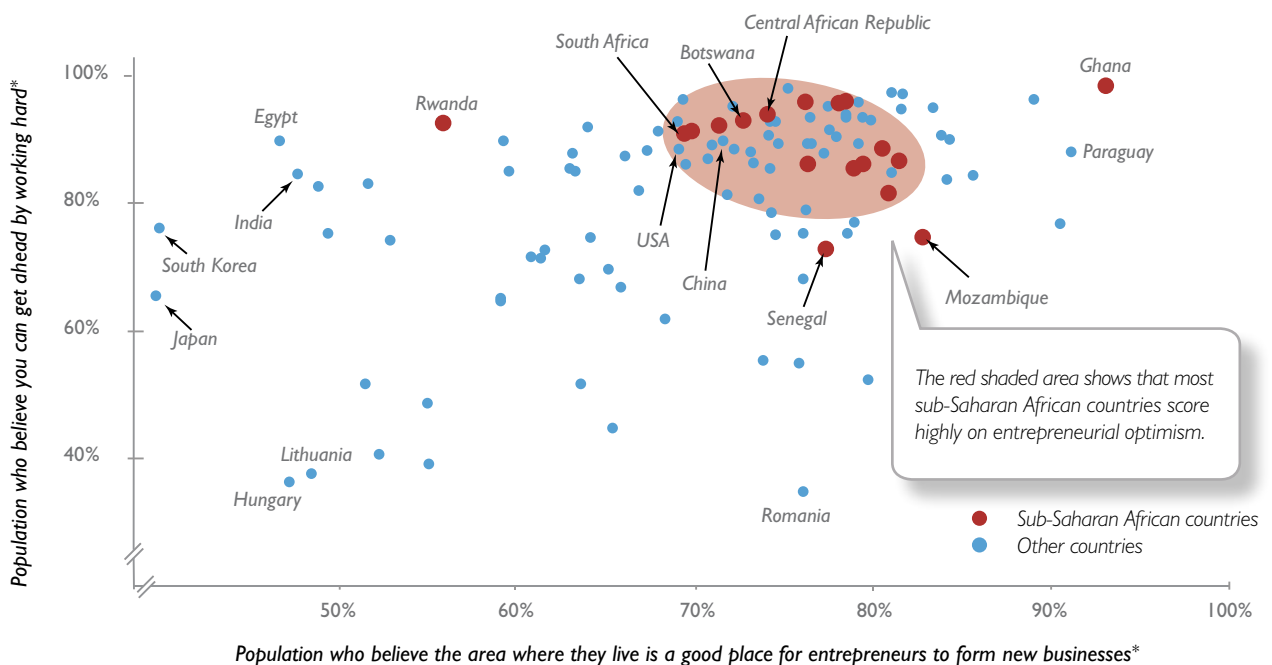
African citizens are among the most optimistic in the world about entrepreneurship. Yet, this resource remains underused because of various constraints, most notably poor infrastructure.

Foreign investors have been building physical infrastructure in several African countries. But if the goal of this investment is solely to extract resources as efficiently as possible, it does little to nurture local entrepreneurship, meaning Africans are losing the ability to hone and develop their own entrepreneurial skills.

Sub-Saharan Africa is blessed with a vigorous entrepreneurial spirit. Indeed the imminent rise of African economies has been prophesied by academics, investors, and commentators alike. These projections are predominately based upon economic growth forecasts and demographic trends. However, it is the African entrepreneurial spirit that will ultimately be the key to making Africa's future prosperity sustainable. The Prosperity Index finds that most African citizens believe they can get ahead by working hard, and that the area in which they live is good for starting a new business (as shown in the graphic below). In the Central African Republic, for example, less than one-quarter of citizens have access to adequate food and shelter. But despite these difficult circumstances, 94% of the citizens still express faith in the rewards of hard work.

Yet something is restricting this entrepreneurial spirit. Despite ranking highly on some subjective variables, the majority of African countries rank at the bottom of the Entrepreneurship & Opportunity sub-index. And while several countries in the region have shown robust per capita growth rates, the full potential of African entrepreneurs has yet to be unleashed. Naturally, the world looks for exceptions to this rule, and in recent years the small country of Botswana has emerged as a possible model of what sustained African prosperity might look like. For example, Botswana has a remarkably high penetration of mobile phones: over 96 per 100 persons, significantly more than the regional average of 41.

The Entrepreneurial Optimism of Sub-Saharan Africa



*Data from the 2011 Legatum Prosperity Index™ (original data source: The Gallup World Poll)

This statistic is striking because 21st-century economic growth is associated with improvements in communications infrastructure. The Prosperity Index also shows that mobile phone ownership is linked to higher levels of entrepreneurship and opportunity. Throughout the sub-Saharan region, cellular telephone subscriptions have sky-rocketed from less than two per 100 people in 2000 to over 40 in 2009. This upsurge has conferred many benefits on African citizens and businesses, from rural farmers being able to find commodity prices in different locations, to remote villagers becoming adept at “mobile banking”.

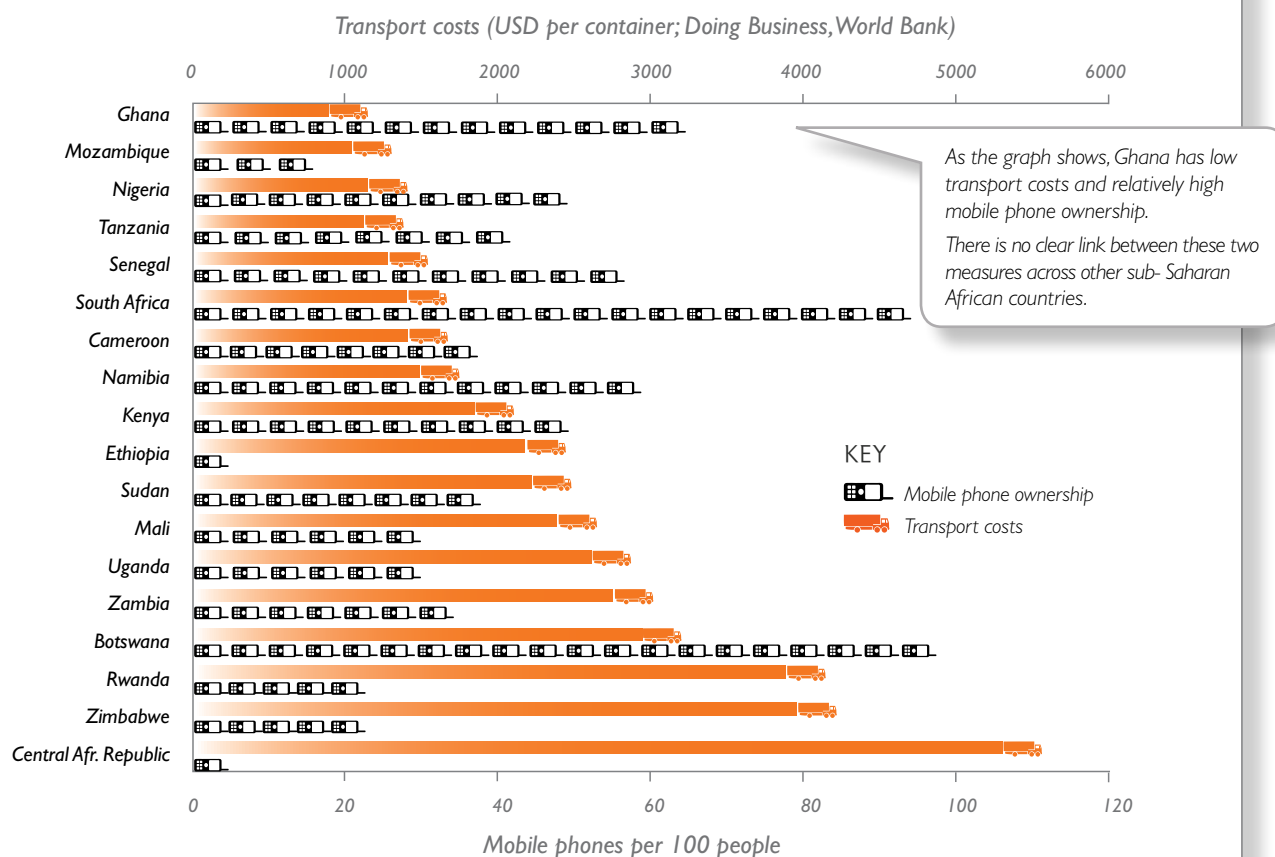
To Western philanthropists and aid organisations, it makes sense to support micro-technology, such as mobile phones powered by miniaturised solar panels, as part of a new communications infrastructure. This enables African entrepreneurs to reduce their transaction costs, access valuable information, and connect with larger regional and even global markets.

But this is not the whole picture. In the case of Botswana, the advantage conferred by widespread mobile usage is offset by the

disadvantage imposed by high transportation costs: 3,200 USD is the average cost per shipping container, more than twice the Index average (1,400 USD). Despite the headline-grabbing growth of Africa’s communications infrastructure, the less trendy physical infrastructure of roads, railways, airports, and harbours lag far behind. Indeed in some countries there are fewer paved roads than there were 30 years ago. A World Bank study¹ has also shown that a 10% drop in transport costs could increase trade by 25%.

For these reasons, Ghana may be better positioned than Botswana to provide a model of sustained economic growth in Africa. According to the World Bank, Ghana is projected to be the fastest growing economy in sub-Saharan Africa, despite Ghana having only 63 mobile phones per 100 persons. The cost of moving goods from point A to point B, however, is lower in Ghana than any other sub-Saharan African country, at a cost of 1,100 USD per container, which is below the global average. Maybe that’s why Ghana is the most optimistic about entrepreneurship of all 110 countries in the Index!

The Entrepreneurial Infrastructure: Mobile Phones and Transport Costs in Africa



¹ Nuno Limao and Anthony J. Venables, “Infrastructure, Geographical Disadvantages, Transport Costs, and Trade” World Bank Economic Review, vol. 15, No. 3. (2001)

Insight 3: India vs. China: Who is Best Positioned to Tackle Corruption?

perspective...

While the Index shows that levels of corruption are similar in India and China, a recent Wall Street Journal article suggests that the “shape” of corruption is quite different. Corruption in India is “pyramid-shaped,” consisting mainly of “vast numbers of small payments changing hands at the lowest levels,” while at the higher levels it is sometimes possible to find someone “who is fed up with graft and will intervene.” China, by contrast, presents an “inverted pyramid,” in which “low-level officials are fearful of the punishment they might receive” and “the higher-ups ... just ask for more money.”¹

In 2011 the world’s attention was riveted by anti-corruption protests in two Asian giants, India and China. The protests took different forms, but comparisons are irresistible: which nation’s corruption is worse? Which protests are more likely to succeed? And which nation has a better chance of reducing corruption to a level that, in the long run, will not hinder prosperity?

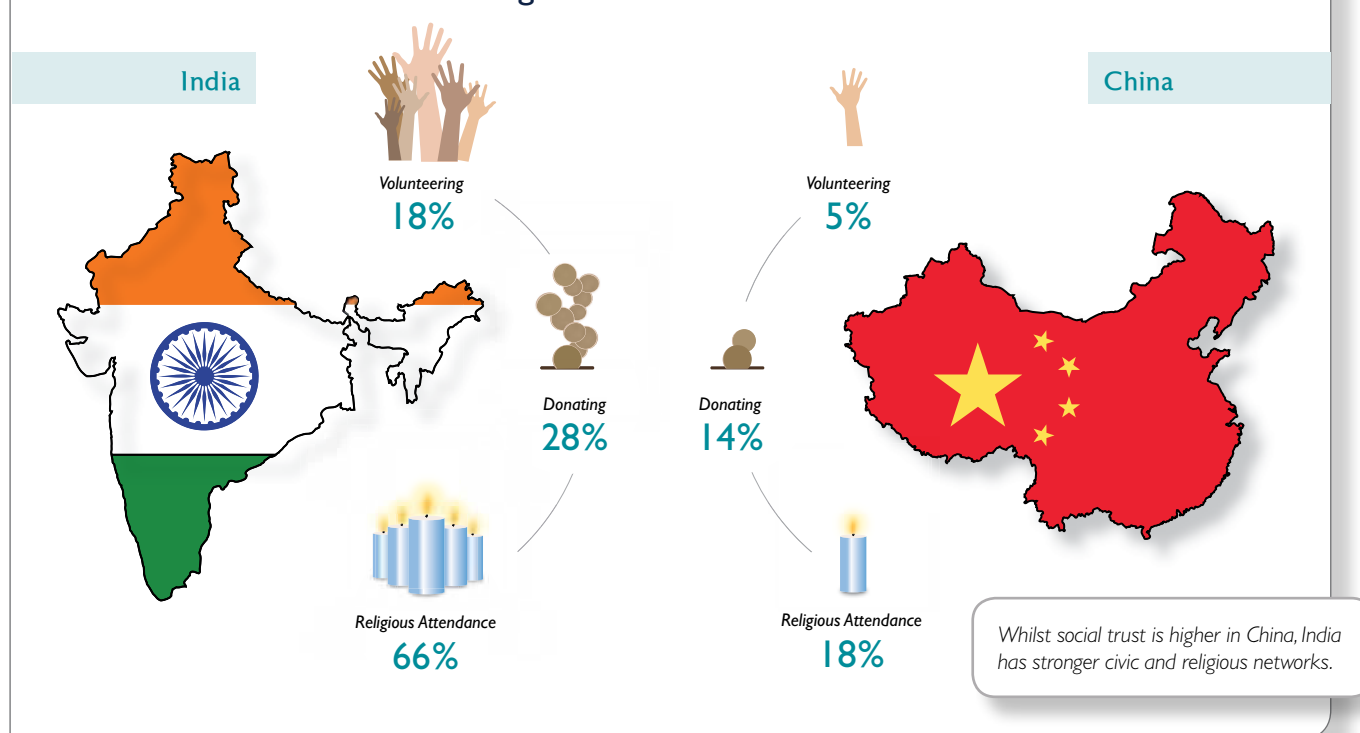
No index can provide definitive answers to these questions, but certain data within the Prosperity Index suggest some interesting patterns that shed light on the issue.

When looking at overall Prosperity Index rankings, India seems to be worse off than China. Both have similarly outstanding economic growth rates and average levels of satisfaction with living standards, but India’s overall rank has fallen 13 places since 2009 (from 78th to 91st), while China’s has risen six places (from 58th to 52nd).

Some of these differences are related to factors such as business start-up costs; in China these represent only 4.5% of Gross National Income, while in India these stand at 57%. However, it is corruption that remains a common problem in both nations.

While many people think of India as more corrupt, both countries’ Index rankings on corruption are very similar: 57th for India, 55th for China. The Chinese government does not allow the polling agency Gallup to ask about corruption, so the Index uses

The Strength of India’s Social Networks*



*Data from the 2011 Legatum Prosperity Index™ (original data source: The Gallup World Poll)



data from Transparency International, a Berlin-based NGO that monitors public and private corruption around the world. On this front, India's democracy clearly has the advantage, in possessing greater openness and transparency on corruption issues. But, do these similar corruption levels suggest a shared path to prosperity?

China benefits from higher rates of education and literacy, which have been shown to correlate with more effective measures against corruption – educated people are more likely to protest against corruption than those with less education.² But India has problems that China does not. For example, it has been suggested that Chinese bribery is more efficient: once the money changes hands in China, the desired service or favour is more likely to be forthcoming than it is in India. One possible explanation for these different forms of corruption is found in the levels of trust within society. Societies with high trust levels tend to see corruption as “efficiency-enhancing” and less detrimental to economic growth. In contrast, societies with low levels of trust, corruption is more predatory, which can reduce economic growth.³

Here the Index offers a unique insight: in the Social Capital sub-index, the level of trust toward others is vastly higher in China (60%) than in India (21%). But China scores much lower than India with regard to other important variables within the Social Capital sub-index such as charitable donations, volunteering and religious attendance.

What this suggests is that India possesses denser and more vibrant social networks, which are both a source of corruption and a resource that can be tapped when seeking to curb it. But this resource can only be tapped in a society where governmental institutions allow people to utter the word “corruption” in public, not to mention include it in surveys. In China, social capital resources are more limited but even more importantly, the government is afraid to ask these questions, demonstrating their unwillingness to grapple with the answers.

¹ Paul Beckett, “The Good and Bad of Indian Corruption”, Wall Street Journal, August 3, 2011

² United Nations Development Programme, “Consolidated Reply E-Discussion on Transforming Corruption Through Human Development”, UNDP Human Development Report Unit, Colombo 2008

³ Shaomin Li and Judy Jun Wu, “China Thrives Despite Corruption”, Far Eastern Economic Review, April 2007

Insight 4: The European Crisis: Time to Rethink Integration?

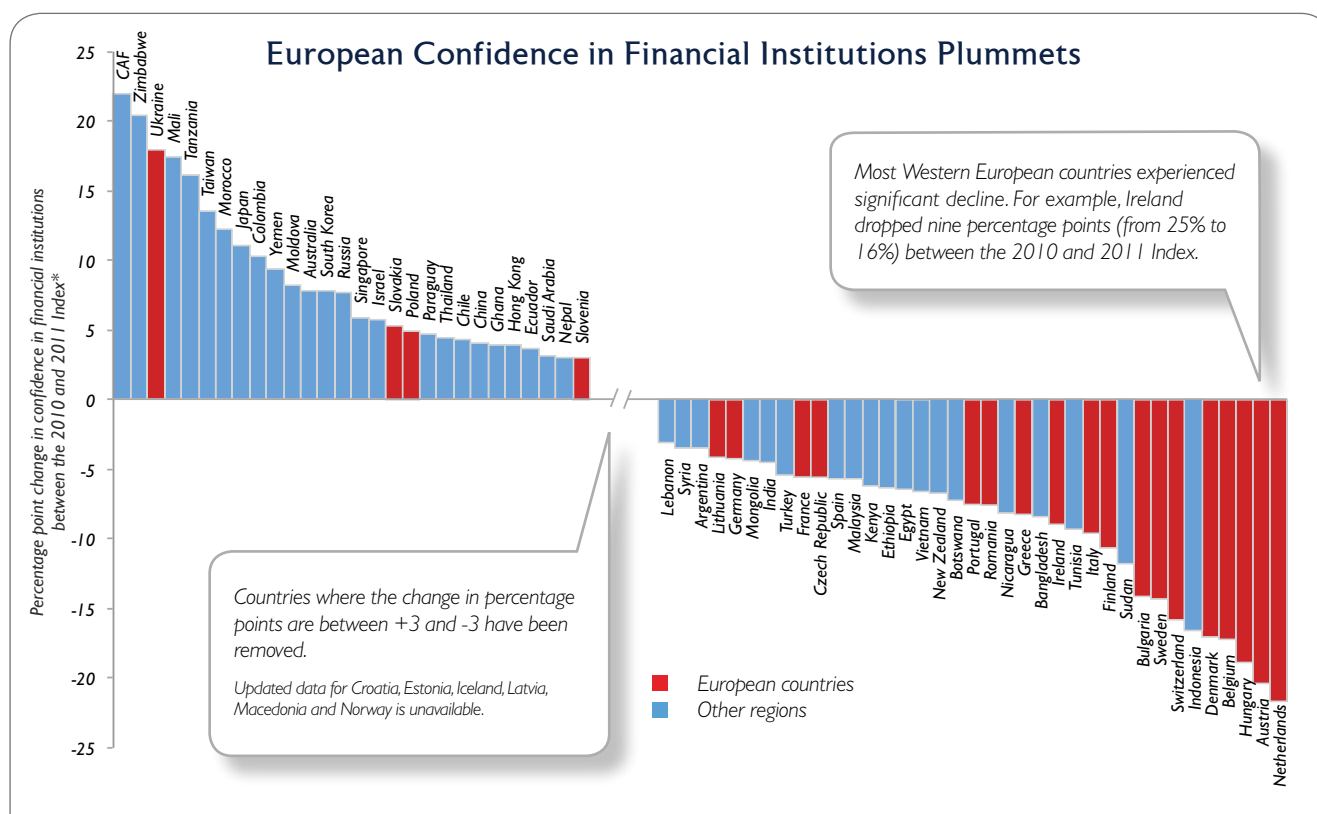
perspective...

Although we do not ask the question directly, it is important to consider subjective survey data regarding European integration. Our data show that the average confidence in the national government in Europe is a full 12% lower than the Index average. This suggests that national electorates feel increasingly excluded as national parliaments have ceded more decision-making power to Brussels over the last 20 years and that a significant gap has opened up between the process of integration and public opinion in Europe.

The Prosperity Index findings suggest that top-down political integration by European policymakers has done little to equalise economic or institutional differences among European countries. The income gap between the richest and poorest EU member states remains vast. Countries in the Mediterranean area report high levels of corruption, low rates of social trust, low levels of rule of law, and inefficient public sectors. European integration also seems to fail to raise institutional quality in these countries, as indicated by low public opinion regarding the quality of the court system and fewer reported instances of citizens voicing their concerns to officials.

Europe's current financial troubles manifest themselves in several objective and subjective variables in the Index. Domestic savings rates, for example, shrank in almost all European countries. And perceived confidence in financial institutions has plummeted almost uniformly across the continent (see graph below).

There has also been a varied performance in the crucial areas of Social Capital and Governance. While the countries at the top of the Index have maintained their position on this front, the so-called PIGS (Portugal, Italy, Greece, and Spain) have stagnated or fallen for the past two years.



*Data from the 2011 Legatum Prosperity Index™ (original data source: The Gallup World Poll)

Ireland and Iceland took a plunge in the Economy sub-index – a reflection of the economic turmoil both countries have gone through. However, both countries rank in the top 20 on all other sub-indices, which sets them apart from the PIGS and indicates that they may have a stronger platform for recovery. Unexpectedly, France shows a decline similar to the PIGS on the Economy sub-index, despite its less troubled economy.

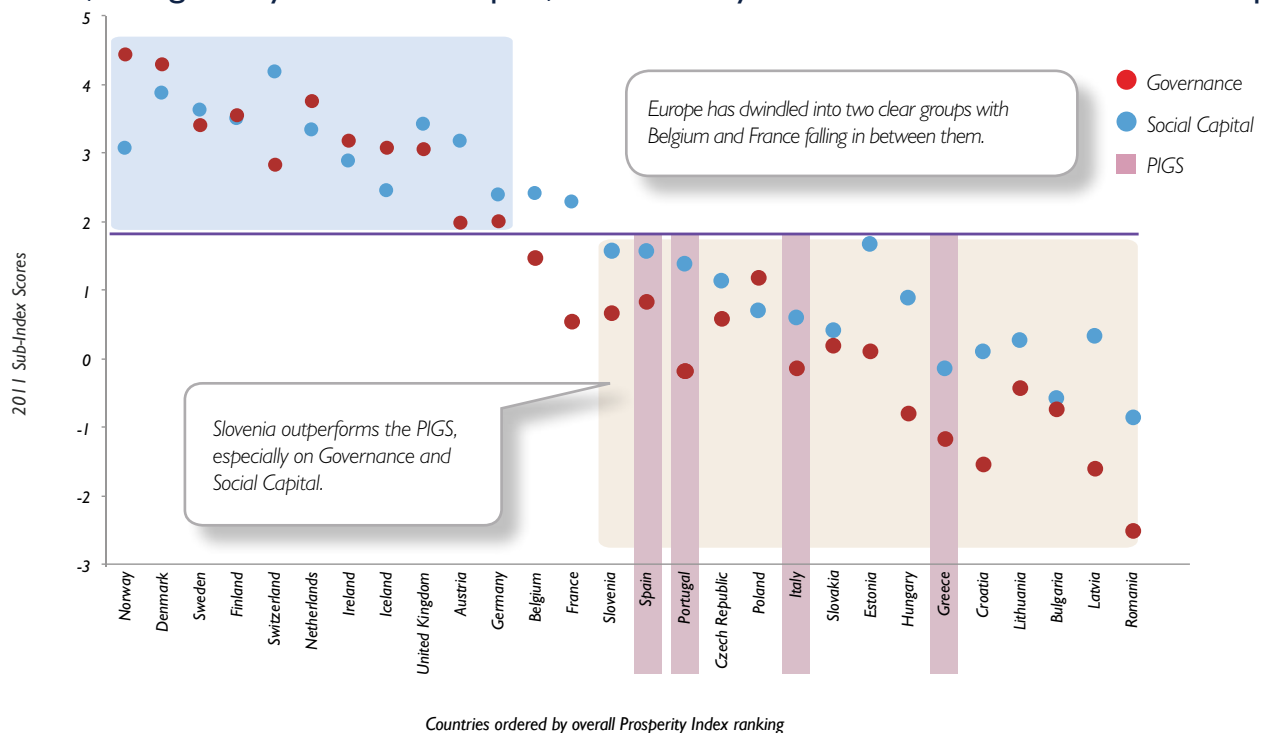
Belgium has seen its overall Prosperity Index score fall two years in a row. On many variables, Belgium now ranks closer to Eastern and Southern Europe than to its neighbours in Western Europe, raising further questions whether European integration and the associated desire for convergence have worked.

Remarkably, some of the more dynamic countries of Central and Eastern Europe have overtaken their Western neighbours in recent years. Slovenia, for example, has seen improvements on the Governance sub-index since last year. Italy and Greece, in

contrast, have seen a decline in this measure. Overall, Slovenia has improved its score on seven of the eight sub-indices since 2009. And while their rise is not as impressively consistent, Czech Republic, Poland, Slovakia, and Estonia now also see eye-to-eye with the PIGS.

For decades, European policymakers have relied on top-down measures to encourage convergence on a whole range of economic, political, and social policies. The Prosperity Index reinforces the widespread impression that such convergence, as presently understood, has not occurred. This suggests that more top-down integration is unlikely to solve Europe's crisis.

PIGS (Portugal, Italy, Greece, and Spain) Overtaken by Recent EU Entrants in Eastern Europe



Prosperity Around the World

Top 10 countries

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

Bottom 10 countries

- 101. Zambia
- 102. Kenya
- 103. Mozambique
- 104. Nigeria
- 105. Sudan
- 106. Yemen
- 107. Pakistan
- 108. Ethiopia
- 109. Zimbabwe
- 110. Central African Republic

Key:

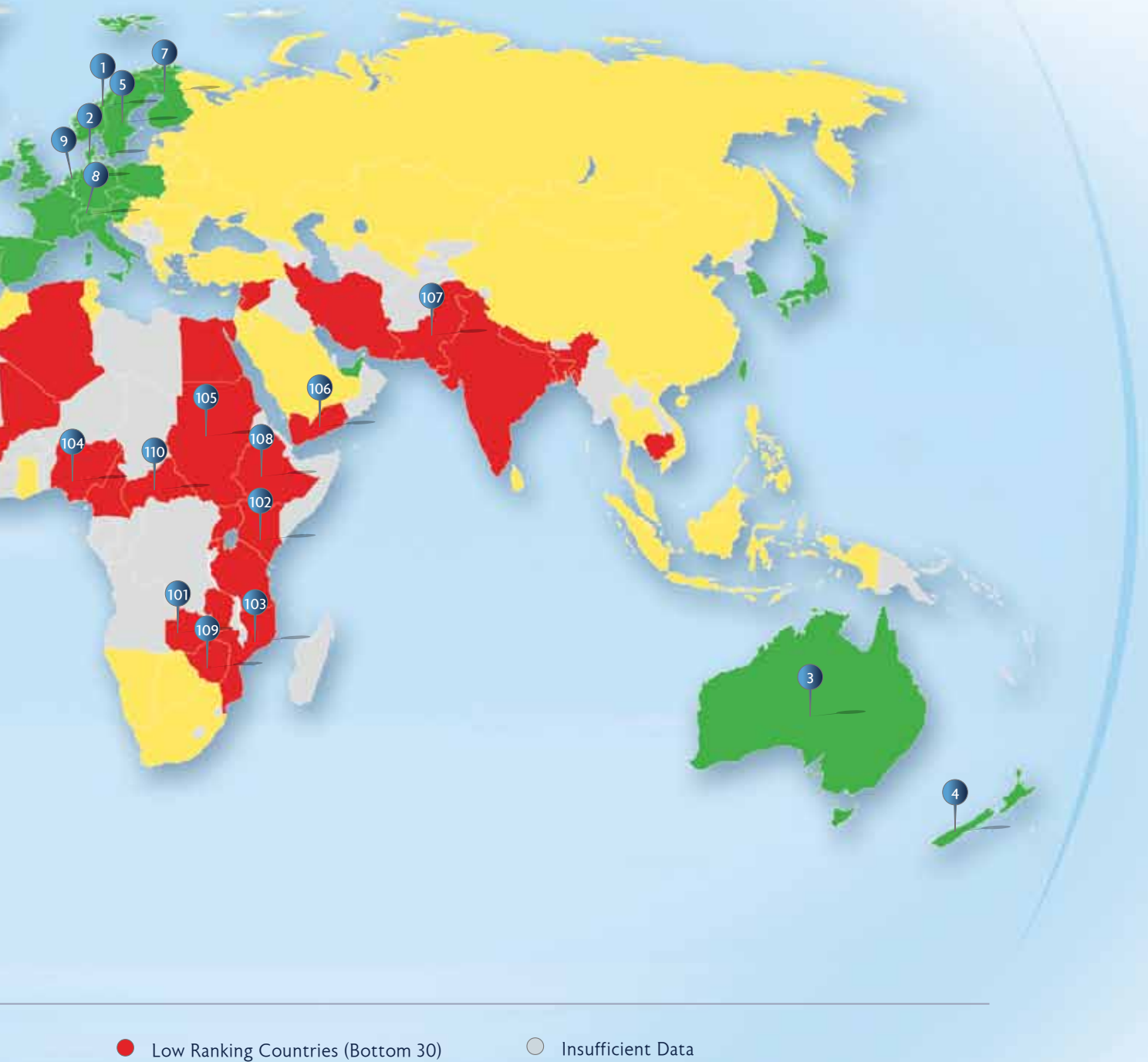


High Ranking Countries (Top 30)



Medium Ranking Countries (Middle 50)





FEATURE TWO



“Where is My Country?”

The Prosperity Index ranks and evaluates 110 countries, comprising more than 93% of the world’s population and 97% of global GDP. But we cannot include every country in the world. Therefore, we are sometimes asked, “Where is my country? Why isn’t it listed?” The answer is straightforward: for some countries, there are insufficient data.

Although the Index already covers 110 countries, the aim is to increase this scope over coming years. However, the measurement of prosperity encompasses no fewer than 89 variables, drawn from 12 different data sources – the most prominent of these, the Gallup World Poll, is currently only able to cover 154 countries. This places an automatic upper limit to the number of countries the Index can cover. For example, Gallup is barred from polling in North Korea, also making it off-limits to us.

Moreover, some governments, notably those of Burma, Cuba, and China, restrict the types of questions that Gallup can ask. In particular, they forbid eliciting citizen opinion about corruption and other sensitive issues of governance. Other challenges arise from the inability or unwillingness of some governments to collect certain kinds of data or to make them

available. In these cases, the Index seeks out other sources of information in areas such as economic performance, governance, education, and health. This effort has yielded results with China, but not with Burma and Cuba.

Other countries as diverse as Somalia, Samoa, Serbia, and Suriname are included in the Gallup World Poll but are not sufficiently covered by other data sources (for example, World Development Indicators). This means they do not meet our 80% threshold for data availability, in order to be considered for inclusion in the Prosperity Index (please see p40 for more details). Nonetheless, in 2010 we were able to find sufficient data on six additional countries – Iceland, Lithuania, Syria, Rwanda, Ethiopia, and Uganda – to expand the Index’s coverage from 104 to 110. This number remains the same for 2011, but an increase in country coverage would be of interest to the Index, and also to the citizens of those excluded countries. After all, one sign of a good government is a willingness to make information on its economic, social, and political conditions available in a transparent and objective manner.

Regional Analyses

The 2011 Prosperity Index consists of five regions:

- **Americas**
- **Asia-Pacific**
- **Europe**
- **Middle East and North Africa**
- **Sub-Saharan Africa**

For each region, we have provided a list of rankings of the countries and an analysis of general trends.



Americas

REGIONAL RANKING

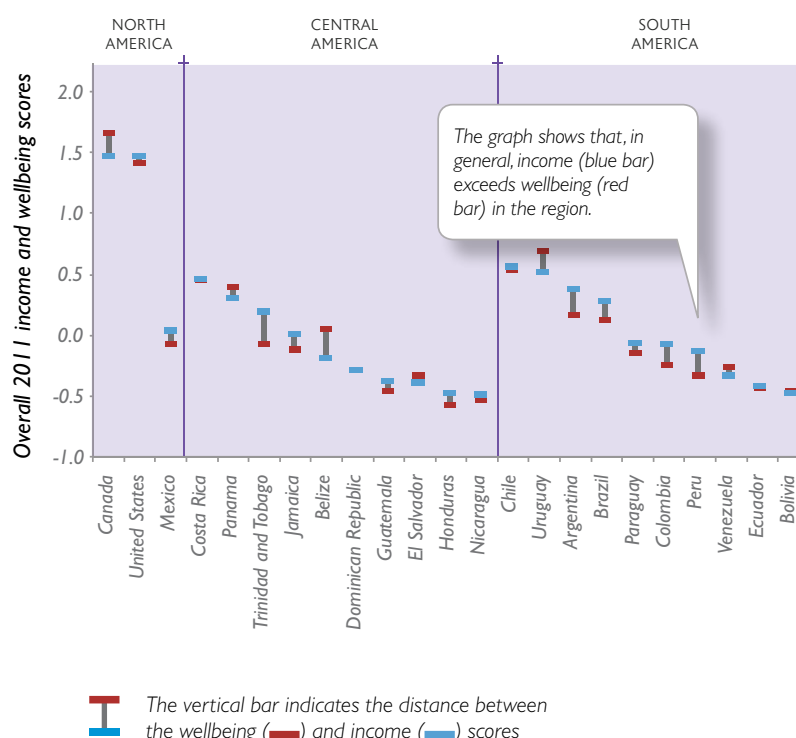
RANK	COUNTRY
6	Canada
10	United States
29	Uruguay
31	Chile
34	Costa Rica
37	Panama
39	Argentina
42	Brazil
47	Trinidad and Tobago
53	Mexico
55	Jamaica
56	Belize
57	Paraguay
61	Colombia
68	Peru
72	Dominican Republic
73	Venezuela
77	El Salvador
83	Ecuador
84	Guatemala
85	Bolivia
86	Nicaragua
87	Honduras

Income and Wellbeing Definitions

The overall **income** score combines all the variables that are related to higher levels of GDP per capita (ppp).

The overall **wellbeing** score combines all the variables that are related to higher levels of life satisfaction.

Income Exceeds Wellbeing in the Americas



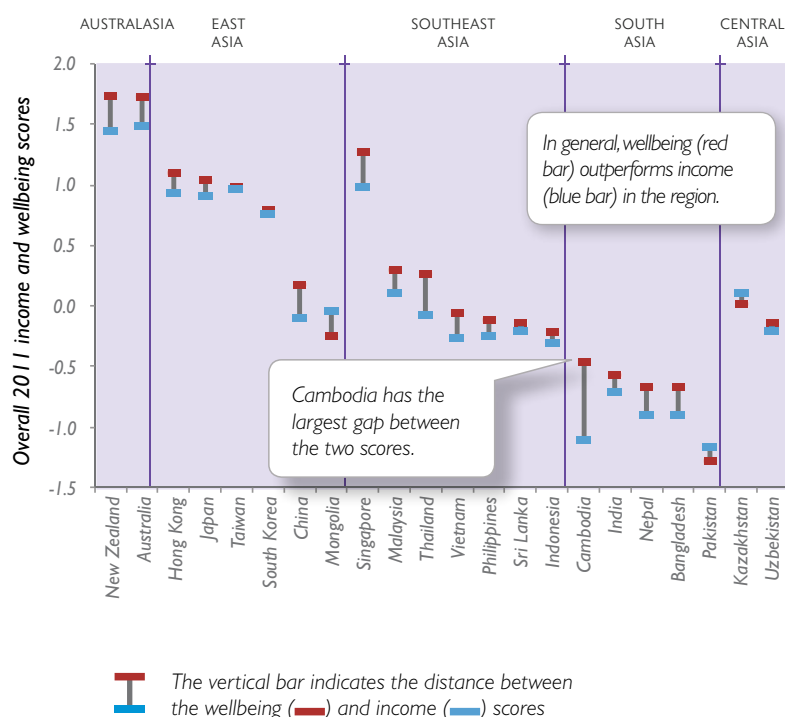
The countries of North, Central, and South America vary widely in terms of their overall prosperity rankings, with Canada at sixth place and Honduras at 87th. The region contains two of the world's wealthiest economies, the United States and Canada, followed by a series of middle and low-income countries. But one common thread can be discerned: almost all of the countries in the region perform better on the income side of the Index than on the wellbeing side (please see definitions, left).

The United States and Canada have remained in their top positions over the last three years – tenth and sixth, respectively. But their southern neighbours present a mixed picture. Argentina, Chile, Paraguay, and Venezuela have consistently risen in ranking; Mexico, Costa Rica, Ecuador, and Honduras have all fallen.

The region-wide gap between income and wellbeing is largely attributed to the performance of these countries in the Governance and Social Capital sub-indices. On the income variables in the Governance sub-index, countries in the Americas perform particularly well on political rights and democracy, with the exception of Venezuela, which is below average on both. But some of the variables that contribute to the wellbeing side of the Governance sub-index are largely below the global average – confidence in elections, the judiciary, the military, and the national government is especially low across the region. The same is true of the wellbeing variables in the Social Capital sub-index, in which the majority of countries in the region experience low levels of trust, and relatively low marriage rates.

Asia-Pacific

Wellbeing Exceeds Income in Asia-Pacific



The Asia-Pacific region includes a diverse array of countries whose rankings are spread throughout the Prosperity Index. In contrast to the Americas, this region shows a generally better performance on the wellbeing side than on the income side (see p20).

Australia tops the region, placing third overall in the Index after two consecutive years of improvement. Next is New Zealand placing fourth, followed by the 'Asian tigers' (Singapore, Hong Kong, Taiwan, and South Korea) and Japan, all of which are in the top 30. Of these countries, South Korea has experienced the largest improvement, moving from 29th in 2009 to 24th in 2011.

Further down, Nepal, Cambodia, Bangladesh, and Pakistan rank in the bottom 20 on the Index, alongside some sub-Saharan African countries.

They have shown no sign of rapid rises through the rankings, with the exception of Cambodia, which moved from 101st in 2009 to 94th in 2011. This group is now joined by India, which over the same period has dramatically dropped 13 places, to 91st.

In the majority of Asia-Pacific countries, overall wellbeing scores are higher than income scores, as shown in the graph above. This gap stems mainly from these countries' performance in the Economy, Education, and Social Capital sub-indices.

Most countries show higher wellbeing scores in the Economy sub-index, primarily because of above average levels of satisfaction with living standards, confidence in financial institutions, and perceived job availability.

On the Education sub-index, the majority of Southeast Asians express

REGIONAL RANKING

RANK	COUNTRY
3	Australia
4	New Zealand
16	Singapore
19	Hong Kong
20	Taiwan
21	Japan
24	South Korea
43	Malaysia
45	Thailand
46	Kazakhstan
52	China
60	Mongolia
62	Vietnam
63	Sri Lanka
64	Uzbekistan
66	Philippines
70	Indonesia
91	India
93	Nepal
94	Cambodia
95	Bangladesh
107	Pakistan

satisfaction with the education system and believe that their children have the opportunity to learn. This is despite a higher than average pupil-to-teacher ratio in primary schools, and relatively low rates of enrolment in secondary and tertiary education – all of which contribute to the income scores of the Education sub-index.

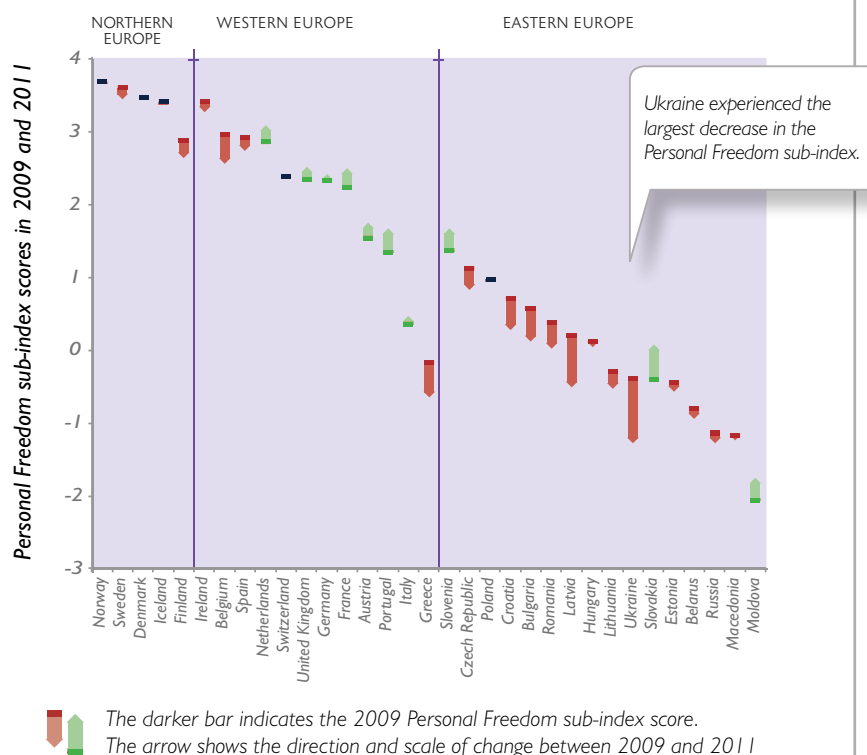
Finally, the wellbeing scores within the Social Capital sub-index are higher than the corresponding income scores in most countries, a finding that partly reflects above average rates of marriage in nearly every country across the region.

Europe

REGIONAL RANKING

RANK	COUNTRY
1	Norway
2	Denmark
5	Sweden
7	Finland
8	Switzerland
9	Netherlands
11	Ireland
12	Iceland
13	United Kingdom
14	Austria
15	Germany
17	Belgium
18	France
22	Slovenia
23	Spain
25	Portugal
26	Czech Republic
28	Poland
30	Italy
32	Slovakia
33	Estonia
36	Hungary
40	Greece
41	Croatia
44	Lithuania
48	Bulgaria
50	Belarus
51	Latvia
58	Romania
59	Russia
74	Ukraine
76	Macedonia
79	Moldova

Falling Personal Freedom in (Eastern) Europe



Western European countries all place in the top 30 of the Index with the exception of Greece, which ranks 40th. Four of the top seven places in the 2011 Prosperity Index are occupied by Nordic countries, with Norway and Denmark placing first and second respectively. The Central and Eastern European countries are more scattered, ranging from Slovenia at 22nd to Moldova at 79th.

On the whole, Western and Northern Europe have remained stable, though both Italy and Greece fell four places over the last two years. The situation is more unsettled in Eastern Europe, with Ukraine, Latvia and Romania each dropping at least 10 positions since 2009.

What is surprising is an unexpected decline in personal freedom in certain countries. Two of the Nordic countries, Finland and Sweden, have seen a significant decrease in their scores over

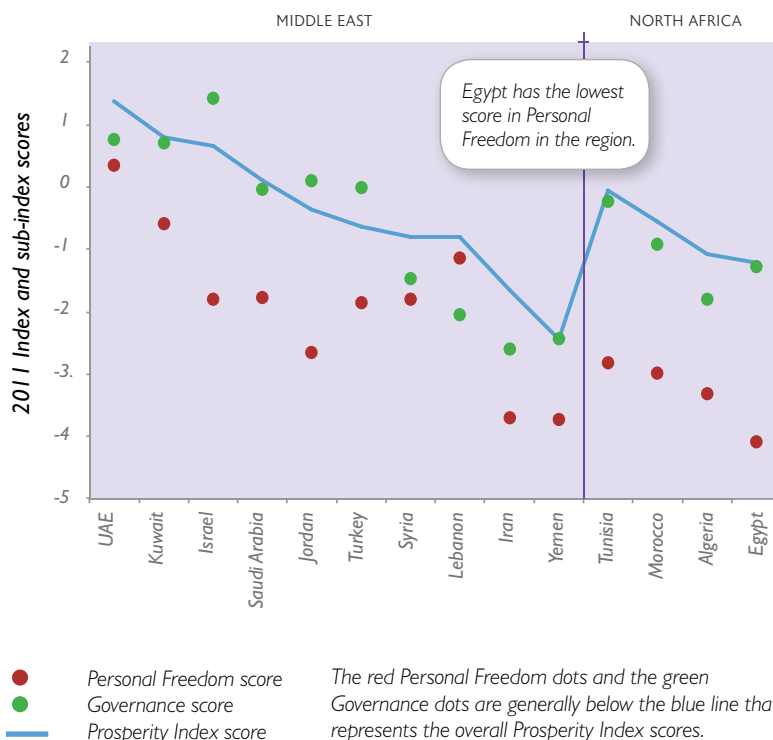
the last two years. This is mainly due to lower levels of tolerance for immigrants and ethnic minorities.

A similar pattern can be discerned in most of the Eastern European countries, where citizens express not only lower tolerance for immigrants and minorities but also less satisfaction with their freedom of choice. Moreover, Freedom House has downgraded both Ukraine and Latvia in terms of civil liberties. This is reflected in the Index; Ukraine fell from 62nd in 2009 to 98th in 2011 in the Personal Freedom ranking. Similarly, Latvia fell from 51st to 81st in the same period.

A more mixed picture emerges among Western European countries, with Greece, Belgium, Spain, Ireland, and Switzerland displaying lower Personal Freedom scores, and the rest displaying varying degrees of improvement.

Middle East and North Africa

Low Personal Freedom and Governance Across MENA



REGIONAL RANKING

RANK	COUNTRY
27	United Arab Emirates
35	Kuwait
38	Israel
49	Saudi Arabia
54	Tunisia
65	Jordan
71	Morocco
75	Turkey
81	Syria
82	Lebanon
88	Algeria
89	Egypt
97	Iran
106	Yemen

There are vast disparities across the Middle East and North Africa (MENA) region in the 2011 Index. The most prosperous country in the region, the United Arab Emirates, places in the top 30; the least prosperous, Yemen, ranks close to the bottom, at 106th.

The Arab Spring has dominated the news, but behind the headlines, the region has experienced notable fluctuations in overall prosperity. The survey-based Index data were gathered at the end of 2010, in the months leading up to the uprisings, with the exception of Iran that was last surveyed in 2008 (see Feature One, p8). Most of the 'hard' statistics refer to data gathered at the end of 2009.

Jordan, Lebanon, and Saudi Arabia have improved their overall performance,

rising between eight and 10 places in the last two years. Yemen, Israel, and Morocco have declined by at least five places. Tunisia and Egypt, the countries where the Arab Spring began, have remained stable. And surprisingly, Syria has improved by five places.

Throughout the region, overall prosperity is driven down by persistently low scores on the Personal Freedom and (to a lesser extent) Governance sub-indices. For example, in Egypt, a moderately strong performance on the Education and Health sub-indices (ranked 68th and 65th, respectively), is offset by an extremely low score on the Personal Freedom sub-index (109th), placing Egypt in the bottom 30 on overall prosperity. A similar pattern can be observed in Algeria, Syria, Tunisia, and Iran.

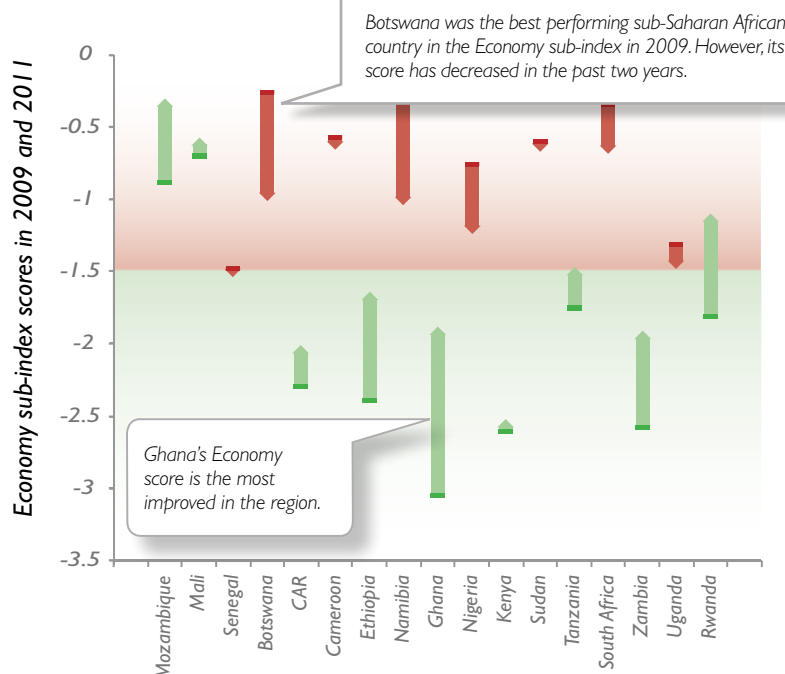
The United Arab Emirates and Kuwait have the highest Personal Freedom scores in the region. Notably, Gallup is not allowed to survey the large non-Arab, expatriate population, which is roughly 50% in the UAE and 20% in Kuwait. It is therefore hard to draw firm conclusions from the survey data in these two countries.

Sub-Saharan Africa

REGIONAL RANKING

RANK	COUNTRY
67	Botswana
69	South Africa
78	Ghana
80	Namibia
90	Mali
92	Senegal
96	Tanzania
98	Rwanda
99	Cameroon
100	Uganda
101	Zambia
102	Kenya
103	Mozambique
104	Nigeria
105	Sudan
108	Ethiopia
109	Zimbabwe
110	Central African Republic

Stumbling Economies and Convergence in Sub-Saharan Africa¹



The darker bar indicates the 2009 Economy sub-index score.
The arrow shows the direction and scale of change between 2009 and 2011



Most sub-Saharan African countries rank among the lowest 30 of the Index. Indeed, eight of the bottom 10 countries are from this region. The best performing sub-Saharan African countries – Botswana, South Africa, Ghana, and Namibia – place higher, but still remain in the bottom half of the Index.

While the majority of countries in the region saw little change in their ranking between 2009 and 2011, Ghana and Rwanda improved by 11 and seven positions, respectively. This improvement occurred in almost all sub-indices, with the exception of Education, where both experienced a decline. Moving in the other direction were Botswana and Namibia, whose overall rankings dropped by eight and six positions, respectively.

All sub-Saharan African countries near the bottom of the Economy sub-index have improved their position, due to improvements in capital per worker and market size. Those that placed higher in 2009 have, instead, seen their position decline, owing to a worsening of both income and wellbeing indicators. These declining countries include the three biggest economies in sub-Saharan Africa – South Africa, Nigeria and Sudan – and the region's oft cited success story, Botswana. The worrying news is that the score the countries appear to be coalescing towards, approximately -1.5, is still among the 10 worst scores in the Economy sub-index. The exception to this seeming convergence are Mozambique and Mali, which moved in a clear upward direction, as shown in the graph.

¹ Zimbabwe's Economy sub-index score is not included in the graph due to its extremity. It went from -9.64 to -6.66 in the period 2009-2011, a significant improvement but still by far-and-away the worst score on the Index.

FEATURE THREE



Down Under Moving Up

The countries at the top of the Index's rankings offer us an insight into some of the conditions common to the most prosperous societies in the world. Over the last thirty years, Australia has undertaken many pragmatic reforms, such as abolishing almost all trade protectionism, freeing labour markets, and reforming strict immigration laws, and in so doing has become one of the most flexible economies in the world.

The benefits of those policies are reflected in the Index, not just in a thriving economy that has not experienced a recession for 20 years and has benefited from trade with China, but also in Australians' high tolerance for immigrants and rich social capital. This success creates an environment in which an internationally diverse and skilled population and sound civic institutions have created a remarkably prosperous country.

In 2010, the top of the Index was dominated by the Nordic countries: Norway, Denmark, Sweden, and Finland. These nations are characterised as having open market economies,

sound political institutions, and high levels of trust among their citizenry. However, the 2011 Prosperity Index, finds that Australia is now also among the top ranking countries. In fact, since 2009 Australia has witnessed its overall rank rise from fifth place to third, while at the same time, Finland has noticeably declined to seventh, overall.

Does this mean Finland has become less prosperous? Not at all: prosperity is not a zero-sum game, in which one country's gain is necessarily another's loss. In fact, Finland's descent is not a sign of a declining overall performance – its overall score in 2011 is almost identical to its overall score in 2010. It is still extremely prosperous by international standards, but Finland's performance relative to other countries at the top has declined.

Continued globalisation will only increase the flows of people, capital, and ideas, making it necessary for countries to remain open and flexible. Australia's dynamic, diverse, and adaptable society is potentially showing us how.

Sub-Index Descriptions

The 2011 Prosperity Index consists of eight sub-indices. In the following pages, for each sub-index, we have provided rankings of the top and bottom 10 countries, descriptions of the sub-index, and a table listing the variables that we used.



Economy



Entrepreneurship & Opportunity



Governance



Education



Health



Safety & Security

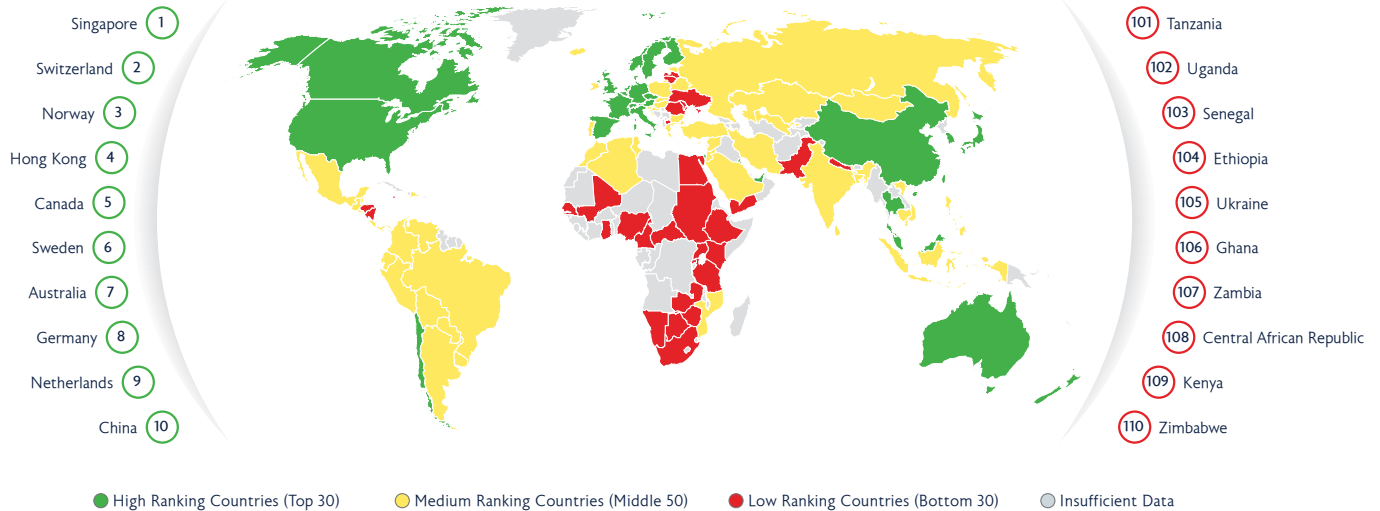


Personal Freedom



Social Capital

Economy Sub-Index

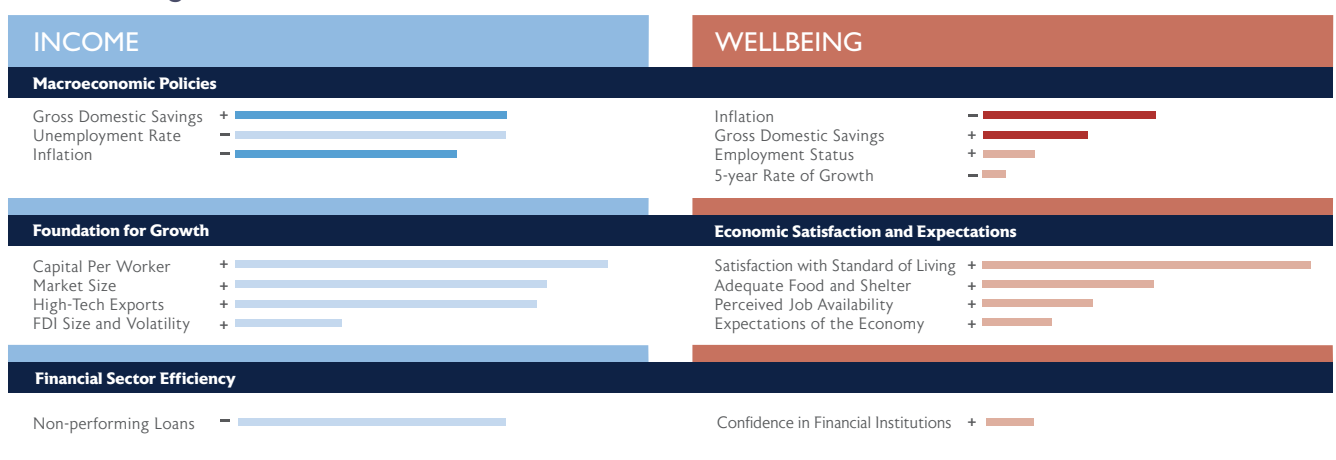


Stable and growing economies increase per capita income and promote the overall wellbeing of its citizens. The Economy sub-index measures countries' performances in four areas that are essential to promoting prosperity: macroeconomic policies, economic satisfaction and expectations, foundations for growth, and financial sector efficiency. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

The sub-index demonstrates that outcomes of sound macroeconomic policies, such as robust domestic savings rates, low rates of inflation and unemployment, and an efficient financial sector have a positive impact on average levels of both income and wellbeing.

It also shows that investing in physical capital per worker, innovative high-tech exports, and a competitive economy that attracts foreign investment, are essential to boosting per capita income. Positive expectations about the future of the economy and satisfaction with living standards also make an important contribution to the overall wellbeing of a country's citizens. While our research shows that increased economic strength over time is generally good for everyone, it also finds that rapid increases in GDP are related to lower levels of happiness in a society, as people grapple with the dislocations that often accompany such growth.

Variable Weights

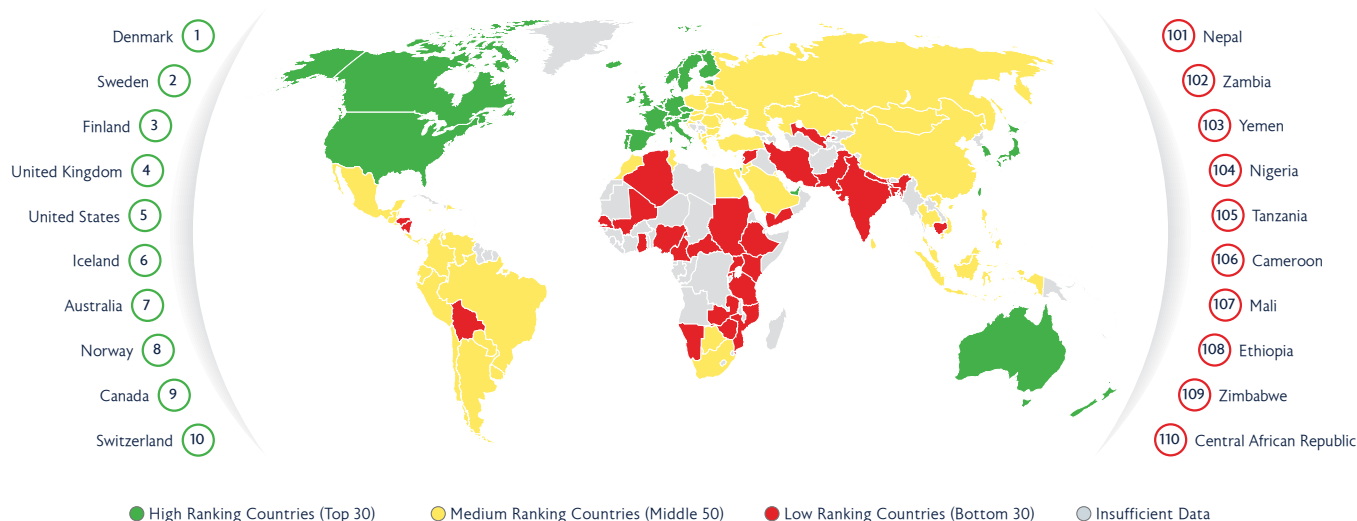


Darker lines (— and —) indicate a variable that is included in both income and wellbeing regressions.

Lighter lines (— and —) indicate a variable that is included in only one regression.

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. Whether these variables are positively or negatively correlated to income or wellbeing are marked with a plus (+) or minus (-) sign.

Entrepreneurship & Opportunity Sub-Index



A strong entrepreneurial climate in which citizens can pursue new ideas and opportunities for improving their lives leads to higher levels of income and wellbeing. Specifically, the Entrepreneurship & Opportunity (E&O) sub-index measures countries' performance in three areas: entrepreneurial environment, innovative activity, and access to opportunity. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

Factors such as low costs to starting a business and public perception of a good entrepreneurial environment are important to improving citizens' economic prospects and their overall wellbeing. The sub-index also assesses a country's ability to commercialise innovation, as well as the information

and communication technology infrastructure that exists to enable productive commercial endeavours. Lastly, it captures elements of access to opportunity by tracking the unevenness of economic development across socio-economic groups and whether or not citizens believe hard work pays off in the future.

The E&O sub-index builds upon research that shows how entrepreneurship drives innovation and leads to economic growth. It also uses research demonstrating the positive impact of an individual realising his or her entrepreneurial potential. When a country increases the likelihood that entrepreneurial activity will pay off, and when individuals experience the satisfaction that comes from earning their success, a society's prosperity increases overall.

Variable Weights

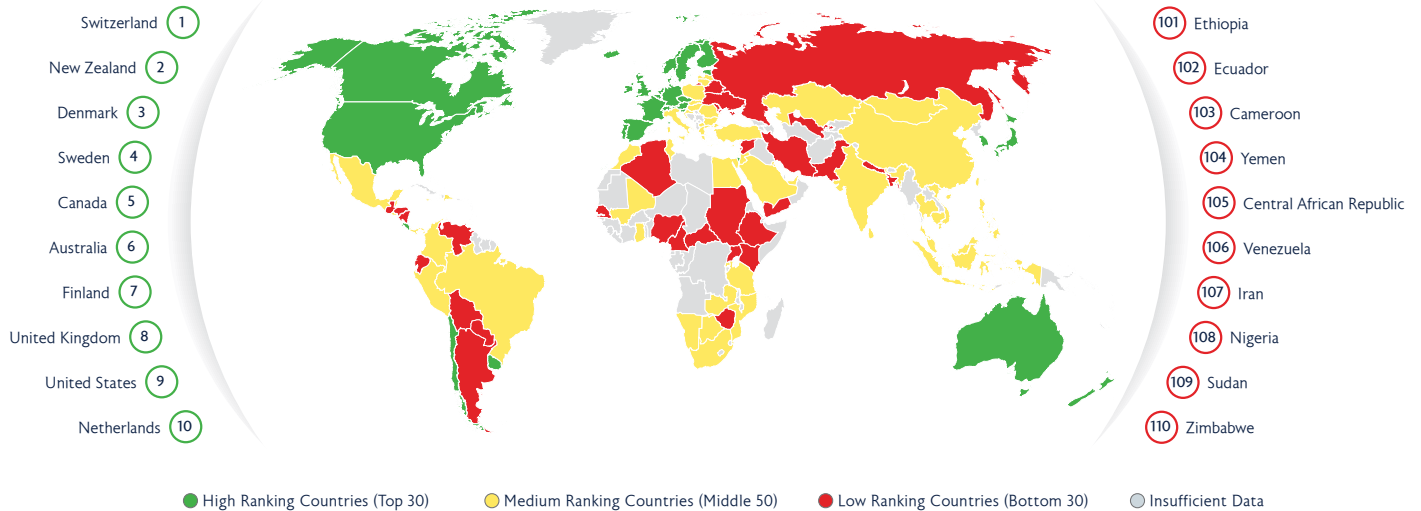


Darker lines (■ and ■) indicate a variable that is included in both income and wellbeing regressions.

Lighter lines (■ and ■) indicate a variable that is included in only one regression.

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Governance Sub-Index



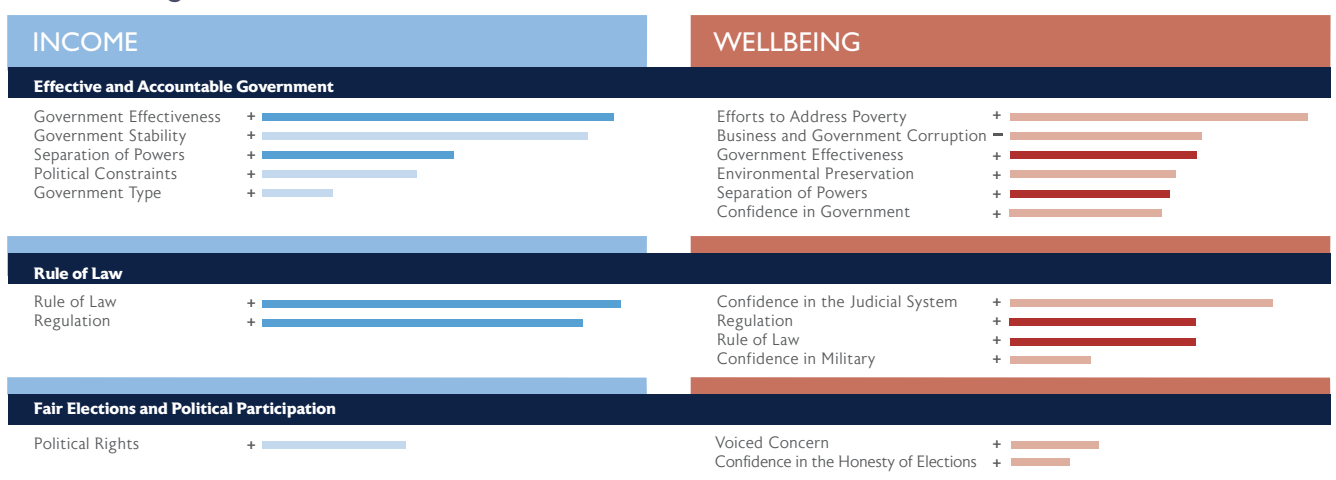
Well-governed societies enjoy higher levels of economic growth and citizen wellbeing. The Governance sub-index measures countries' performance in three areas: effective and accountable government, fair elections and political participation, and rule of law. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

Stable and democratic governing institutions protect political and economic liberty and create an environment of civic participation, leading to higher levels of income and wellbeing. The Governance sub-index measures levels of competition and corruption in the government, and citizens' confidence in elections, the judicial system, and the military.

The sub-index shows that citizens prefer governments that are stable and accountable. Public wellbeing is also related to people's perceptions of how well the country addresses poverty and preserves the environment.

Academic research has found that in general, political freedom, strength of institutions, and regulatory quality are significant contributors to economic growth. Effective, fair, and accountable governments also increase public confidence, leading to higher levels of life satisfaction among citizens. Likewise, voicing concern to public officials is correlated with higher wellbeing.

Variable Weights

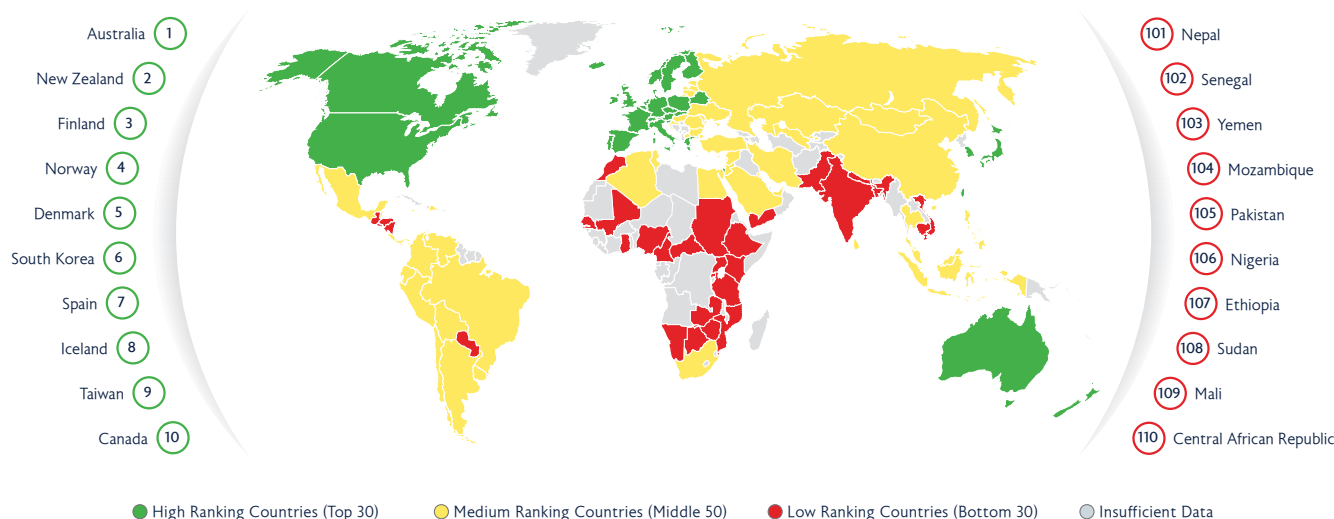


Darker lines (■ and ■) indicate a variable that is included in both income and wellbeing regressions.

Lighter lines (■ and ■) indicate a variable that is included in only one regression.

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. Whether these variables are positively or negatively correlated to income or wellbeing are marked with a plus (+) or minus (-) sign.

Education Sub-Index



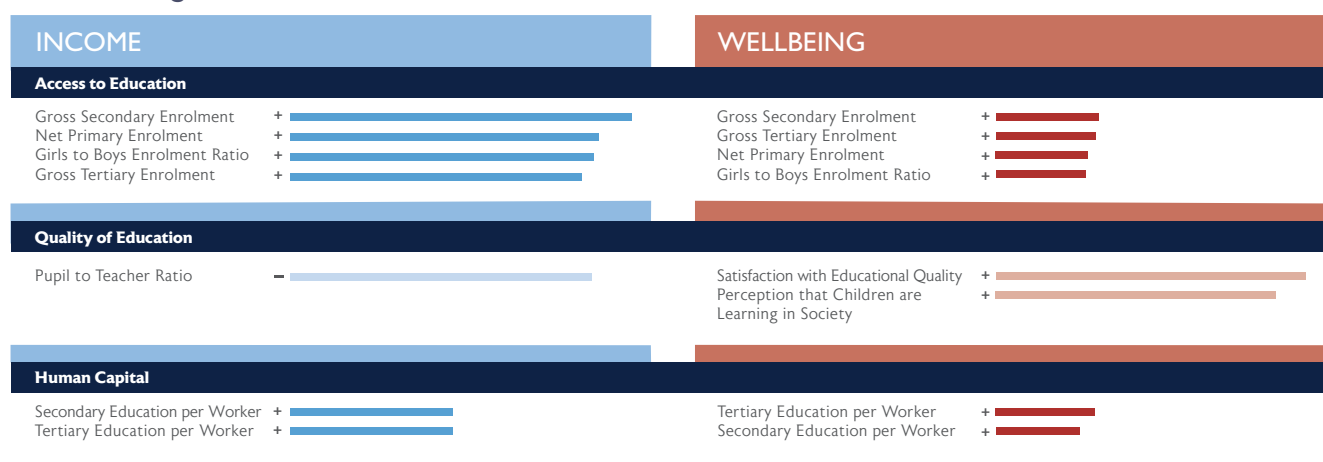
Education is a building block for prosperous societies. The Education sub-index measures countries' performance in three areas: access to education, quality of education, and human capital. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

The Education sub-index demonstrates how access to education, as measured by enrolment rates, allows citizens to develop their potential and contribute productively to their society. In addition, it shows that human capital stock, which is measured by the average levels of education in the workforce, is essential for promoting research and development as well as producing useful knowledge for a society. Because of the importance of citizen's own perceptions of the educational opportunity available

to them, the sub-index uses both objective and subjective variables to assess the quality of education in a given country. The Education sub-index uses pupil to teacher ratio, as well as measures of citizens' perception of education, to assess quality.

This sub-index is built on research on economic growth that has found human capital to be an engine for growth, making a case for the non-diminishing effect of education on rising GDP levels. While the relationship between higher levels of education and wellbeing is less clear-cut, research shows that basic education enhances people's opportunities to increase life satisfaction.

Variable Weights

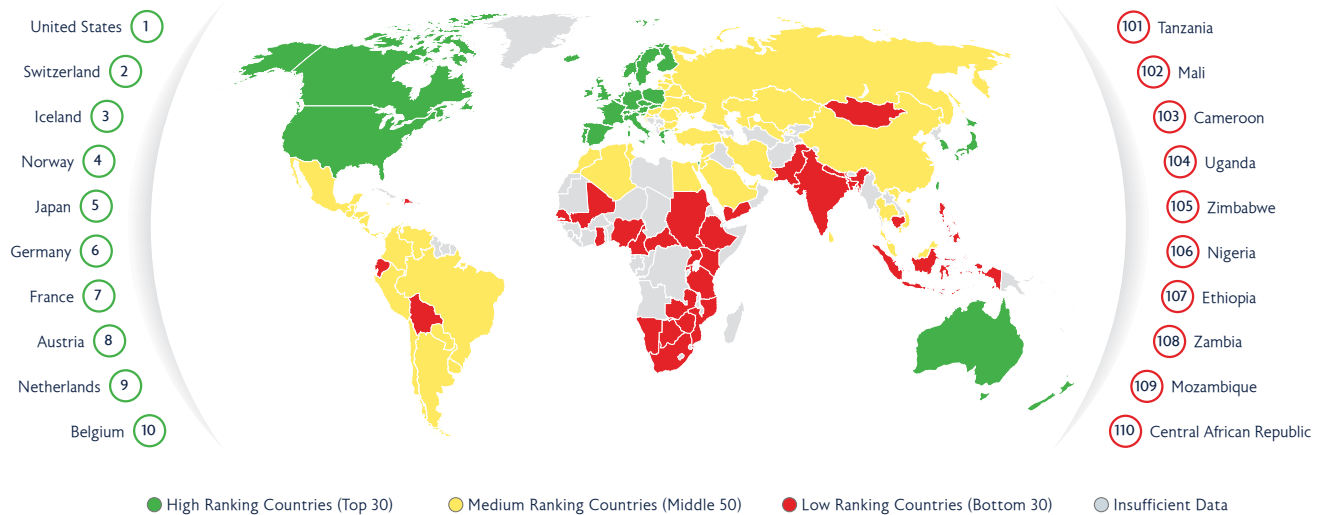


Darker lines (and) indicate a variable that is included in both income and wellbeing regressions.

Lighter lines (and) indicate a variable that is included in only one regression.

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. Whether these variables are positively or negatively correlated to income or wellbeing are marked with a plus (+) or minus (-) sign.

Health Sub-Index



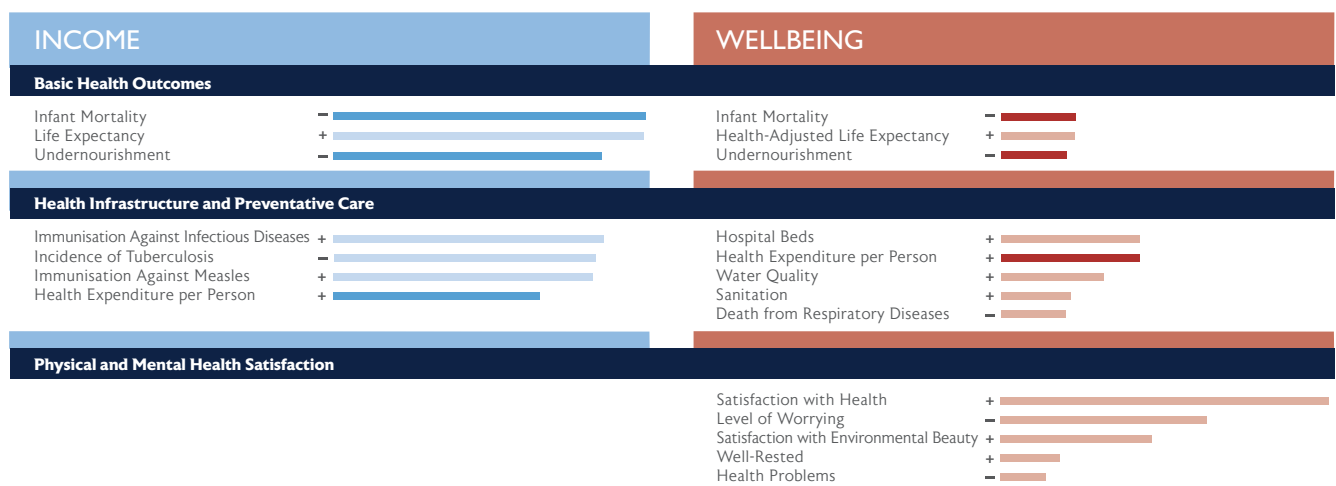
A strong healthcare infrastructure in which citizens are able to enjoy good physical and mental health leads to higher levels of income and wellbeing. The Health sub-index measures countries' performance in three areas: basic health outcomes, health infrastructure and preventative care, and physical and mental health satisfaction. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

The Health sub-index assesses countries by outcomes that are made possible by a strong health infrastructure, such as rates of immunisation against diseases and public health expenditure. Countries are also assessed on outcomes

such as life expectancy, rates of infant mortality and undernourishment. The sub-index also includes measures of satisfaction with personal health and the health effects of environmental factors such as water and air quality, and even environmental beauty.

Self-reported wellbeing and self-reported health are commonly found by researchers to be strongly and significantly correlated to a society's overall health, as this fosters strong human capital that leads to higher economic growth. Mentally and physically healthy citizens are the bedrock of a productive workforce, which in turn leads to higher levels of income per capita.

Variable Weights

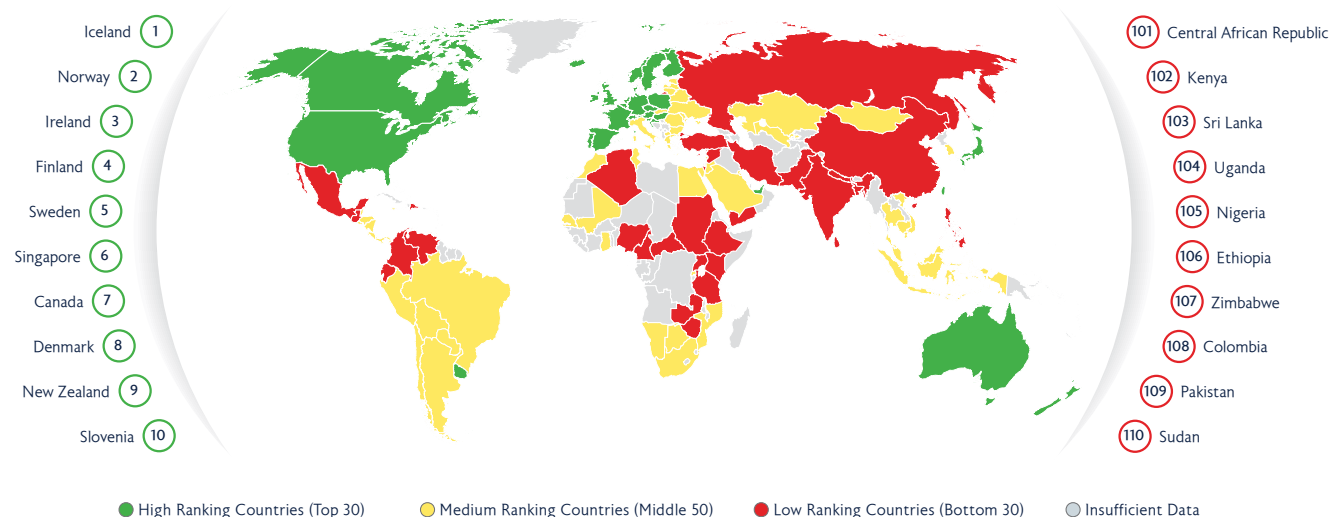


Darker lines (■ and ■) indicate a variable that is included in both income and wellbeing regressions.

Lighter lines (■ and ■) indicate a variable that is included in only one regression.

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. Whether these variables are positively or negatively correlated to income or wellbeing are marked with a plus (+) or minus (-) sign.

Safety & Security Sub-Index



Societies hindered by threats to national security and personal safety cannot foster higher income and wellbeing. The Safety & Security sub-index measures countries' performances in two areas: national security and personal safety. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

Stable social and political conditions are necessary for attracting investment and sustaining economic growth. In addition, when citizens worry about their personal safety their overall wellbeing is diminished. The Safety & Security sub-index combines objective measures of security with subjective survey responses about personal safety. Instability resulting from group grievances and demographic pressures,

for example, is a key element in limiting per capita GDP. Similarly, the ability to express political opinions without fear of persecution, and feeling safe walking alone at night, are positively correlated with higher levels of wellbeing.

When people and basic institutions are unsafe and unstable, then capital, investment, and people begin to flee. Academic research shows that organised political violence such as riots, coups, and civil war, as well as general crime and mistrust stemming from a lack of social cohesion, impede economic growth. In addition, conditions that produce fear and uncertainty negatively affect life satisfaction.

Variable Weights

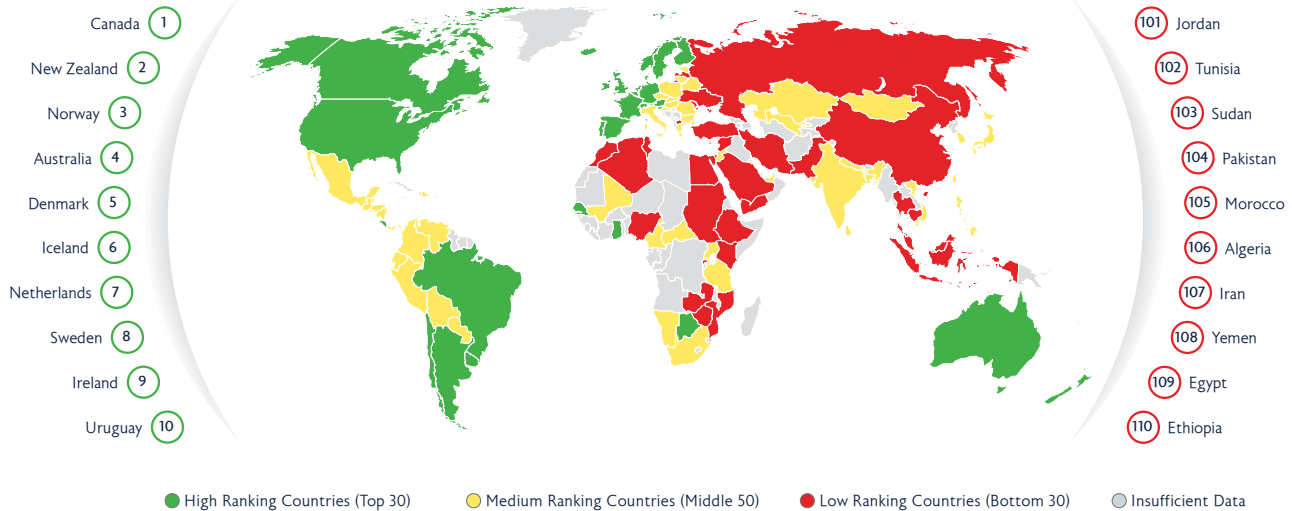


Darker lines (— and —) indicate a variable that is included in both income and wellbeing regressions.

Lighter lines (— and —) indicate a variable that is included in only one regression.

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. Whether these variables are positively or negatively correlated to income or wellbeing are marked with a plus (+) or minus (-) sign.

Personal Freedom Sub-Index



When citizens enjoy their rights to expression, belief, organisation, and personal autonomy in a society welcoming of diversity, their country enjoys higher levels of income and wellbeing. The Personal Freedom sub-index measures countries' performance in two areas: individual freedom and social tolerance. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

The Personal Freedom sub-index assesses the effects of freedom of choice, expression, belief, and movement on a country's per capita GDP and the subjective wellbeing of its citizens. It also assesses how the levels of tolerance for both

ethnic minorities and immigrants affect countries' economic growth and citizen life satisfaction. An individual's freedom to choose what to do, where to go, and what to believe, is linked to overall life satisfaction.

Societies that strengthen civil rights and freedoms have been shown to experience increases in levels of satisfaction among their citizens. When citizens' personal liberties are protected, a nation also enjoys higher levels of national income.

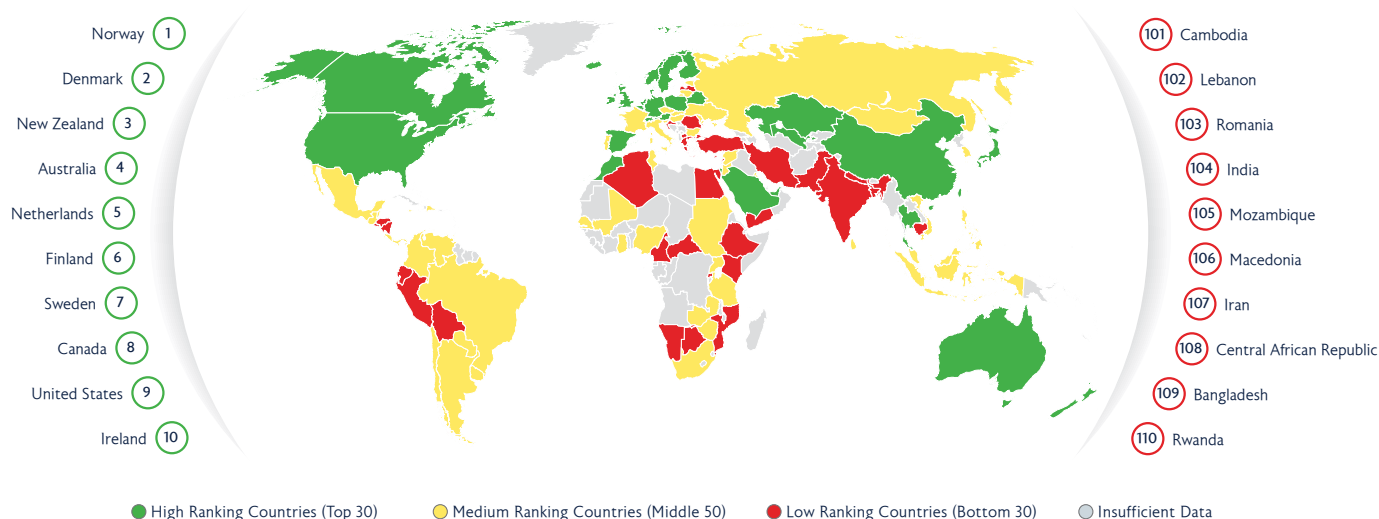
Variable Weights



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Lighter lines (— and —) indicate a variable that is included in only one regression.

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Social Capital Sub-Index



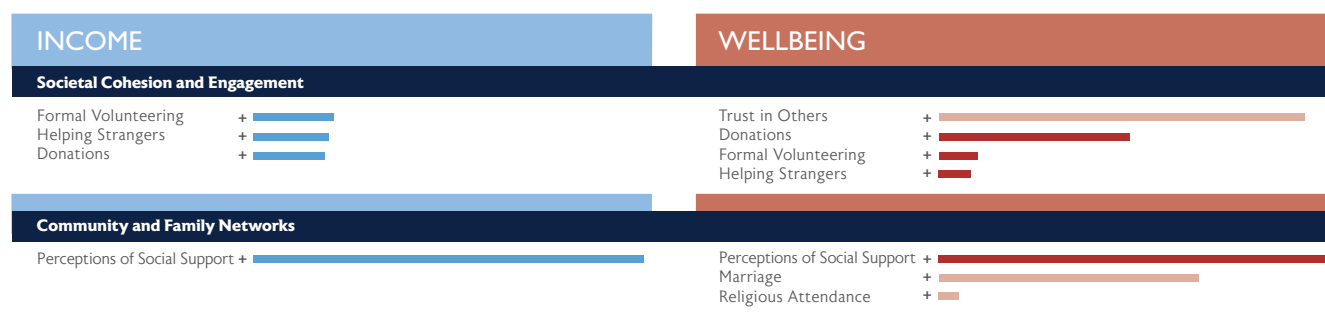
Social networks and the cohesion that a society experiences when people trust one another have a direct effect on the prosperity of a country. The Social Capital sub-index measures countries' performances in two areas: social cohesion and engagement, as well as community and family networks. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

This sub-index assesses how factors like volunteering, helping strangers, and donating to charitable organisations impacts the economic and life satisfaction of the populace as a whole. The sub-index also evaluates the levels of trust in a society and the manner in which citizens believe they can rely on others,

and it assesses how marriage and religious attendance provide support networks that improve wellbeing.

Empirical studies on the impact of social capital have shown that citizen wellbeing is improved through social trust, family and community ties, and membership within civic groups. Religious communities are also an important element in the creation of social capital. And societies with lower levels of social capital have been shown to experience lower levels of economic growth. The use of the term "capital" in "social capital" reflects an important reality: social networks are an asset that produces economic and wellbeing returns.

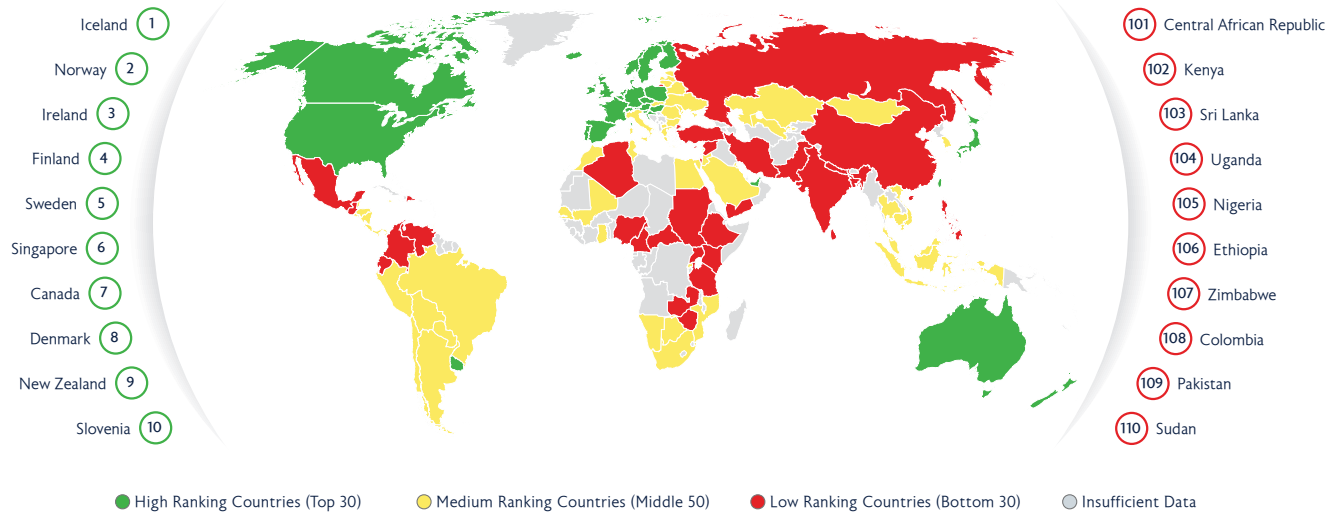
Variable Weights



Darker lines (and) indicate a variable that is included in both income and wellbeing regressions.
Lighter lines (and) indicate a variable that is included in only one regression.

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. Whether these variables are positively or negatively correlated to income or wellbeing are marked with a plus (+) or minus (-) sign.

Safety & Security Sub-Index



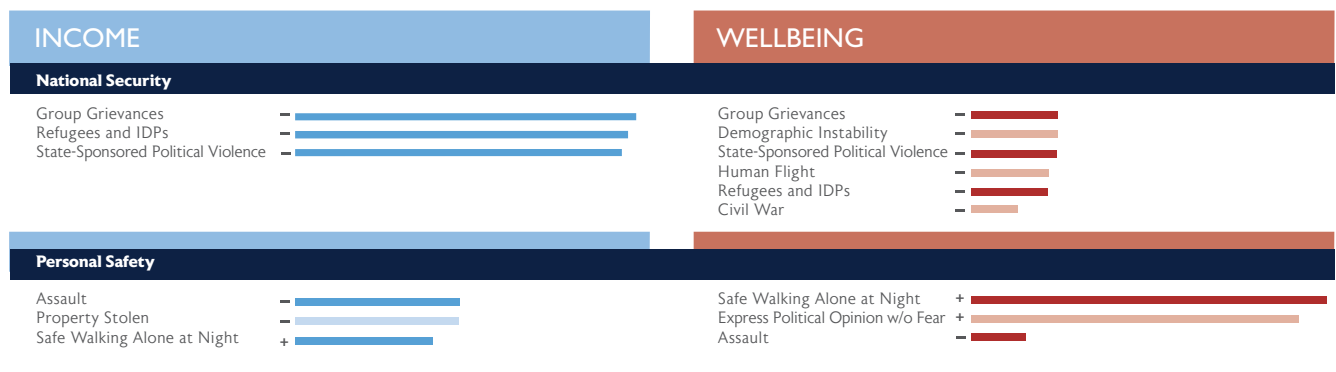
Societies hindered by threats to national security and personal safety cannot foster higher income and wellbeing. The Safety & Security sub-index measures countries' performances in two areas: national security and personal safety. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

Stable social and political conditions are necessary for attracting investment and sustaining economic growth. In addition, when citizens worry about their personal safety their overall wellbeing is diminished. The Safety & Security sub-index combines objective measures of security with subjective survey responses about personal safety. Instability resulting from group grievances and demographic pressures,

for example, is a key element in limiting per capita GDP. Similarly, the ability to express political opinions without fear of persecution, and feeling safe walking alone at night, are positively correlated with higher levels of wellbeing.

When people and basic institutions are unsafe and unstable, then capital, investment, and people begin to flee. Academic research shows that organised political violence such as riots, coups, and civil war, as well as general crime and mistrust stemming from a lack of social cohesion, impede economic growth. In addition, conditions that produce fear and uncertainty negatively affect life satisfaction.

Variable Weights

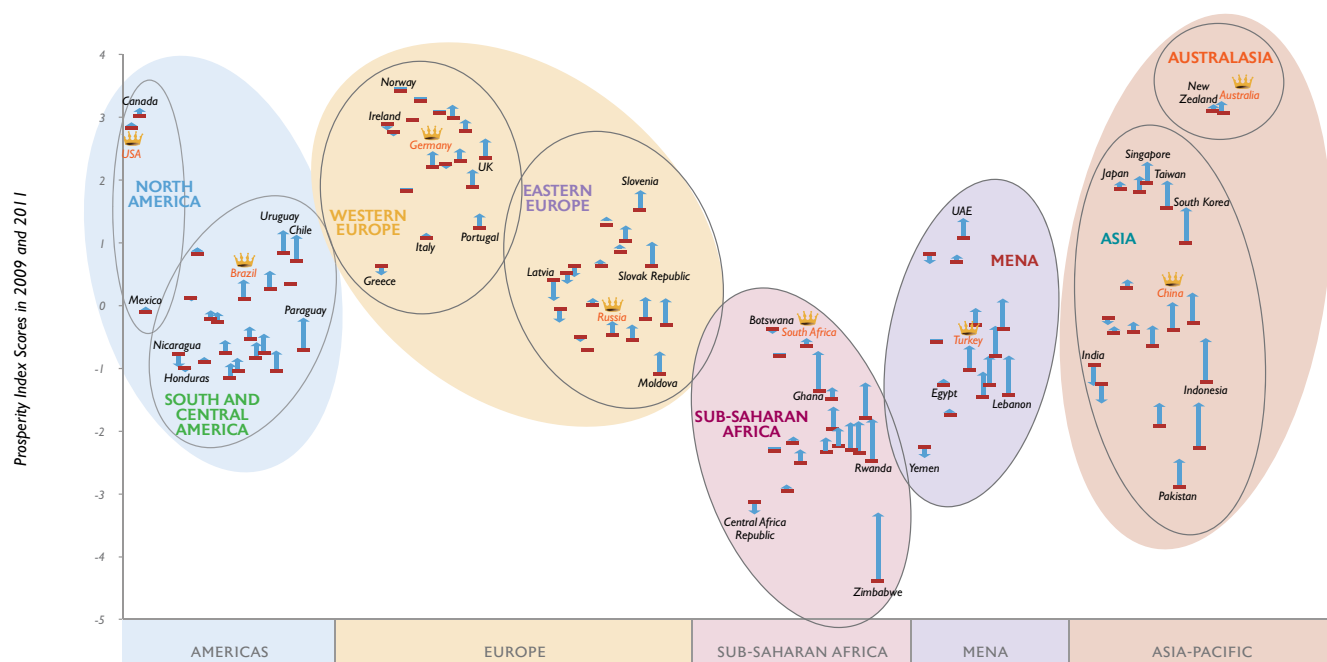


Darker lines (— and —) indicate a variable that is included in both income and wellbeing regressions.

Lighter lines (— and —) indicate a variable that is included in only one regression.

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. Whether these variables are positively or negatively correlated to income or wellbeing are marked with a plus (+) or minus (-) sign.

FEATURE FOUR



KEY

-  = Largest economy in the region measured by GDP (ppp)
-  = 2009 Prosperity Index scores
-  = Indicates the change in scores between 2009 and 2011. The arrow points to the 2011 score.

The Geography of Prosperity

Every region of the world has a leading economic power. For example, Germany is the economic powerhouse of Europe. But in terms of prosperity understood more broadly, the Index presents a different picture, one in which regional leaders in terms of GDP (ppp) are not always leaders in terms of prosperity. In Europe, the largest economy, Germany, ranks 14 positions below top-ranked Norway. In North America, Canada overtakes the United States in this regard. And in Asia, China's prosperity ranking is far below that of Singapore.

The two regions of exception, where economic size also mirrors strength in overall prosperity, is in sub-Saharan Africa, where South Africa is second in the region, and in Australasia, which sees Australia at the top.

Yet remarkably, prosperity has increased in every region between 2009 and 2011, with decreases appearing in only 23 countries: seven in Western Europe, five in Eastern Europe, four in sub-Saharan Africa, three in Asia, two in the Americas, and two in the MENA (Middle East and North Africa) region (the largest decreases have been experienced by Latvia and India). What this regional picture suggests is that prosperity is sometimes found in unexpected places – and that its true measure goes beyond GDP.

FEATURE FIVE



2008 Financial Crisis – Impact and Legacy

The financial crisis of 2008, and its spread into a global recession, continues to have damaging effects on the world economy. According to the IMF, the world economy shrank by 0.5% in 2009. Growth returned in 2010 at a rate of 5.1% and is projected to slow to 4% in 2011. But this limited recovery has not been uniform. In many regions of the world, particularly Europe and the United States, it is far from certain that the recovery will continue.

Although the recent financial crisis has severely affected the global economy, the Index shows that prosperity has increased in every region between 2009 and 2011. This year's Index contains some variables that still reflect the residual effects of the downturn, while a few encapsulate the long-term foundations of prosperity that are stable under adverse conditions. Furthermore, certain subjective survey-based data capture modest signs of recovery.

The Economy sub-index, for example, captures aspects of the downturn through the decline in domestic savings rates and foreign investment, and the higher rates of unemployment and non-performing loans. This holds true for many countries across the world but especially in the developed world. Confidence in financial institutions continued to fall in the 2011 Index, but interestingly people's future expectations about the

economy have improved since last year's Index.

Certain variables across the eight sub-indices tend to be more long-term or enduring by nature and are therefore less affected by temporary fluctuations in the global economy. These variables include the level of democratic accountability, life expectancy, and primary and secondary education enrolment rates, all of which largely remained stable throughout the financial crisis.

As might be expected, the countries hardest hit by the crisis – notably Greece, Iceland, and Ireland – have seen dramatic declines in their Economy ranking. However, of all the European countries suffering sovereign debt crises, only Italy experienced a decrease in overall score from 2010, and that was due less to economic malaise than to lower scores in four other sub-indices: Governance, Safety & Security, Personal Freedom, and Social Capital.

The Index's purpose is not to track fluctuations in the usual economic measures but to gauge the structural, institutional, and cultural underpinnings of global prosperity. In principle, a recession should not have a major impact on the Index's rankings – unless, of course, it shakes the foundations of long-term prosperity, which extend beyond macroeconomics.

The object of
government in
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war is not the
glory of rulers
or of races, but
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common man

*“The object of government in
peace and in war is not the glory
of rulers or of races, but the
happiness of common man.”*

SIR WILLIAM BEVERIDGE



What Are the Foundations of Prosperity?

The Prosperity Index is divided into eight different sub-indices, each of which has been identified as a foundation of prosperity. Each sub-index is created through statistical analysis of what increases both the per capita income and life satisfaction of a country's citizens.



At a basic level, each sub-index is designed to answer some simple questions:



Economy

Which factors in a nation's economy are associated with higher levels of per capita income? Which economic conditions and are linked to higher levels of wellbeing?



Entrepreneurship & Opportunity

What are the characteristics of a society that encourage citizens to be entrepreneurial, risk-taking, and seek opportunities that are related to higher levels of income and wellbeing?



Governance

What are the government institutions and types of government functions that are related to higher per capita income and higher levels of wellbeing?



Education

Which aspects of an educational system are linked to higher per capita income through their contribution to human capital, and which elements in a learning environment relate to higher levels of wellbeing?



Health

What are the characteristics of a healthy society that are linked to higher levels of income? How does personal wellbeing benefit from physical and mental health-related factors?



Safety & Security

How does the personal safety of citizens and the national security of a nation relate to growth in per capita income and higher levels of wellbeing?



Personal Freedom

Does the freedom of expression, belief, association, and personal autonomy promote higher income and wellbeing? And does tolerance of immigrants and minorities affect prosperity?



Social Capital

What kinds of social networks, relationships, and institutions are associated with higher levels of wellbeing and national income?

Index Methodology

The 2011 Index methodology has not changed since last year, when we undertook a methodological revision in response to greater global data availability. In 2010 we also recalculated the 2009 rankings based on the current methodology, meaning that we can now provide three years of comparable data.

Each country's path to prosperity is different, but some common themes have emerged from the decades of established theoretical and empirical research on income and wellbeing. With the benefit of this research, and using sophisticated econometric analysis, we have identified 89 variables linked to higher levels of national income and wellbeing. These variables are combined in eight sub-indices, each representing a different 'pillar of prosperity'.

Historically, nations have placed great importance on promoting higher levels of per capita income, but today many also recognise the need to improve subjective wellbeing. The eight sub-indices have an income and a wellbeing component, which allows us to explore the dual nature of prosperity on a more granular level.

The 89 variables, split between each sub-index, are categorised according to whether they impact wellbeing or income or both. A country is then given one score in each sub-index for

wellbeing and another for income, based on how that country performs and on the level of importance assigned to each variable. The level of importance, or 'weight', attributed to a given variable is determined through rigorous regression analyses; it is not, therefore, based on subjective judgements or discretionary choices. Finally, the sub-index scores are averaged to obtain an overall prosperity score, which determines each country's rank.

For each sub-index we provide individual country scores and rankings. While the Index scores provide an overall assessment of a country's prosperity, each sub-index serves as a reliable guide to how that country is faring with regard to one distinct foundation of prosperity.

Countries' performances vary considerably across sub-indices, producing large differences in ranking. For example, Belarus ranks 21st in the Social Capital sub-index and 100th in the Governance sub-index. The relationships among the 89 variables and the eight sub-indices are complex. And because some variables are closely linked to both income and wellbeing, their performance in one sub-index is likely to be reflected in others. For instance, a country that performs well in educating its workers is more likely to have an innovative economy.

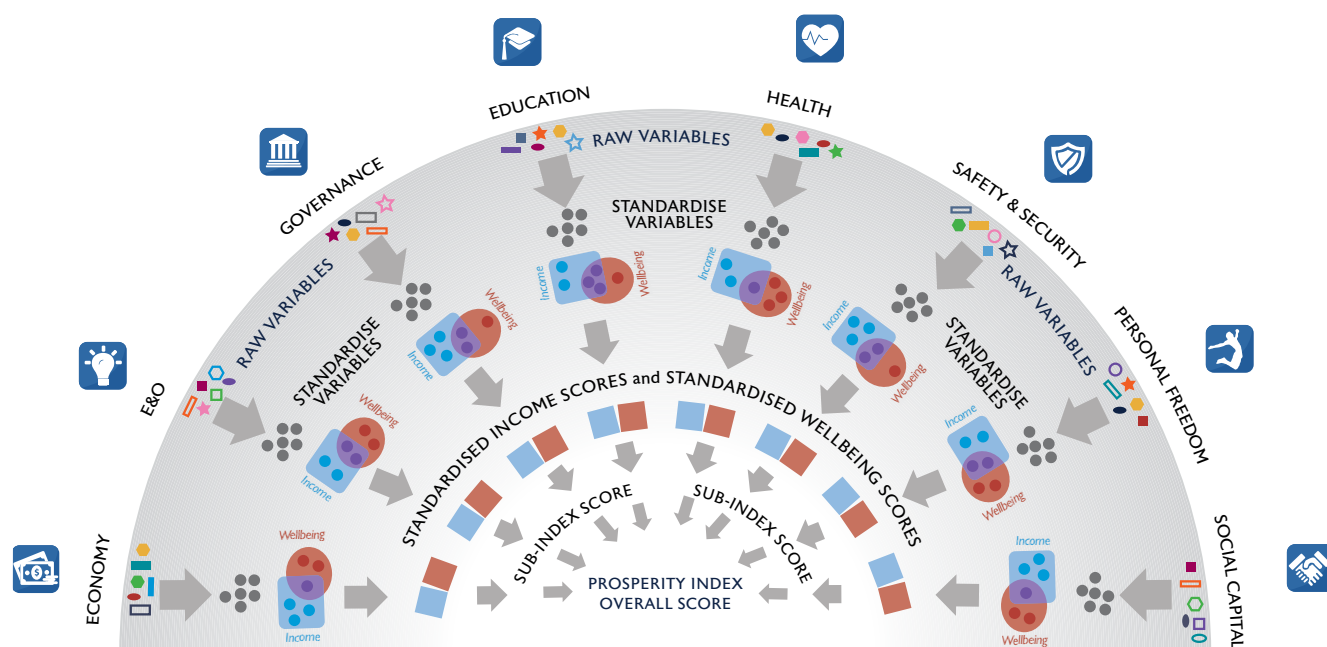
Prosperity Index by Numbers

■ Years of Prosperity Index scores	3
■ Regions	5
■ Sub-indices	8
■ Global data sources	12
■ Subjective variables from Gallup	28
■ All variables	89
■ World population coverage	93%
■ World GDP coverage	97%
■ Number of countries	110
■ Average number of people annually interviewed by Gallup in each country	1,200
■ Total data points used for 2011 Prosperity Index	9,790

For further technical details and additional information on the construction of the Index, please refer to the Methodology and Technical Appendix sections of the Prosperity Index full report, which can be found at www.prosperity.com



How Do We Measure a Country's Overall Prosperity?



How Do We Find the Most Important Factors for Prosperity?



Selecting the variables

The variables were selected in 2010 and retained for the 2011 Index. Based on current scholarship into income growth and wellbeing, we identified a large number of potential variables. In order to maintain a globally relevant dataset, we only considered those variables whose coverage includes at least 80% of the countries in the world. The Index uses both objective and subjective variables. We have endeavoured to maintain a balanced approach incorporating survey-based variables together with expert assessments and economic and financial indicators.

We divided the variables into eight sub-indices depending upon what aspect of prosperity the data covers. Within each sub-index we used regression analysis to identify and retain those that were statistically relevant. Some variables were found to be relevant to income; others to wellbeing. In a few instances, certain variables mattered to both. For instance, a country's quality of governance not only impacts income levels, but also citizens' sense of wellbeing. The variables that did not have a robust statistical relationship with income or wellbeing were dropped. At the end of this process, we had 89 independent variables derived from 12 widely recognised data sources.

2

Standardisation

Not surprisingly, our 89 variables are based on many different units of measurement. For example, subjective variables, such as the proportion of citizens that express confidence in financial institutions, are measured in percentage terms while capital per worker is measured in US dollars. These variables were transformed to a common scale using a statistical technique called standardisation. The standardised variables are then comparable and can be combined to form composite indices.

3

Weighting

In 2010 we also determined the weight of each variable, using regression analysis. A variable's weight – the technical term is 'coefficient' – represents its relative importance to the outcome (either income or wellbeing). In other words, statistically speaking, some things matter more to prosperity than others. We represent these weights in the graphics provided in each of the sub-index descriptions (see p26-34).

Again, we emphasise that these weights are not arrived at through subjective judgements or discretionary choices, but are based on the particular statistical relationship between each variable and changes in income and wellbeing. The initial choice of variables was worked out through careful study of current empirical and theoretical research, as well as on the availability of data. But the variables' weights are determined by their statistical correlations with income and wellbeing. These are calculated separately for each sub-index.

The weights calculated in 2010 have been kept constant for this year's Index. Further discussions on these estimation methods, and the rationale for using our specific measures of income and wellbeing, are presented in the Prosperity Index full report, which is available at www.prosperity.com.

How Do We Calculate Prosperity Index Scores and Rankings?

4

Income and wellbeing scores

For each country, the latest data available are gathered on the 89 independent variables, and these raw values are standardised and multiplied by the income or wellbeing weights, determined by the regressions mentioned above. These weighted variable values are then summed to produce a country's wellbeing and income score in each sub-index. The income and wellbeing scores are then standardised so that they can be compared.

5

Sub-index scores and rankings

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

6

Prosperity Index scores and rankings

Finally, the Prosperity Index score is determined by taking the average of the eight sub-indices to produce a country's overall prosperity score.

For each country, we also produce an overall income score, obtained as the average of the eight sub-index income scores, and an overall wellbeing score obtained as the average of the eight wellbeing scores.

The Prosperity Index applies the same weights to the sub-indices for all countries, regardless of their level of development. To be sure, countries at different levels of development may have different needs. But to construct an index it is crucial to measure each country by the same yardstick. Giving different weights to countries would make country rankings incomparable across income levels.

We also offer you, the reader, the opportunity to assign your own weightings to each of the sub-indices, and to see how the rankings change accordingly. This can be easily done at our website:

www.prosperity.com. For a mathematical illustration of how scores change according to the choice of the weights, please refer to the 'Technical Appendix' section of the Prosperity Index full report, also available online.

FEATURE SIX



Prosperity Trends: More Connected and Healthier

A country's prosperity is not binary, expressed with a simple yes or no. Rather prosperity is a holistic concept involving many factors, both tangible and intangible. The process of building prosperity is continuous, and success may not immediately manifest itself. Nonetheless, by comparing the results of the 2011 Index with those of 2009, we can gain some insight into prosperity's future prospects.

In the aftermath of a global recession, and of a revolution that has swept across the Middle East and North Africa, one might reasonably assume that global prosperity must be on a downward trajectory. But the Index tells a different story. Since 2009, 87 of the 110 countries in the Index have seen an improvement in their overall Prosperity score. And what is more, this trend looks likely to continue.

When analysing the data from the previous three years, we found that the two clearest positive trends were within the Entrepreneurship & Opportunity and the Health sub-indices.

The Entrepreneurship & Opportunity sub-index has seen improvements in the scores of all but seven countries since 2009. With an astonishing rise in mobile phone

coverage, internet bandwidth, and internet server capacity, entrepreneurs all over the world have found new ways to develop businesses and link up with international markets.

In the Health sub-index, a remarkable 107 countries have seen their respective Health scores increase over the last two years. Moreover, the improvements are found in crucial areas such as lower rates of infant mortality and tuberculosis.

Following the global recession, it is natural to wonder how nations are recovering economically. Here the Index paints a less positive picture. Although most countries have increased their Economy sub-index score since 2010, some have yet to return to 2009 levels.

The shadow of the economic crisis still looms over many countries in the world, both developed and developing. However, the data show some heartening bright spots with regard to at least some of the crucial opportunities and conditions that enable people to increase both their income and their wellbeing.

2009-2011 Country Rankings

COUNTRY	OVERALL COUNTRY RANK				MOVEMENT 2009 to 2011
	2009	2010	2011		
Norway	1	1	1		0
Denmark	2	2	2		0
Australia	5	4	3		2
New Zealand	3	5	4		-1
Sweden	7	6	5		2
Canada	6	7	6		0
Finland	4	3	7		-3
Switzerland	8	8	8		0
Netherlands	11	9	9		2
United States	10	10	10		0
Ireland	9	11	11		-2
Iceland	12	12	12		0
United Kingdom	13	13	13		0
Austria	14	14	14		0
Germany	16	15	15		1
Singapore	17	17	16		1
Belgium	15	16	17		-2
France	18	19	18		0
Hong Kong	21	20	19		2
Taiwan	22	22	20		2
Japan	19	18	21		-2
Slovenia	23	21	22		1
Spain	20	23	23		-3
South Korea	29	27	24		5
Portugal	25	26	25		0
Czech Republic	24	24	26		-2
United Arab Emirates	27	30	27		0
Poland	28	29	28		0
Uruguay	32	28	29		3
Italy	26	25	30		-4
Chile	35	32	31		4
Slovakia	37	37	32		5
Estonia	31	35	33		-2
Costa Rica	30	33	34		-4
Kuwait	34	31	35		-1
Hungary	38	34	36		2
Panama	42	40	37		5
Israel	33	36	38		-5
Argentina	44	41	39		5
Greece	36	39	40		-4
Croatia	39	38	41		-2
Brazil	45	45	42		3
Malaysia	43	43	43		0
Lithuania	40	42	44		-4
Thailand	54	52	45		9
Kazakhstan	51	50	46		5
Trinidad and Tobago	46	44	47		-1
Bulgaria	47	46	48		-1
Saudi Arabia	57	49	49		8
Belarus	55	54	50		5
Latvia	41	47	51		-10
China	58	58	52		6
Mexico	49	53	53		-4
Tunisia	56	48	54		2
Jamaica	52	55	55		-3

COUNTRY	OVERALL COUNTRY RANK				MOVEMENT 2009 to 2011
	2009	2010	2011		
Belize	53	56	56		-3
Paraguay	69	67	57		12
Romania	48	51	58		-10
Russia	62	63	59		3
Mongolia	60	60	60		0
Colombia	64	65	61		3
Vietnam	50	61	62		-12
Sri Lanka	68	59	63		5
Uzbekistan	65	76	64		1
Jordan	75	74	65		10
Philippines	61	64	66		-5
Botswana	59	57	67		-8
Peru	72	73	68		4
South Africa	67	66	69		-2
Indonesia	85	70	70		15
Morocco	66	62	71		-5
Dominican Republic	71	68	72		-1
Venezuela	76	75	73		3
Ukraine	63	69	74		-11
Turkey	80	80	75		5
Macedonia	70	72	76		-6
El Salvador	81	78	77		4
Ghana	89	90	78		11
Moldova	83	86	79		4
Namibia	74	71	80		-6
Syria	86	83	81		5
Lebanon	90	84	82		8
Ecuador	77	77	83		-6
Guatemala	82	81	84		-2
Bolivia	84	82	85		-1
Nicaragua	73	87	86		-13
Honduras	79	85	87		-8
Algeria	91	79	88		3
Egypt	87	89	89		-2
Mali	94	93	90		4
India	78	88	91		-13
Senegal	92	94	92		0
Nepal	88	91	93		-5
Cambodia	101	95	94		7
Bangladesh	95	96	95		0
Tanzania	96	97	96		0
Iran	93	92	97		-4
Rwanda	105	98	98		7
Cameroon	99	102	99		0
Uganda	102	99	100		2
Zambia	98	101	101		-3
Kenya	97	104	102		-5
Mozambique	104	103	103		1
Nigeria	103	106	104		-1
Sudan	106	100	105		1
Yemen	100	105	106		-6
Pakistan	107	109	107		0
Ethiopia	108	107	108		0
Zimbabwe	110	110	109		1
Central African Republic	109	108	110		-1

Acknowledgements

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Participation in the Academic Advisory Panel does not imply endorsement of every aspect of the Prosperity Index.

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Unless otherwise stated, all data is from the 2011 Legatum Prosperity Index™.

All original data sources can be found in the Prosperity Index full report available at www.prosperity.com

In this report the term "country" is used loosely to refer to the 110 societies that are included in the Prosperity Index. There are 108 states and two territories – Hong Kong and Taiwan – in the Index.



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