



LEGATUM
INSTITUTE
FOR GLOBAL DEVELOPMENT

THE **2007** LEGATUM PROSPERITY INDEX
A Global Assessment of Wealth and Wellbeing





EXECUTIVE SUMMARY

In a world in which many people are becoming richer, we asked if we are also getting happier, more fulfilled, and feeling better about life. In short: are we genuinely more prosperous?

Constructing the Index

- The Legatum Prosperity Index is the result of an investigation into the various factors that drive prosperity in different countries. Recent research advances have made it possible to compare not only the material wealth but also the life satisfaction of people in countries worldwide. Accordingly, we have defined national prosperity as the well-rounded combination of both of these factors.
- The Index is based on the statistical testing of 40 years of data on economic growth and life satisfaction survey results for more than 50 countries worldwide.
- The 2007 Legatum Prosperity Index combines more than 70 variables into 20 key indicators in order to rank countries, based on the degree to which the actions of their people and governments drive or restrain the creation of well-rounded prosperity.
- In this first annual edition of the Legatum Prosperity Index, we have limited the coverage to 50 countries for which high-quality data on the drivers of both material wealth and life satisfaction are available.

Discovery/Key Findings

- The key drivers of increasing **material wealth**, via sustained long-term economic growth, are, from most important to least,
 - (1) Growth in Invested Capital
 - (2) Low Dependence on Foreign Aid
 - (3) High Levels of Education
 - (4) Good Governance
 - (5) Low Dependence on Commodity Exports
 - (6) Low Costs of Bureaucracy
 - (7) Economic Openness

- The key drivers of high levels of **life satisfaction** are, from most important to least,
 - (1) Freedom of Choice
 - (2) Good Health
 - (3) Equality of Opportunity
 - (4) Strong Religious Faith
 - (5) High Levels of Income
 - (6) Favourable Climate
 - (7) Political Rights and Civil Liberties
 - (8) Low Unemployment Rates
 - (9) Low Divorce Rates

- We conducted separate tests on rich countries (mainly Europe, North America, and Japan). In rich countries, two additional important drivers of increasing material wealth are (1) Competitive Domestic Markets and (2) the Commercialisation of Innovative New Technologies. Two additional important drivers of life satisfaction in rich countries are (1) Vibrant Community Life and (2) Ample Hours of Leisure Time.

- There is a three-way tie between Norway, Sweden, and the United States for the top spot in the Index, although each country leads for different reasons.

- Through responsible management of its natural resource wealth, Norway has achieved rapid economic growth as well as excellent social conditions. Sweden may perform less well economically, but has world-leading scores on the most important social indicators including political and civil liberties, community life, health, leisure time, and equality of opportunity. The United States has respectable scores in most areas, and is exceptional in the degree to which its citizens maintain strong religious faith and report that they feel secure in their ability to make free choices and control their own lives. Both of these are factors that, other things being equal, correlate strongly with life satisfaction.

- The top ten countries in the Index are wealthy and democratic, and are mostly European, with some representation for Asia-Pacific (New Zealand) and North America (the United States and Canada).

- While no country has poor scores in every category, Zimbabwe comes closest. While its people report that they maintain a strong religious faith, this does not make up for extreme levels of ill-health, poverty, and unemployment, as well as high divorce rates.
- The other countries near the bottom include Pakistan, Egypt, and India, although it should be pointed out that complete data are not available for every country in the world, so there are many countries that may rank far below these countries.
- India's low position may seem puzzling, given the country's achievement of democracy and Indians' oft-noted spiritual strength. But these strengths cannot make up for an extreme deficiency in health. Health is the second-strongest determinant of life satisfaction across countries, trailing only freedom of choice, and India has one of the three lowest values in our study.

PRINCIPLES OF PROSPERITY

Our research uncovered a number of general principles relevant to the promotion of national prosperity. These are:

- *Freedom of choice is crucial.*
Whether people have freedom of choice and control over where they direct their lives and spend their time and resources is the strongest single determinant of life satisfaction.
- *For very poor countries, raising incomes is the first priority.*
For countries with an income per person of less than US \$10,000 on average, income levels are the single strongest predictor of how happy that country's people will be.
- *Money matters to people, but only up to a point.*
As a country's average annual income increases beyond US \$20,000 per person, further increases do not make people in the country, on average, more satisfied with their lives.
- *Growth in invested capital is the strongest driver of long-term economic growth.*
Investment by the private sector (i.e., in factories, offices and production machinery) is the most important indicator of material wealth.
- *Dependence on foreign development aid reduces long-term growth rates.*
Capital provided by foreign aid has not only failed to increase the level of invested capital in most poor countries, but may in some cases have retarded their sustainable development.



- *Open economies in which foreign direct investment and international trade play larger roles have higher long-term growth rates.*
Economic openness enables countries to import and exploit foreign capital, technologies, skills and business techniques. However, countries that depend heavily on commodity exports, such as oil and gas, have lower long-term growth rates.
- *Lower costs of bureaucracy increase economic growth rates.*
Bureaucracy is determined by the ease of starting a business, hiring and firing workers, registering property, obtaining licenses and so on.
- *In rich countries the main challenges to life satisfaction are posed by social ills, such as weakened community bonds.*
Another challenge is the size of the “miserable minority”, such as the unemployed. Moreover, citizens of wealthy countries face significant personal challenges in responsibly managing the freedoms and privileges that come with wealth.
- *For rich countries that wish to maximise their wealth, innovation and competition are crucial.*
Rich countries tend to have uniformly excellent economic policies, when compared to the rest of the world. Yet, there are some things rich countries can do to improve their incomes at the margin. Notably, when rich countries are compared against their peers, those with deregulated and highly competitive domestic markets, and those which succeed in commercialising high-technology innovation, tend to grow more quickly.



THE 2007 LEGATUM PROSPERITY INDEX

Prosperity Index scores are shown for all 50 countries. Each factor in the Index is scaled so that zero represents the world average. The Material Wealth and Life Satisfaction scores for each country are calculated based on a weighted average of the Index factors. The weights for the Index factors are assigned based on statistical analysis of historical data. The overall Prosperity Index rank is based on the average of a country's Material Wealth and Life Satisfaction ranks. An equals sign (=) indicates a tie.

Country	Overall Prosperity Rank	Material Wealth										
		Rank	Score	Invests Productively				Commercialises New Ideas			Avoids Dependence	
				...via growth in invested capital	...via good governance	...via low costs of bureaucracy	...via competitive markets	...via better education	...via economic openness	...by exploiting innovation	...on foreign aid	...on commodity exports
Norway	1=	3	92	24	16	15	5	19	-4	-2	6	-10
Sweden	1=	5	90	14	16	14	5	18	1	2	6	4
United States	1=	6	90	20	13	16	1	20	-10	-1	6	6
Austria	4	4	92	20	13	11	0	21	-1	1	6	5
Canada	5=	8	86	16	14	16	1	17	-3	0	6	0
New Zealand	5=	11	83	11	15	16	1	16	-2	-2	6	5
Denmark	7	10	85	19	17	15	1	15	0	1	6	4
Finland	8=	9	85	18	16	14	1	15	-3	4	6	4
Germany	8=	2	97	16	14	13	1	25	-5	2	6	6
Switzerland	10	7	87	26	16	14	-2	15	1	4	6	6
Australia	11	13	82	19	15	15	-1	15	-6	-3	6	2
Netherlands	12=	16	80	18	16	13	1	9	8	7	6	1
Singapore	12=	1	99	16	-1	17	4	-1	44	82	6	5
Ireland	14	18	77	16	14	15	-4	6	17	23	6	6
Iceland	15	24	71	18	15	15	1	7	-4	-3	6	6
Mexico	16	35	59	-1	4	9	2	-1	-4	2	6	4
Israel	17=	17	77	11	5	12	4	10	-1	3	5	6
United Kingdom	17=	21	73	12	14	16	-2	9	-4	1	6	5
Belgium	19=	25	71	17	14	13	3	3	13	3	6	7
Spain	19=	26	70	14	12	9	0	6	-4	-2	6	6
Argentina	21	30	63	1	5	-3	11	2	-6	-3	6	2
South Korea	22	12	83	10	8	12	-1	15	-4	7	6	5
France	23	15	80	17	13	10	2	12	-6	1	6	6
Czech Republic	24	19	76	1	11	7	-2	15	8	3	5	4
Italy	25	22	71	16	11	1	1	6	-7	-2	6	6
Chile	26	32	61	0	11	11	5	-3	0	-3	6	-2
Greece	27	27	67	8	10	-4	0	6	-7	-3	6	6
Croatia	28=	29	64	1	5	-7	-2	8	2	-1	5	4
Japan	28=	14	80	26	10	15	0	10	-12	-1	6	7
El Salvador	30	41	48	-6	3	3		-11	-4	-3	4	6
Portugal	31=	33	60	9	14	9	1	-3	-2	-2	6	6
Venezuela	31=	47	42	-3	-5	-15	3	-11	-3	-3	6	-17
Slovakia	33	20	74	1	11	10	-4	15	8	-1	5	2
Brazil	34	39	50	-3	4	-7	10	-10	-8	-2	6	4
Hungary	35	23	71	5	12	4	-4	8	8	10	5	5
Philippines	36	40	49	-6	0	-8	7	-2	-1	26	5	6
Bulgaria	37	28	65	0	6	6	0	11	4	-2	3	2
Poland	38=	34	60	6	12	2	-3	1	-3	-3	5	5
South Africa	38=	36	58	-2	9	11	2	1	-6	-3	5	4
Indonesia	40	45	44	-6	-4	-9	9	-5	-7	-1	6	1
Romania	41	37	57	-6	4	7	4	16	-2	-2	4	4
China	42	43	47	-4	-16	-1		-5	-6	3	6	6
Jordan	43	42	48	-5	-7	2		-6	4	-2	1	3
Russia	44	31	61	2	-8	-2	-75	17	-6	-2	5	-7
Turkey	45	38	52	-3	-1	-1		-5	-6	-3	6	6
India	46	44	45	-7	3	-9	-1	-6	-9	-3	6	6
Bangladesh	47	48	42	-8	-7	0		-8	-10	-3	3	7
Egypt	48	46	42	-7	-11	-15	2	-1	-5	-3	4	3
Pakistan	49	49	41	-8	-14	2	3	-9	-10	-3	4	6
Zimbabwe	50	50	35	-7	-15	-13		-8	-5	-3	2	-9

Indicates exceptionally strong score

Indicates exceptionally weak score

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Life Satisfaction														Country
Rank	Score	Fosters Free Choice and Opportunity				Alleviates Sources of Misery					Develops Social Supports			
		...via political and civil liberties	...via equality of opportunity	...via freedom of choice	...via time for leisure	...via high incomes	...via good health	...via job creation	...via a warm and sunny climate	...via stable marriages	...via community life	...via religious faith		
5	92	14	22	6	10	23	11	5	-11	-4	25	-14	Norway	
3	92	15	29	9	6	13	13	4	-11	-3	25	-17	Sweden	
2	94	12	-1	16	10	23	8	4	-4	-12	6	6	United States	
7	90	13	18	10	11	16	11	5	-3	-3	4	-4	Austria	
4	92	15	4	12	16	17	11	3	-17	-3	6	0	Canada	
1	95	16	16	14	11	9	10	6	-1	-6	14	-9	New Zealand	
8	90	17	21	8	6	17	9	4	-1	-7	25	-18	Denmark	
11	88	16	21	9	5	14	10	2	-18	-5	19	-8	Finland	
18	82	13	16	9	0	14	11	-1	-1	-6	6	-16	Germany	
14	84	15	9	7	7	15	13	5	-16	-5	6	-7	Switzerland	
10	89	15	8	11	9	15	12	5	-1	-5	8	-9	Australia	
9	89	16	21	0	17	14	10	5	-1	0	21	-13	Netherlands	
24	75	9	0	12	-13	12	9	4	12	-2	-9	5	Singapore	
15	84	15	-3	7	6	22	9	5	-1	7	5	2	Ireland	
13	86	16	17	11	-2	18	12	6	-3	0	9	-6	Iceland	
6	91	5	10	19	-7	-3	4	7	-8	7	-4	11	Mexico	
25	75	6	-2	4	4	9	11	-1	-2	1	-3	2	Israel	
21	79	15	3	6	0	14	10	5	-1	-7	4	-8	United Kingdom	
20	80	13	19	-2	14	14	10	1	-1	-8	1	-10	Belgium	
19	80	12	20	0	9	10	12	0	-3	4	4	-8	Spain	
16	84	-2	19	9	-4	-1	4	-4	-2	9	-8	6	Argentina	
36	66	7	-3	5	-14	5	7	6	-8	-13	0	-10	South Korea	
34	69	11	-4	-4	6	13	11	0	-1	-3	-4	-16	France	
32	70	10	1	1	2	5	7	2	-1	-9	-2	-19	Czech Republic	
31	71	10	1	-6	2	13	12	2	-4	6	3	0	Italy	
22	78	14	-1	6	-7	-2	6	3	-5	8	-3	7	Chile	
28	73	9	-3	3	-2	7	10	2	-5	4	-3	0	Greece	
27	73	3	5	2	-3	-2	5	-2	-2	4	-5	-1	Croatia	
42	63	10	-8	-10	-6	15	14	5	-4	-2	10	-12	Japan	
17	82	4	0	10		-7	-2	3	21	8	-9	13	El Salvador	
26	75	12	5	1	6	5	8	3	-5	-3	-10	2	Portugal	
12	88	-9	1	20	-3	-6	3	-5	9	6	-8	12	Venezuela	
40	64	11	0	-6	7	2	5	-7	-10	-2	-8	-4	Slovakia	
23	76	3	-8	9	-1	-4	-2	0	10	6	-16	12	Brazil	
41	64	12	-6	-8	7	2	4	4	-4	-4	-4	-11	Hungary	
30	72	0	-1	1	-11	-7	-3	0	17	11	-13	12	Philippines	
43	62	6	6	-7	13	-3	3	0	-1	-2	-1	-12	Bulgaria	
39	65	9	4	-7	0	0	4	-8	-12	2	-6	5	Poland	
37	66	7	17	0	-2	-1	-19	-16	0	5	-10	9	South Africa	
29	72	-4	-5	7	-14	-8	-4	6	8	6	16	14	Indonesia	
38	65	2	-5	0	2	-5	2	2	-13	1	-12	7	Romania	
33	69	-10	4	5	7	-6	3	6	-4	3	18	-11	China	
35	68	-3	-11	5	-29	-7	-1	-17	2	0	0	14	Jordan	
48	41	-7	-7	-15	12	-2	-3	3	-15	-34	-3	-11	Russia	
45	49	-1	-12	-16	-9	-5	0	0	-6	6	-6	9	Turkey	
46	49	-2	-8	-14	-12	-9	-9	1	8	4	9	6	India	
44	54	-9	-2	-14		-10	-8	5	19	10	-3	12	Bangladesh	
47	47	-8	-15	-17	-26	-8	-3	-1	4	6	7	12	Egypt	
49	40	-12	5	-27		-9	-9	1	4	10	-11	10	Pakistan	
50	32	-18	0	-13		-9	-30	-62	0	-26	-11	12	Zimbabwe	

Indicates average score

Data not available

THE 2007 LEGATUM PROSPERITY INDEX

There is a great divergence among nations in both the material wealth and life satisfaction of their citizens. The people of Ireland earn US \$44,100 per year on average, almost 20 times more than those of Bangladesh who struggle to survive on only US \$2,300. The citizens of Mexico report themselves very satisfied with their lives, while almost 40 percent of Russians report themselves very dissatisfied, despite enjoying levels of material wealth comparable to their Latin American counterparts.

Moreover, these levels of national prosperity are complex. While Japan is wealthier than New Zealand, its people report themselves dramatically less satisfied with their lives. While South Africa and Chile have comparable incomes, the citizens of Chile report far higher levels of life satisfaction. Many countries with similar levels of wealth have dramatically different levels of overall wellbeing.

We set out to investigate the reasons for these profound differences among nations in this first edition of the Prosperity Index. Fifty countries worldwide are ranked based on the degree to which the actions of their people and governments drive or restrain the creation of national prosperity, which we have defined as the well-rounded combination of the average annual income and life satisfaction of a country's people.

Investigating Prosperity

Scholars and leaders have attempted to discover the roots of prosperity for thousands of years. They have struggled even to measure prosperity, a point made eloquently by U.S. Senator Robert Kennedy, who argued, in a 1968 speech, that the obsessive focus on purely economic and financial measures such as Gross National Product (GNP) was a mistake:

"[The] Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage...It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl...Yet the Gross National Product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials...it measures everything in short, except that which makes life worthwhile."

U.S. Senator Robert Kennedy

Accurately assessing the wellbeing of an entire society is no simple matter, as Kennedy makes clear, and it is tempting to focus on purely financial measures, which have become easily available in recent years. But if we are to take into account "that which makes life worthwhile", a broader approach is needed. We call that broader concept "Prosperity", and in this study, make an attempt at assessing this more well-rounded form of national wellbeing.

Fortunately, modern social science already offers some good alternatives to GNP and



other purely financial measures of prosperity. One of the most interesting of these alternative measures is nationwide surveys of life satisfaction, which have been conducted in some 90 countries worldwide (including, quite recently, Iraq, where a little over a quarter of the population reported very low levels of satisfaction with their lives). Until recently, policymakers dismissed the results of such surveys, perhaps believing that people would not or could not answer such surveys reliably. But recently it was discovered that people reporting low levels of life satisfaction were far more likely to take their own lives in years following, and that the same country-level factors (such as high unemployment and high divorce rates) correlate strongly with both low levels of life satisfaction and high suicide rates. Thus people's satisfaction with their lives is literally a matter of life or death importance.

*People's satisfaction
with their lives is a
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death importance*

However, both the data on life satisfaction and the data on material wealth are of limited use in understanding how best to promote enduring national prosperity. For instance, El Salvadorans on average report an overwhelmingly positive mental state, despite the severe poverty of their country, relatively low life expectancies, and a high incidence of debilitating disease. This almost certainly reflects cultural factors. (Life satisfaction survey results for El Salvador's closest neighbours, such as Honduras and Guatemala, are likewise exceptionally high.)

*This investigation of
prosperity attempts
to uncover the policy
and personal choices
that actually drive or
undermine wealth
and life satisfaction*

Hence this investigation of prosperity takes a deeper approach, and attempts to uncover the policy and personal choices that actually drive or restrain the creation of material wealth and life satisfaction. It is these drivers and restrainers that we have used in our rankings, with the goal of providing the public with insights on the specific areas in which their countries may excel or lag behind. We identified these drivers and restrainers using statistical analysis based on some 40 years of historical data for 50 countries worldwide (the full details of which can be found on our website at www.prosperity.org). We hope this data-driven approach will enable us to provide insights into prosperity that are rooted in observable empirical fact.

*"Social prosperity means
man happy, the citizens
free, the nation great."
- Victor Hugo -*



Happiness - More Than Just Money?

Many of the factors that produce high levels of life satisfaction in countries are the by-products of economic success: richer countries have more money to spend on expensive medical care, faster-growing economies will tend to enjoy lower rates of unemployment, and of course, long-term growth produces higher incomes and reduces poverty.

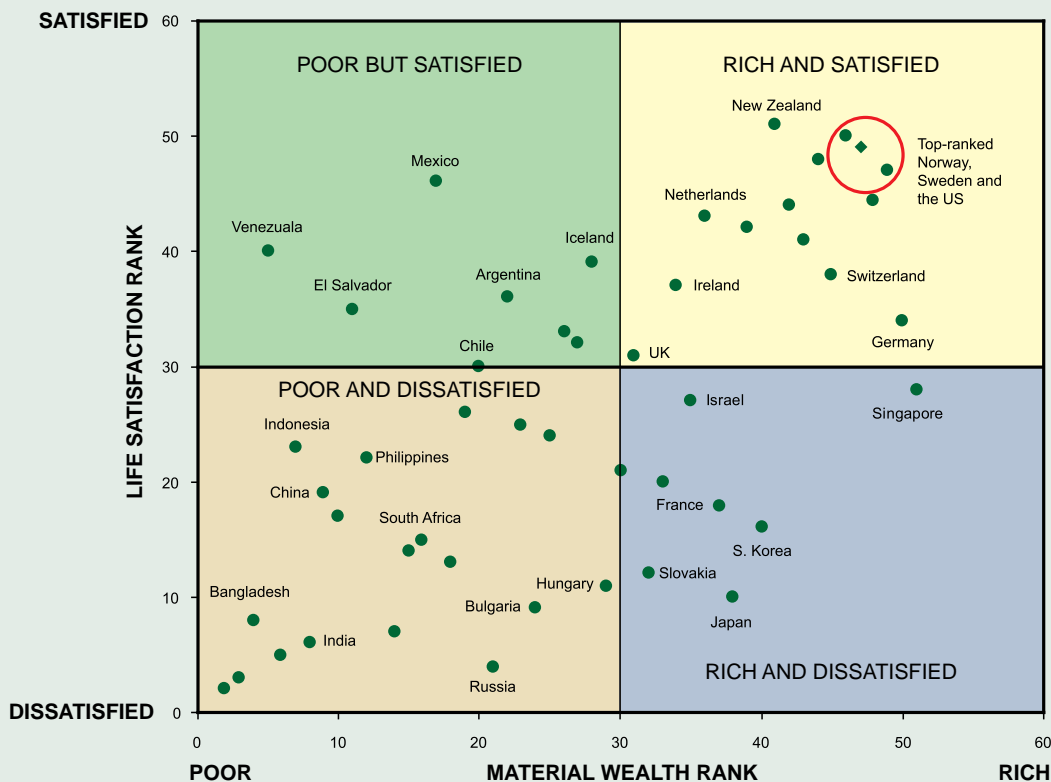
There are, however, several factors that are not highly correlated with income but nonetheless strongly impact life satisfaction -- most notably religious faith, climate, and the average number of hours of leisure time per week. Furthermore, in richer countries, income levels become a less important driver of life satisfaction, and factors such as good health and vibrant community life matter more. Hence a few countries that do very well on our Material Wealth Index do very badly on our Life Satisfaction Index, and vice versa. In short, some countries are "rich and dissatisfied", and others are "poor and satisfied" (see chart).

Regional differences are strikingly apparent in this analysis, despite substantial country-to-country variation. The relatively "rich and dissatisfied" countries tend to be located in Eastern Europe and East Asia. Many Eastern European countries are highly secular and have colder climates, and both of these factors tend to reduce levels of life satisfaction. Industrialised Asian countries also tend to be secular and moreover to have the world's longest working hours.



The "poor and satisfied" countries, by contrast, are mostly located in Latin America (generally with warmer climates and, according to surveys, stronger religious faith) and Southeast Asia (also with warmer climates and stronger religious faith -- Islam in the case of Indonesia, and a mixture of Islam and Christianity in the case of the Philippines). These factors tend to alleviate some notable deficiencies in income, health, and, in some cases, political freedom. There is a natural limit to what can be achieved in the "poor and satisfied" category, however. In extremely poor countries, income is the single strongest determinant of national average life satisfaction, because the sources of misery generated by the material deprivations that accompany poverty are so severe. Hence, as is the case this year, the top countries in the Life Satisfaction section of the Prosperity Index will almost inevitably be rich.

PLOT OF LIFE SATISFACTION RANK AGAINST MATERIAL WEALTH RANK, 50 COUNTRIES



Can't buy happiness? The graph contrasts countries' relative ranks on the Material Wealth and Life Satisfaction sections of the Index. Countries in the upper right-hand corner score well in both areas.



The Legatum Prosperity Index results are divided into two categories: material wealth and life satisfaction. Unless a country is lucky enough to have valuable natural resources and a tiny population, the only way to produce material wealth is via long-term economic growth. Our Index thus measures the degree to which a country's policies are conducive to such growth. And unless a country's people are fortunate enough to have the irrepressible cultural optimism of the El Salvadorans, average national life satisfaction is strongly influenced by tangible and measurable factors such as physical and financial security. We have therefore based our Index on the factors that have historically correlated with results on life satisfaction surveys of citizens.

The Prosperity Leaders

Countries are ranked overall by the simple average of their rankings in the Material Wealth and Life Satisfaction sub-indices. Thus a top position reflects well-rounded prosperity, encompassing both excellent material conditions as well as high levels of societal wellbeing. In this first annual edition of the Index, we have limited the

Index coverage to 50 countries for which relatively high-quality data on the drivers of both material wealth and life satisfaction are available. In future years, we will expand the number of countries as the data become available.

The most well-rounded countries, those at the top of the Index, are overwhelmingly European, with some representation for North America (the United States and Canada) and Asia-Pacific (New Zealand). The highest-ranked non-Western country in the Index is Singapore (ranked 13th).

There is a three-way tie for the top position, because no country scores well in every area

There is a three-way tie for the top position, between Norway, Sweden, and the United States. This is a reminder that on such a broad measure of prosperity, no country scores well in every area, and even the best-performing countries have room to improve.

Life satisfaction is strongly influenced by tangible and measurable factors such as physical and financial security

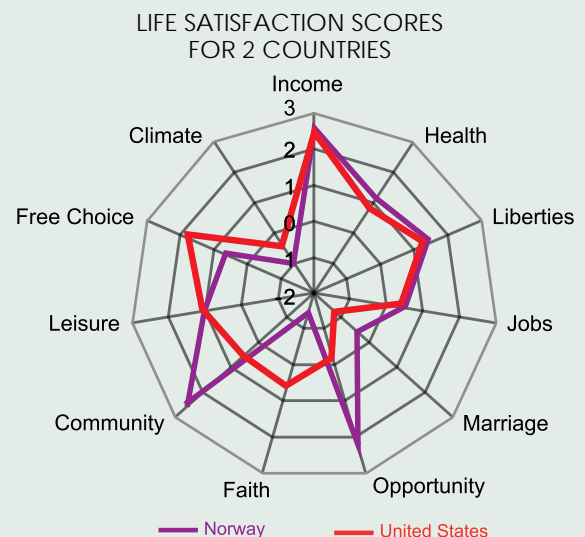
The American Exception

"Happy families are all alike; every unhappy family is unhappy in its own way," or so Tolstoy contends in the famous first line of *Anna Karenina*. Perhaps this is true of families, but it is not true of countries. While citizens in all rich countries tend, on average, to be happy, almost uniquely among rich countries, citizens of the United States report a high degree of religious faith, and great confidence in their ability to make free choices and control their own lives. These are oft-noted examples of American exceptionalism, and also factors that tends to correlate with high levels of life satisfaction.

So does this mean Americans are happier than everyone else? In the end, no. Higher levels of freedom and religious faith in the United States are balanced out by other negative factors (see graph). Americans are, on average, less healthy than citizens of many European countries. Because health is such an important factor in life satisfaction this affects our Index results, even though the difference between European and American health averages is relatively small. Americans also suffer higher divorce rates, and Americans tend not to elect female political leaders. This latter factor correlates very strongly with societal averages of life satisfaction.

We suspect this correlation arises because societies in which women frequently achieve high political office are societies in which even historically disadvantaged groups have the opportunity to advance to the top rungs of the social ladder.

Hence, all rich nations (those with average annual incomes above US \$20,000 per person) are certainly "happy families" in the sense that their people report, on average, high levels of life satisfaction. However, in contrast to Tolstoy's famous dictum, this happiness is produced in many different ways.



Different Societies. The graph displays the Life Satisfaction Index results for the United States and Norway. While citizens of the United States, on average, enjoy similarly high level of life satisfaction, the drivers of this indicator are very different from their European counterparts.



Norway's top ranking is an extraordinary achievement, given its natural resource wealth and the frequent corruption and violence that accompanies this in many parts of the Middle East and Africa. Norway is not, by most measures, the most business-friendly country in our study, nor the most innovative, yet the competent management of the proceeds from its North Sea oil reserves has fostered a pace of long-term economic growth that is among the highest in the industrialised world. Norway also has a high Life Satisfaction score, based on excellent health, high incomes, and a sound democracy. Perhaps Norway's success in capitalising on its geological good fortune can serve as inspiration to the many other countries where natural resource wealth has too often encouraged clannish competition and corruption rather than collaboration and investment.

Sweden may not perform as well economically, with levels of investment that lag the world leaders and somewhat excessive bureaucracy. However, Sweden's level of achievement on most social indicators is exceptionally high, with sound political and civil liberties, superb health,

and high incomes. Swedes also make some good social choices. They report strong community bonds, as measured by their self-reported levels of trust in other citizens. (This tends to be fostered by active social and political organisations -- so-called "social capital".) Swedes have also achieved excellent equality of opportunity, measured by the degree to which women achieve high political office.

The United States is well known for its unique social and political culture. Unusually for a rich country, the US maintains high levels of religious faith, and people with strong religious faith tend, other things being equal, to report higher average levels of life satisfaction. US citizens also report themselves exceptionally secure in their ability to make free choices and control their own lives. High scores on these factors are not unique to the United States. New Zealand and Canada report high levels of free choice; many countries in Latin America and the Muslim world report high levels of religious faith. However, only the US combines high levels of religious faith and freedom of choice with good scores in other areas of material wealth and life satisfaction.



Who's Going Places...And Who Isn't?

The Material Wealth section of the Index measures achievement: what countries have done the most to increase the wealth of their citizens? But there is also the question of progress: which countries are doing the most to achieve the highest growth rates today, to top the Wealth rankings tomorrow? By this standard the leading country is Ireland, with levels of international trade and investment matching that of countries that have historically produced the fastest economic growth of any country on earth. The countries making the least progress include Zimbabwe and Venezuela, registering actual net destruction of their stocks of either invested capital or human capital (education).

A few of the exceptional performers deserve a mention. Several countries in the top ten are Eastern European, enjoying

rapid growth as liberation from communism has unlocked these countries' economic potential. Also notable is another formerly communist, and now increasingly market-oriented, economy: China, which ranks 5th. Considering the sheer number of Chinese people, and the fact that our Index considers additions to material wealth per person -- so any increases in Chinese wealth must be divided by the country's population of more than one billion people -- China's recent economic success, following its growing embrace of a market economy, likely represents the most successful poverty alleviation programme in human history. (China's challenge now is to improve its performance in the Life Satisfaction rankings, where severe restrictions on political and civil liberties contribute to low average levels of life satisfaction.)

CHANGES IN MATERIAL WEALTH FACTORS OVER THE PAST FIVE YEARS

Country	Material Wealth										
	Rank	Score	Invests Productively				Commercialises New Ideas			Avoids Dependence	
			...via growth in invested capital	...via good governance	...via low costs of bureaucracy	...via competitive markets	...via better education	...via economic openness	...by exploiting innovation	...on foreign aid	...on commodity exports
Ireland	1	1.1	13	14	15	4	4	17	23	6	6
Croatia	2	0.9	16	5	-7	0	4	2	-1	5	4
Portugal	3	0.6	6	14	9	0	9	-2	-2	6	6
Greece	4	0.6	9	10	-4	-1	8	-7	-3	6	6
China	5	0.6	17	-16	-1		-11	-6		6	6
Ecuador	46	-0.3	-4	-2	-7		-1	-3		5	-13
Indonesia	47	-0.3	-7	-4	-9		2	-7		6	1
Zimbabwe	48	-0.9	-13	-15	-13		-2	-5		2	-9
Jordan	49	-1.1	-8	-7	2		-62	4		1	3
Venezuela	50	-1.1	-11	-5	-15		-32	-3		6	-17

Indicates exceptionally strong score

Indicates exceptionally weak score

Indicates average score

Data not available



Prosperity Remains a Dream for Many

This very broad look at prosperity identifies a good deal of diversity even among the top-performing countries -- particularly in the determinants of life satisfaction. The diversity is even greater across the 50 countries we rate, however. While no country has poor scores in every category, Zimbabwe comes closest. While its people maintain a strong religious faith, this does not make up for extreme ill-health, unemployment, and high divorce rates.

The other countries near the bottom include Pakistan, Bangladesh, Egypt, and India, although complete data are not available on every country in the world (particularly the poorest and most unstable), so there are certainly many countries that would rank below these. India's low position in the rankings is perhaps surprising. Yet India's vibrant society and Indians'

off-noted spiritual strength cannot make up for an extreme deficiency in health, as evaluated by the country's "health-adjusted life expectancy", a measure of longevity that also reflects the presence of debilitating disease. This is the second-strongest determinant of life satisfaction across countries and India has one of the three lowest values in our study. India's long-term economic growth is also well below potential, as a result of the very high costs of bureaucracy, poor education, and an economy that restricts foreign investment. However, India has recently registered improvements in each of these areas, unleashing a mini economic boom. Given the country's strong democracy, the potential for significant further improvement remains within reach if a political and public consensus can be sustained.

Health is the second strongest determinant of life satisfaction across countries and India has one of the three lowest values in our study

While no country has poor scores in every category, Zimbabwe comes closest



PRINCIPLES OF PROSPERITY

Our investigation uncovered some basic principles that can be generalised across large numbers of country cases. For each principle, we have listed the relevant finding of our statistical research, and then the insight for citizens and policymakers which this results suggests.

1. Freedom of choice is crucial

FINDING: On average, people's self-reported freedom of choice is so strongly correlated with life satisfaction that this factor alone may determine close to 50 percent of how satisfied people are with their lives.

INSIGHT: Of the countries in the top ranks of the Prosperity Index, a few report markedly higher levels of freedom of choice than their peers -- notably the United States and New Zealand, followed by Iceland, Canada, Australia, and Austria. That is, in these countries, people, when surveyed, report that they feel they have "freedom of choice and the ability to control the way their

life turns out". Analysis of this data suggests that to enjoy free choice, people need to have good health, equality of opportunity and economic freedom. A conclusion of some analyses of life satisfaction data is that life satisfaction can be legislated -- for instance, by providing guaranteed incomes or a shortened workweek. But this new data indicates that such measures are likely to be counter-productive, by undermining the opportunity, economic freedom, and ultimately, the feelings of free choice that are so crucial to societal wellbeing.

In rich countries, without exception, people on average report themselves satisfied with their lives

2. For very poor countries, raising incomes is the first priority

FINDING: Statistical testing indicates that for countries with an average income per person of less than US \$10,000, income levels are the single strongest predictor of how satisfied that country's people will be with their lives.

INSIGHT: There is an old saying that "money can't buy happiness". While this may be true, it is equally true that the lack of money can cause great misery. In rich countries, without exception, people on average report themselves satisfied with their lives. By contrast, in many poor countries, for

instance, Zimbabwe and Pakistan, the stresses of hunger, poor housing, and physical insecurity appear to be so overwhelming that large numbers of people report themselves dissatisfied with the life they lead. This suggests that for countries at the lower end of the income scale, raising incomes via economic growth should be among the top concerns.

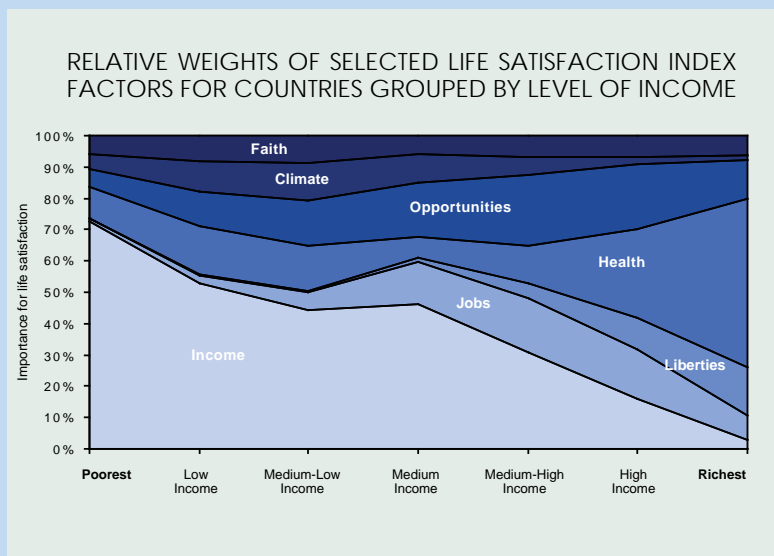
3. Money matters to people, but only up to a point

FINDING: Statistical tests on countries grouped by income find a powerful relationship between income and life satisfaction in countries with an average income below roughly US \$10,000 per person, and this relationship remains fairly strong up to around US \$20,000 per person. Above this level, the relationship weakens, and further increases in income appear to matter only very slightly.

Further increases in the wealth of already wealthy societies do not seem to make people more satisfied

What Matters Most?

We conducted statistical tests on countries pooled into peer groups with roughly similar levels of income, to assess changes in the importance of the Index factors at different income levels. Strikingly, for the poorest countries, income is the single strongest driver of life satisfaction, while for the richest countries, additional increases in income have little impact. Because it is not possible to test every factor in the Index in a single statistical analysis, not all factors are included, and thus the weights shown here do not correspond exactly with the weights in the overall Index.



Why Utopias Are So Miserable



Advances in the study of human wellbeing have produced many visionary attempts to engineer the perfect society. These attempts have an undeniable appeal. Mao's China and Stalin's Russia had, at the time, many vocal admirers in the West, only much later rectified by revelations of the tremendous suffering created by these totalitarian regimes.

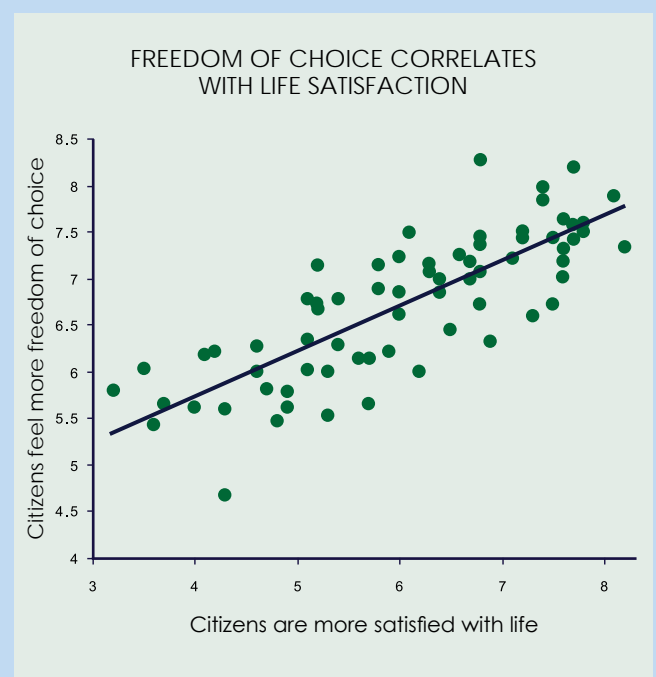
The modern study of life satisfaction might well inspire further utopian visions. Put simplistically, if unemployment, ill-health, secularism, and divorce reduce people's wellbeing and increase suicide rates, why not make divorce illegal, make healthy eating mandatory, provide guaranteed jobs for all, and establish an obligatory state religion?

The flaw in this logic is readily apparent in the life satisfaction data. While marriage, jobs, and good health tend to increase life satisfaction, there is an overriding contextual factor: Freedom of Choice.

On average, people's self-reported freedom of choice is so strongly correlated with wellbeing that this factor alone may determine close to 50 percent of life satisfaction (see graph). (This data on freedom of choice -- the response to the question, "how much freedom of choice and control do you feel you have over the way your life turns out" -- is collected in the World Values Survey, and can be viewed at www.worldvaluessurvey.org.) Hence, policies that undermine freedom of choice will have, on balance, the unintended effect of sharply reducing wellbeing.

People have a strong desire for security, including that of income and health. These factors have strong statistical relationships with life satisfaction. But the relationship between freedom of choice and life satisfaction is many

times stronger. Hence, coercive attempts to produce security by imposing equality tend to produce not the utopias depicted by socialist and communist ideologues, but rather, unintended misery, as people trade a feeling of control over their lives for the lack of options imposed by state controls. The countries with the highest levels of wellbeing tend to provide political freedom, civil liberties, and widely distributed opportunities, as distinct from societies which seek to impose an enforced equality of outcomes.





INSIGHT: Rising incomes can reduce human misery by alleviating the physical deprivations that sometimes accompany poverty. Yet further increases in the wealth of already wealthy societies do not seem to make people, on average, more satisfied. To the extent that there is a trade-off between time and money, this may have implications for the choices people in rich countries make in their lives. Indeed, wealth brings with it new and different challenges as people have increased choices which may require increased maturity and discipline if it is not to lead to self-destructive behaviour. Some causes of ill-health, such as alcoholism or obesity, or causes of ill-being, including high divorce rates and weakened community bonds, are more common in wealthier countries.

Turning hidden capital into invested capital requires a great leap of trust by investors, and this only happens in stable environments offering sound property rights and good economic policy

4. Growth in invested capital is the strongest driver of long-term economic growth

FINDING: The factor with the strongest statistical relationship to economic growth is the growth in the value of fixed capital investment (such as factories and machinery) per worker.

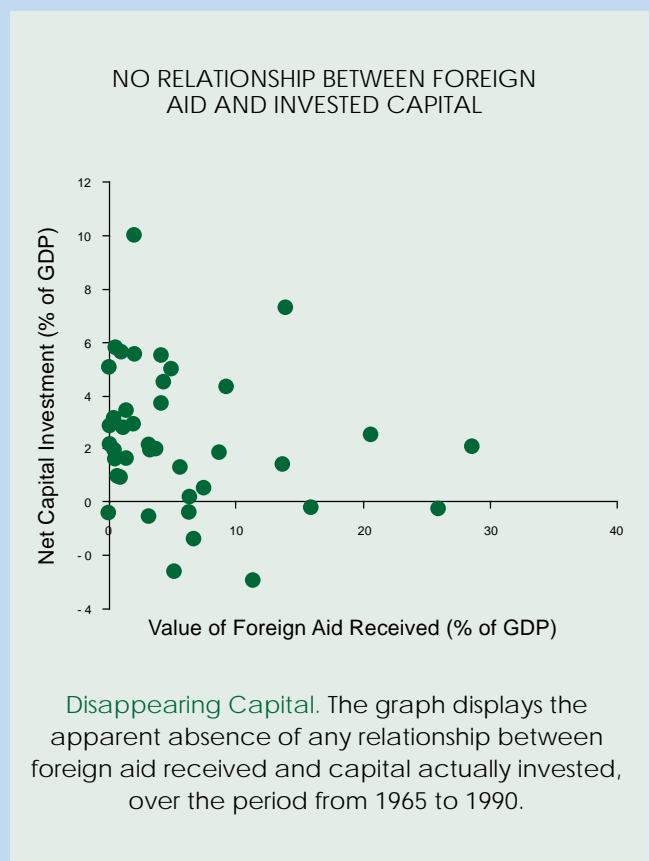
INSIGHT: Every country has financial capital, but all too often it is dormant and unproductive. Sometimes it is hidden under the mattresses of the poor, or in their informal dwellings, because the absence of secure property rights makes it impossible for the poor to put these assets to use (for instance, a squatter without legal title to his or her home cannot mortgage this home to start a small business). Sometimes a country's financial capital becomes flight capital, which seeks a more stable and welcoming environment in foreign banks or real estate. It is difficult to lure this capital out of its hiding places and back into a country's economy, because productive assets such as factories are high-profile and immobile -- easy targets for thieves or unscrupulous



Foreign Aid Is No Path To Prosperity

Our analysis of the drivers of increasing material wealth highlights the crucial role of invested capital in producing long-term economic growth: wealth that is turned into productive capital assets, such as factories, offices, and machine tools, can create more wealth. This finding, one of the most long-established principles in economic analysis, provided the original rationale for foreign development aid. It was thought that poor countries, which by definition had little material wealth to invest, would benefit greatly if they received transfers of wealth from the rich world.

Unfortunately, things did not go as planned -- as the graph below illustrates, the amount of wealth that was transferred to poor countries bears little relationship to the amount of capital these countries actually invested. Some of these funds were lost to corruption, some were spent on consumption of goods rather than investment, and some were tied to services provided by rich country firms and therefore simply went back to the rich countries (so-called "boomerang aid"). In the final analysis, the data point to the conclusion that poor countries hoping to obtain capital must do so through their own initiative: by attracting flight capital back home, by capitalising repatriated earnings of their overseas workforces, by establishing sound property rights for the poor, and by attracting foreign investment. As the data show, dependence on foreign aid is no path to prosperity.



government bureaucrats. Turning hidden capital into invested capital thus requires a great leap of trust by investors, and this usually only happens in stable business environments offering sound property rights, the impartial application of just laws, and good economic policy.

5. Economic openness can help poorer countries catch up faster

FINDING: Economies in which foreign investment and trade play a greater role grow more rapidly than closed economies.

INSIGHT: Many of the factors we studied have a simple relationship with economic growth. Increases in capital and education contribute directly to the value of physical and human capital and thus directly increase economic output. Poor governance and excessive bureaucracy impose costs on business and thus restrain growth. Foreign investment and trade are different. We measured these factors as a percentage of economic output -- that is, we measured their relative weight in an economy, not their direct contribution to output.

The analysis revealed a strong relationship between the weight of foreign trade and investment and long-term growth. This is because openness helps poorer countries catch up. Exposure to foreign trade and investment enable poor countries to adopt, in a matter of a few years, certain technologies, skills, and business methods that required generations to develop in the industrialised nations. Foreign direct investment in particular is doubly beneficial:

Economic openness produces a boost for growth in poorer countries

not only does it provide much-needed invested capital (see Principle 4 above), it also facilitates the transfer of advanced skills and technology.

Countries that rely on foreign aid or resource exports for large portions of their income tend to grow more slowly

6. Dependence on commodity exports and foreign aid can undermine a country's financial prosperity

FINDING: Two of the factors we tested -- commodity exports as a percentage of national income and foreign aid as a percentage of national income -- had strong negative relationships with long-term economic growth.

INSIGHT: That more money could ever be impoverishing seems counterintuitive. But the statistical evidence shows that countries that rely on foreign aid or commodity exports for large portions of their income tend to grow significantly more slowly than other countries. (Commodity exports include oil and gas, minerals such as gold or copper, and agricultural commodities such as coffee.) In the case of commodity exports, the negative impact on growth arises partly due to economic distortions -- for example, inflows of funds from oil exports cause exchange rate appreciation that undermines the competitiveness of other economic sectors. It also arises through political effects, as oil exports have been shown to correlate with violent civil conflicts -- in part because these conflicts are often funded by such exports, as in the well-documented case of "conflict diamonds". Nonetheless, commodity exports do not have to be a curse. As Norway, a top-

*"Agriculture, manufactures, commerce and navigation, the four pillars of our prosperity, are then most thriving when left most free to individual enterprise."
~ Thomas Jefferson, 1801 ~*

ranked country in our Index, has shown, oil revenues that are invested responsibly can help drive growth and foster high levels of wellbeing.

In the case of foreign aid, the negative impact on growth likewise comes through multiple channels: (1) as with commodity exports, there can be exchange rate effects; (2) local markets can be distorted by the inflows of funds -- for example, the most talented local workers often leave private business to work in well-paid aid projects; and (3) the quality of governance can be undermined as political leaders are incentivised to exploit their control over aid funds to distribute patronage to supporters, instead of focussing on delivering high-quality government services and economic growth.

7. Reducing the burden of bureaucracy can significantly increase economic growth

FINDING: Tests of the World Bank's "Doing Business" indicators show a strong correlation with economic growth rates.

INSIGHT: The World Bank has developed an objective indicator of the burden that bureaucracy imposes on businesses, by measuring, in more than 100 countries worldwide, the cost and time required to establish a new company, the cost of registering property, the difficulty of hiring and firing workers, the cost of enforcing contracts, and so on. Because this indicator is relatively new it is not possible to assess its impact on historical rates of growth. However, tests on the most recent five years of data find the impact of bureaucracy to be strong -- second only to the impact of capital investment. This suggests that the World Bank's annual updates on which countries have done the most that year to

reduce the burden of bureaucracy are well worth watching.

The World Bank's annual updates on which countries have done the most that year to reduce burden of bureaucracy are well worth watching

8. For citizens of rich countries that wish to maximise life satisfaction, the main challenges are posed by social ills and the "miserable minority"

FINDING: Tests on data from the world's richest countries (those with an average income per person greater than US \$15,000) find that the statistical relationships between life satisfaction and factors such as strength of social communities, unemployment, and leisure time, are much stronger than the relationship between life satisfaction and income.

INSIGHT: In all rich countries, people on average report that they are satisfied with their lives. This does not, however, mean that there is no room for improvement. Rich countries do exhibit substantial variation in average levels of life satisfaction. This variation is driven by factors such as a lack of trust in others (which can be caused by a lack of active social, religious and political organisations -- so-called "social capital"), high divorce rates, declining leisure time, and unemployment.

Some of these issues are arguably influenced by government policy, but others are a matter of individual choice -- it has long been said that wealth poses a more difficult test of a person's character than poverty, as wealth offers more choices, for

*"Prosperity demands of us more prudence and moderation than adversity."
~ Cicero ~*

For the richest countries, factors such as trust, unemployment, and leisure are more important than a narrow focus on income



good and for ill, and therefore needs to be managed responsibly. As far as government policy is concerned, a central concern is the “miserable minority”. Because most people in rich countries report high levels of life satisfaction, a key differentiator in national average life satisfaction is the relatively small number of people who report extremely low levels of life satisfaction -- including the mentally ill and the unemployed.

9. For rich countries that wish to maximise their wealth, innovation and competition are crucial

FINDING: Tests on data from rich countries (countries with an average income per person greater than US \$15,000) find that competition and commercialisation of innovation increase long-term economic growth.

INSIGHT: Rich countries tend to have uniformly excellent economic policies, education, and capital investment, when compared to the rest of the world. This is

unsurprising -- had they not achieved such excellence they would not be rich. As a result, there is little variation among rich countries in these factors, and the vast majority of their growth tends to be accounted for by natural economic processes.

Yet, there are some things rich countries can do to improve their growth at the margins. Notably, our tests show that when rich countries are compared against their peers, those with deregulated and highly competitive domestic markets grow more quickly. Switzerland, which was the world’s richest country in 1990, has recently grown slowly because over-regulation has led to higher costs and lower productivity in sectors such as utilities, food products, construction, and education.

Another boost to rich-country growth comes from commercialising innovative technologies. Our tests were unable to identify a clear benefit to innovation itself -- some countries with great success in producing patents or scientific research have grown slowly in recent years. However, countries that succeed in commercialising innovation (as measured by high levels of high-technology exports) do grow faster than their peers.

In rich countries, commercialising innovation and encouraging competition can increase long-term economic growth



Of Parking Tickets And Justice

Two scholars recently published a paper on a topic not often considered: the number of parking violations incurred by United Nations diplomats posted from around the world. The results were embarrassing for many countries, and also fascinating, because during the period the scholars studied, there were no penalties for diplomats who violated New York parking laws. Hence the data might be said to reveal the degree to which people will obey the law even in the absence of punishment.

Diplomats from countries with strong legal systems and low levels of corruption, including Norway, Canada, Sweden and Denmark, incurred no parking tickets despite the total absence of penalties for doing so. Diplomats from countries with high levels of corruption and weak rule of law, by contrast, incurred large numbers of tickets. This continued to be the case even when the results were adjusted to reflect differences in levels of both personal and national income (more corrupt countries also tend to be poorer and have more poorly-paid diplomats).

It seems that in countries with strong legal systems, a respect for the law becomes a “social norm”, to use the phrase preferred by academic researchers. That is to say, people are not simply law-abiding due to fear of punishment, but have so internalised the laws as to have become voluntarily “lawful” and act in a manner that reflects an internal compass, and thus will continue to obey laws even when punishments do not exist.

These factors also correlate strongly with life satisfaction. Perhaps because people living in lawful countries benefit from a shared contribution toward an expectation of justice, countries whose diplomats incurred fewer parking tickets tended to record higher levels of average life satisfaction. By contrast, countries with large numbers of violations, such as Egypt, Bulgaria, and Zimbabwe, tended to have weak legal systems, high levels of corruption, and citizens who report low average levels of satisfaction with their lives.



A FOCUS ON PRINCIPLES

The inquiry into the roots of prosperity has been ongoing for hundreds of years. While our understanding of the determinants of both material wealth and life satisfaction has increased by leaps and bounds, much remains unknown. We intend the Legatum Prosperity Index to be an ongoing enterprise that reflects our evolving understanding and is to be revised as this develops.

We intend the Prosperity Index to be an ongoing enterprise that reflects our evolving understanding and is to be revised as this develops

This analysis, especially the rankings of countries, should not be read as a precise evaluation of countries' relative success or failure, but rather as an effort to offer insights into the elements which contribute to creating fulfilled lives and prosperous societies. Although our analytical techniques are rooted in statistical research on historical data, any analysis stretching across so many countries and years is not undertaken for the purposes of precision so much as to elucidate trends and principles. We thus hope that the study provides some useful insight as to where, in principle, we can choose to do better in enhancing the material wealth and life satisfaction which define our prosperity.

Researchers, policymakers and the curious are welcome to examine the results for their countries and others on our website, www.prosperity.org. A full set of data and analysis tools are available for all 50 countries in the Index, and many more besides. (We have Life Satisfaction results for 68 countries, and Material Wealth results for 98 countries, including many in Africa, where increasing material prosperity is a critical priority.)

These results are intended to be used as a diagnostic tool, to identify areas where focused effort may reap significant rewards. However, knowing that a country has a relatively low level of invested capital is not the same as knowing the cause

On our website, we have posted additional Material Wealth results for 98 countries, including many in Africa, where increasing prosperity is a critical priority

of the deficiency or how to remedy this deficiency, and the solutions will vary from country to country depending on context. While increasing one factor may, on average across countries, produce a jump in life satisfaction, the exact effect in each country will again depend on its cultural, legal, political, religious, and economic context.

We hope, however, that our analysis of the historical data, the basic prosperity principles we have identified, and the results for individual countries will prove useful to those who are concerned about the prosperity of their own country and of other countries around the world. Notably, at the present moment, no country scores well in every category.

For rich countries we see a significant challenge of moving from a historical focus on economic growth to a broader focus on the human and social factors that have a stronger impact than income on the life satisfaction of their citizens.

Ironically, the response to this challenge cannot be government-led, but must be citizen-chosen, because so many of these issues are a matter of individual choice. The statistical evidence on the importance of freedom of choice reveals that attempts to impose "correct" social choices on individuals will paradoxically create, on balance, highly detrimental effects on life

satisfaction. Thus, unsurprisingly, the two countries with the highest Life Satisfaction scores (New Zealand and the United States) have notably free societies with limited government intervention, compared to peer countries.

For poor countries we see an equally great challenge of maintaining traditional social strengths while remedying clear economic deficiencies that are in many cases at least partially the result of historical influences or geographic provenance. If the 2007 Prosperity Index provides useful insights to the global community in how to help each other fulfil our potential, then it will have served its purpose. We may inherit our history, but we can choose our future.

*"Prosperity is what allows every individual to develop his unique personality and potential."
~ Bryan Caplan ~*

We hope that the 2007 Prosperity Index provides useful insights to the global community in how to help each other fulfil our potential, and in so doing, realise our dreams

GLOSSARY OF KEY TERMS

Better Education

The average number of years of secondary education completed per person. More education corresponds to faster growth.

Commercialisation of Innovation

Exports of innovative high-technology goods as a percentage of GDP. More high-technology exports correspond to faster long-term economic growth.

Community Life

Survey on the degree to which one believes that most people can be trusted. This has been shown to correlate strongly with the strength of community, social, political and religious organisations – so-called "social capital". More social capital corresponds with higher levels of life satisfaction. Due to limitations on data availability this factor was only tested in countries with average incomes per person in excess of US \$15,000.

Competitive Markets

The ratio of prices for domestically-traded goods and services to the prices for internationally-traded goods and services. A lower ratio indicates that domestic markets are as competitive as global markets and corresponds to faster growth.

Costs of Bureaucracy

The costs of starting a business, registering property, enforcing contracts, dealing with licences, and so on. Lower costs of bureaucracy correspond to faster economic growth.

Dependence on Commodity Exports

Natural resource exports as a percentage of GDP. Greater dependence on resource exports corresponds to slower growth.

Dependence on Aid

Foreign aid as a percentage of GDP. Greater dependence on foreign aid corresponds to slower growth.

Divorce

The divorce rate per thousand marriages. Higher divorce rates correspond with lower levels of life satisfaction.

Economic Openness

The average of foreign direct investment and foreign trade as a proportion of GDP. More foreign trade and investment corresponds to faster growth.

Equal Opportunity

Percentage of women in parliament reflecting the degree to which opportunities are widely distributed in society (in that historically disadvantaged groups can achieve high political office). Wider distribution of opportunities corresponds with higher levels of life satisfaction.

Free Choice

Survey on the degree to which one believes one has freedom of choice and the ability to control one's own life. Greater feelings of freedom of choice very strongly correspond with higher levels of life satisfaction.

Good Health

Average life expectancy adjusted for the presence of debilitating disease. Better health strongly corresponds with higher levels of life satisfaction.

Good Governance

Newspaper circulation per capita (a measure of freedom of the press) and the black market exchange rate premium (a measure of quality of economic policy). More freedom and better policy correspond to faster growth. These measures were used in our statistical testing because historical data on governance are not available. Index rankings for this year are calculated using governance data compiled by the World Bank.

High Income

Average income per person measured at purchasing power parity. Greater income per person corresponds with higher levels of life satisfaction.

Invested Capital

The value of fixed capital (e.g. factories, machine tools) per worker, measured amongst the population aged 25-65. More invested capital corresponds to faster growth.

Life Satisfaction

The degree to which people report they are satisfied with the lives they lead, as measured in surveys such as the World Values Survey. The Life Satisfaction section of the Prosperity Index measures countries' relative performance on the factors found to increase or diminish average national life satisfaction.

Material Wealth

Average annual income per person, approximated using output per capita (GDP) at purchasing power parity. These data are regularly compiled by the International Monetary Fund. The Material Wealth section of the Prosperity Index measures countries' relative performance on the factors found to drive or restrain long-term economic growth.

Political and Civil Liberties

The level of political rights and civil liberties, as assessed by Freedom House. Greater political freedom corresponds with higher levels of life satisfaction.

Prosperity

The degree to which a country achieves not only material wealth but also high average levels of life satisfaction for its citizens.

Religious Faith

Survey of importance on "importance of God in one's life". Higher levels of religious faith correspond with higher levels of life satisfaction.

Time for Leisure

Average working hours per week in non-agricultural jobs. Longer working hours correspond with lower levels of life satisfaction. Due to limitations on data availability, this factor was only tested in countries with average incomes per person in excess of US \$15,000.

Unemployment

The unemployment rate. Higher unemployment rates correspond with lower levels of life satisfaction.

Warm and Sunny Climate

Average annual temperature and rainfall, weighted by the proportion of the population living in each climate zone. Warmer and sunnier climates correspond with higher levels of life satisfaction.

Wellbeing

Well-rounded prosperity; the combination of material wealth and life satisfaction.

World Values Survey

A periodic survey consisting of more than 200 questions regarding cultural issues, including life satisfaction and religious faith, conducted in more than 50 countries worldwide. The results are gathered using interviews with at least 1,000 people in each country, selected to be representative of the country's population as a whole. Results are available to the public at www.worldvaluessurvey.org.

Acknowledgements

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About the Legatum Institute for Global Development

The Legatum Institute for Global Development (“LIGD”) is an independent policy, advocacy and advisory organisation within the Legatum group of companies. The Institute’s mission is to research and promote the principles that drive the creation of global prosperity and the expansion of human liberty and wellbeing.

Headquartered in London, the Institute is the intellectual centre of Legatum’s development strategy, refining and informing the Group’s translation of ideas into action. LIGD undertakes original and collaborative research, and publishes case studies and ancillary literature.



We may inherit our history,
but we can choose our future

Researchers, policymakers
and the curious are welcome
to examine the results for
their countries and others
on our website
www.prosperity.org



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