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PROSPERITY INDEX

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The Legatum Prosperity Index™ 2016

TENTH EDITION
2007-2016

Bringing Prosperity to Life

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Measuring prosperity

The first decade

How do people flourish? Why are some nations more prosperous than others and how do poorer communities transition from poverty to increasing prosperity?

Over the past ten years the Legatum Institute, through the *Legatum Prosperity Index*[™], has tracked the journey of 149 nations in order to answer these questions. The results explain how and why nations with similar resources do better or worse than their peers and what drives and constrains the creation of a more prosperous society.

Why do we care? We believe that true prosperity is not just for a privileged few, but for everyone. Prosperity is simply the opportunity for every person to discover, fulfil, and share their potential, becoming the best they can be and helping others be the best they can be. It involves both wealth and wellbeing. No person need languish in poverty or in social isolation.

In measuring prosperity, the goal of the *Legatum Prosperity Index*[™] is the transformation of people. We want to know what life is really like for people, identify what is preventing it being better, and remove obstacles to prosperity in order to help all become the best that they can be.

Through the insights generated by ten years of data, the Prosperity Index provides both the evidence that transformation is possible, and the tools and knowledge to help bring about that change.

Consider the prosperity of Indonesia, that has risen 19 ranks up the Index to 61st over the past decade. It proves just how quickly prosperity can grow when its foundations are well established. A steady six rank improvement in Personal Freedom, firm progress on Governance (up 14 ranks), and a rapidly strengthening society (up 51 ranks in Social Capital) has laid firm foundations on which Indonesian prosperity has flourished.

But just as prosperity can be created, it can also be squandered. Venezuela, home to huge oil reserves has experienced the biggest decline in prosperity over the past decade. Millions of once prosperous Venezuelans have fallen back into poverty in the past decade. Venezuela's experience offers every nation an important warning that choices have consequences and we must each fight for prosperity.

This year's report is based on an updated methodology developed over the past two years with input from world leading advisers including Nobel Laureate Professor Angus Deaton. Among other changes we have expanded the number of countries to 149 and added a 9th pillar on the natural environment. I encourage you to read about all the improvements in the *Legatum Prosperity Index Methodology Report* which you will find online at www.prosperity.com.

On behalf of the Prosperity Index team, we commend this 10th edition. Please study it, challenge it, add to it, but most of all use it to help create a more prosperous world.

Use it to inform your vote; use it to hold leaders to account; use it as a leader to make better choices; use it to keep media honest; use it to educate children; use it to inspire your family, your friends, and help your community be the best they can be.

Join us as we help create prosperity for everyone, everywhere.

The Legatum Prosperity Index Team

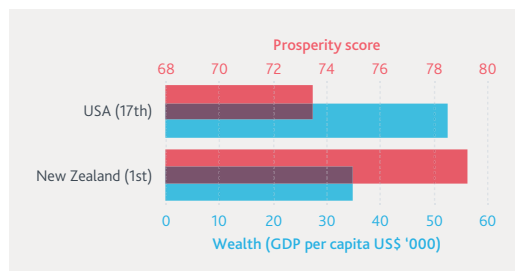
Alexandra Mousavizadeh, Harriet Maltby, Paul Caruana-Galizia, Fei Xue, Giulia Gemelli, Madeleine Bradley, and Pauline Coste

Executive summary

The *Legatum Prosperity Index*[™] has now been running for a decade. One of its greatest strengths is that it is not just a snapshot in time. Capitalising on ten years' worth of data, we can evaluate long-term changes in prosperity, pinpointing the drivers of progress and highlighting those nations that have made the greatest strides in turning their wealth into greater prosperity.

It is no surprise to find that the bottom of our prosperity table is largely populated by the world's poorest countries and the top is dominated by the world's richest. However, this does not tell the whole story. Prosperity is as much about wellbeing as it is about wealth. There are numerous factors that together determine the life chances and opportunities made available to a nation's citizens.

This year, the report itself goes beyond rankings and looks at how well countries deliver prosperity in relation to their wealth levels (see page 16). Using GDP per capita, the level of prosperity delivered by a country can be compared with the level of prosperity expected given that country's wealth. It is here that countries performing most impressively can be identified, with those delivering more prosperity than would be expected given their wealth described as having a 'prosperity surplus' and those delivering less, a 'prosperity deficit'. For this reason, poor countries can do extremely well in delivering prosperity, enjoying a prosperity surplus, while rich ones may lag far behind, experiencing a prosperity deficit.



Prosperity is not just about wealth: New Zealand (1st) turns less wealth into much more prosperity than the US (17th).

Different paths to prosperity

New Zealand is the world's top-ranked country. Over the past decade it has consistently delivered a large prosperity surplus through the combination of a strong society, free and open markets, and high levels of personal freedom (page 18). This path to prosperity is shared by other developed Commonwealth countries and has proved the most effective at delivering prosperity (page 8).

One such Commonwealth nation, the United Kingdom, ranks third in the world in the delivery of prosperity, higher than richer nations such as Germany and the United States (page 10). However, the UK, while successful in prosperity generation, is less successful in sharing its prosperity equally among its citizens—a failure that is widely seen elsewhere in Western Europe and the US (page 22).

The United States has consistently delivered a prosperity surplus over the past decade, but that surplus is falling as prosperity stagnates (page 28). This stagnation, combined with a sense that globalisation has left many behind, has caused discontent among Americans, who are turning to populism as a quick remedy. A similar story is playing out across Europe, as a rising tide of populism threatens to undermine what has long been one of the world's most prosperous regions (page 32).

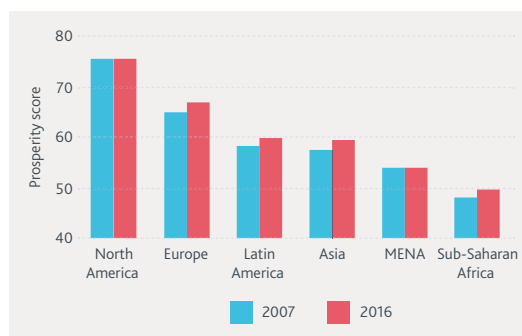
The two biggest drivers of global prosperity growth over the past ten years have been the world's most populous nations, China and India, where many millions have been moved from poverty onto the road to prosperity (page 9). The success of these nations is the result of economic liberalisation and integration into the global economy, but both face severe environmental issues and each has developed a markedly different prosperity profile. China's Governance and Personal Freedom performance remains weak, while Health and Education have held India back.

“The two biggest drivers of global prosperity growth over the last ten years have been the world's most populous nations, China and India, where many millions have been moved from poverty onto the road to prosperity.”

Obstacles to prosperity

The fact that wealth does not equate to prosperity is seen very clearly in those countries that have large oil reserves. Over the past decade the Gulf states have consistently failed to deliver prosperity proportionate to their wealth (page 36) though the UAE is starting to set itself apart, while Venezuela has one of the largest prosperity deficits in the world (page 15).

The biggest barriers to prosperity, as always, are war and other forms of violence. Some of the least prosperous countries in the world – Iraq, Yemen, and Libya – are all currently afflicted by civil war (page 44). In Latin America, the great social and economic progress made in recent years is threatened by high levels of drug-related and other violence (page 42). Another great obstacle to prosperity – corruption – is found worldwide, and is as destructive in European countries such as Italy (page 26) as it is elsewhere.



Changing regional prosperity 2007-2016

Prosperity, region by region

In Sub-Saharan Africa prosperity is growing, yet remains below the world average. Commodity-dependent economies continue to struggle, though the Business Environment has generally improved. Education and Health have improved but remain the region's biggest obstacles on its path to prosperity.

Citizens of Europe are among the healthiest, wealthiest, and safest in the world. Globally, 15 of the top 20 countries are European. However, ongoing economic turmoil in the eurozone, the refugee crisis, and Britain's vote to leave the EU have exposed divisions that threaten further progress.

In the Middle East and North Africa (MENA), oil-rich Gulf states are striving to diversify their economies, but all continue to under-deliver prosperity to their citizens. No other region has experienced such devastating effects of war; the three least prosperous countries in MENA (Iraq, Yemen, and Libya) are all mired in civil war. In North Africa, meanwhile, the Arab Spring has set countries on different prosperity trajectories.










In Asia and the Pacific, we find four of the five countries with the largest real prosperity gains: Cambodia, Sri Lanka, Indonesia, and Nepal. We also find China and India, whose rapid economic growth has lifted hundreds of millions out of poverty, substantially raising global prosperity. Meanwhile, Australia and New Zealand, which have long enjoyed similar levels of prosperity, have diverged in the past six years.

North America has seen marked stagnation over the past decade. Canadian prosperity has risen marginally, while US prosperity is no different in 2016 than it was in 2007. In both Canada and the US, declining performance in Health and Safety & Security is undermining gains made elsewhere.

Latin America has undergone a deep social and economic transformation over the past ten years. While this transformation has seen gains in education, democracy, and poverty, Latin America has not learned how to deliver greater prosperity with its wealth. It is still not delivering enough prosperity to its citizens compared to some less wealthy Asian countries.

“The biggest barriers to prosperity, as always, are war and other forms of violence. Some of the least prosperous countries in the world – Iraq, Yemen, and Libya – are all currently afflicted by civil war.”

The Legatum Prosperity Index™ Rankings 2016

Rank	Country	Sub-Indices								
										
1	New Zealand	1	2	2	15	12	19	3	1	13
2	Norway	7	10	3	5	13	6	11	6	5
3	Finland	12	8	1	3	21	18	8	11	2
4	Switzerland	4	9	6	1	3	8	18	16	8
5	Canada	13	3	9	14	16	22	2	3	19
6	Australia	15	7	13	4	8	20	12	2	14
7	Netherlands	2	14	4	2	5	12	7	13	36
8	Sweden	3	13	5	13	6	10	14	18	9
9	Denmark	6	11	7	12	23	5	13	7	18
10	United Kingdom	10	5	11	6	20	13	15	12	10
11	Germany	5	12	10	16	10	7	21	9	6
12	Luxembourg	9	29	8	27	1	2	1	23	3
13	Ireland	25	15	14	7	24	16	5	10	25
14	Iceland	18	17	12	28	22	4	4	5	17
15	Austria	11	20	15	11	25	9	23	15	12
16	Belgium	16	19	16	9	11	30	9	24	26
17	United States	14	1	22	8	32	52	26	4	35
18	France	17	18	23	18	14	28	22	49	4
19	Singapore	8	6	18	10	2	1	97	31	11
20	Slovenia	30	60	38	23	35	14	20	22	1
21	Spain	38	42	35	22	17	15	16	29	15
22	Japan	19	21	17	20	4	3	49	101	48
23	Hong Kong	20	4	27	21	7	11	45	53	98
24	Malta	33	73	21	42	18	17	17	8	90
25	Portugal	35	40	28	61	41	25	10	42	27
26	Estonia	27	26	20	29	55	43	32	71	7
27	Czech Republic	26	30	34	24	27	27	28	78	32
28	Uruguay	40	39	19	73	38	55	6	27	67
29	Costa Rica	62	38	31	51	33	67	19	39	40
30	Mauritius	42	32	26	63	43	36	29	40	62
31	Chile	57	43	25	36	51	49	34	63	20
32	Italy	43	68	49	26	34	24	27	51	60
33	Cyprus	39	33	29	57	42	26	35	32	77
34	Poland	37	45	36	33	47	21	39	85	46
35	South Korea	29	36	41	17	19	29	73	105	91
36	Slovakia	46	49	48	30	46	23	43	86	34
37	Latvia	34	34	39	32	82	42	57	94	16
38	Malaysia	23	16	40	31	37	58	112	33	49
39	Panama	47	22	56	69	72	75	31	26	42
40	Israel	32	25	24	19	9	94	91	46	133
41	United Arab Emirates	21	23	53	66	28	32	109	25	43
42	Lithuania	45	55	37	43	80	45	41	125	33
43	Croatia	61	89	44	37	56	31	38	113	30
44	Greece	77	61	42	62	36	33	63	100	24
45	Trinidad and Tobago	56	47	45	65	74	88	47	20	39
46	Qatar	24	24	60	93	15	41	98	36	69
47	Hungary	52	56	46	38	50	38	46	114	93
48	South Africa	111	37	33	70	126	115	24	37	45
49	Argentina	78	96	86	55	44	66	25	57	63
50	Romania	65	41	64	47	85	46	48	97	61
51	Suriname	89	137	58	74	54	56	30	61	23
52	Brazil	44	90	74	81	81	89	36	52	28
53	Macedonia	93	44	62	40	66	37	69	119	85
54	Botswana	99	70	30	78	84	110	51	41	51
55	Jamaica	75	27	63	84	63	117	62	34	59
56	Sri Lanka	41	76	66	58	39	83	110	19	57
57	Bulgaria	73	71	78	39	91	48	66	111	41
58	Montenegro	96	52	59	52	69	35	54	117	125
59	Ecuador	72	103	83	75	60	84	61	75	22
60	Philippines	69	62	57	68	98	141	58	21	44
61	Indonesia	55	75	50	72	95	50	128	14	73
62	Thailand	22	64	99	59	30	86	121	28	79
63	Dominican Republic	86	99	85	96	73	114	40	44	21
64	Peru	58	48	76	89	90	106	68	69	38
65	Mexico	81	31	77	64	64	133	55	126	53
66	Serbia	101	102	70	46	86	40	59	127	105
67	Bahrain	31	46	91	67	29	51	127	56	119
68	Namibia	112	65	32	111	108	122	33	50	74
69	Nicaragua	88	93	88	104	78	108	37	55	31
70	Oman	51	54	90	77	26	34	104	66	137
71	Kuwait	59	94	97	95	31	39	108	35	99
72	Colombia	76	28	89	79	65	142	44	64	52
73	Paraguay	68	91	116	99	57	59	56	76	64
74	Albania	107	67	71	76	49	68	60	106	121
75	Vietnam	36	80	104	50	62	53	124	58	80



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



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



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



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



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



The **Safety & Security** sub-index ranks countries based on national security and personal safety.



The **Personal Freedom** sub-index measures national progress towards basic legal rights, individual freedoms, and social tolerance.












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



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

The Legatum Prosperity Index™ Rankings 2016

Rank	Country	Sub-Indices								
										
76	Mongolia	64	82	81	48	93	105	83	30	108
77	Kyrgyzstan	71	87	113	60	61	81	86	47	68
78	Turkey	49	74	65	80	52	126	94	104	55
79	Bolivia	80	123	73	82	105	77	42	72	81
80	Guyana	97	115	61	100	94	79	75	43	65
81	Belize	106	128	80	94	70	91	53	91	29
82	Kazakhstan	48	53	105	35	75	65	122	109	97
83	El Salvador	79	57	67	91	58	125	64	88	114
84	Georgia	94	66	54	54	96	78	79	139	124
85	Saudi Arabia	70	50	95	83	45	74	133	45	71
86	Guatemala	83	51	103	110	104	116	85	38	37
87	Ghana	109	81	43	109	115	85	71	89	88
88	Rwanda	95	35	52	123	77	98	84	99	110
89	Jordan	90	112	79	86	48	54	119	68	103
90	China	28	63	123	34	40	64	138	140	134
91	Cambodia	54	79	124	88	102	102	72	95	100
92	Honduras	110	72	101	87	79	128	76	83	86
93	Tunisia	92	95	55	105	71	61	115	136	84
94	Nepal	53	107	87	116	112	82	50	67	129
95	Russia	63	69	108	25	101	119	141	116	56
96	Moldova	84	77	98	49	103	73	87	123	142
97	Kenya	108	59	68	103	119	137	100	17	96
98	Belarus	50	92	135	41	89	57	134	121	102
99	Armenia	115	83	107	56	100	70	99	141	104
100	Tajikistan	103	108	126	53	67	47	130	81	127
101	Morocco	66	84	118	118	87	44	118	144	66
102	Laos	60	105	122	107	97	92	103	60	120
103	Azerbaijan	102	78	127	44	76	71	116	133	141
104	India	67	86	47	102	113	135	102	84	140
105	Lebanon	82	100	131	101	83	80	120	129	82
106	Senegal	121	106	51	134	114	104	52	77	117
107	Ukraine	85	97	128	45	111	134	93	135	112
108	Zambia	134	58	72	115	120	99	96	92	92
109	Tanzania	100	109	82	114	124	100	111	70	83
110	Malawi	123	125	75	121	116	113	82	110	54
111	Algeria	116	131	120	90	53	60	136	138	75
112	Burkina Faso	117	113	102	137	123	62	70	79	78
113	Djibouti	120	144	114	85	117	72	90	124	70
114	Bangladesh	87	116	109	119	99	76	105	122	138
115	Lesotho	146	119	69	120	118	107	81	90	132
116	Uganda	74	98	111	122	140	132	106	48	115
117	Egypt	105	101	117	92	88	93	146	134	131
118	Iran	114	114	136	71	92	120	145	74	111
119	Zimbabwe	104	136	130	97	107	109	113	103	123
120	Gabon	128	118	132	112	132	97	92	102	109
121	Venezuela	127	145	146	98	68	129	95	130	50
122	Mozambique	129	122	96	135	144	103	67	87	101
123	Ivory Coast	119	104	106	136	143	118	78	118	72
124	Madagascar	133	133	112	131	137	63	80	115	116
125	Sierra Leone	118	124	94	139	139	95	89	65	130
126	Togo	122	129	125	129	141	96	74	146	94
127	Cameroon	113	111	133	113	130	139	125	80	76
128	Benin	124	120	84	143	145	90	65	147	87
129	Swaziland	135	88	140	106	106	101	135	73	135
130	Congo	143	126	148	124	134	124	77	128	47
131	Comoros	130	135	119	130	129	69	131	93	107
132	Ethiopia	91	132	115	128	128	123	126	120	122
133	Liberia	132	110	92	140	146	121	107	96	95
134	Mali	131	121	110	145	122	130	88	98	126
135	Nigeria	139	85	121	117	142	145	123	59	106
136	Libya	137	147	144	108	59	138	144	54	136
137	Niger	136	134	93	147	135	87	117	108	128
138	Guinea	126	130	129	146	147	111	114	112	58
139	Pakistan	98	117	100	125	121	143	132	137	149
140	Burundi	138	138	141	127	110	136	101	149	113
141	Angola	140	148	138	132	127	127	129	142	139
142	Mauritania	148	139	137	138	109	112	143	82	146
143	Iraq	142	146	134	126	131	147	139	62	148
144	Chad	144	140	145	149	149	131	137	132	118
145	Democratic Republic of Congo	147	141	143	133	136	148	140	131	144
146	Sudan	141	142	142	144	133	144	148	107	143
147	Central African Republic	145	143	139	148	148	149	142	143	89
148	Afghanistan	125	127	147	141	138	146	149	145	147
149	Yemen	149	149	149	142	125	140	147	148	145

Making sense of it all
Take a look at some of the stories behind the rankings.

Two prosperity giants
How India and China have contributed the most to rising global prosperity. [Page 9](#)

Good government, bad government
Why do some people think that bad governments are good? [Page 9](#)

Ten years
Who are the winners and losers from the past decade's changing prosperity? [Page 12](#)

Mind the gap!
How much prosperity is your country delivering with its wealth? [Page 16](#)

BRICs v VIPPs
Make way for our new grouping of countries to watch. [Page 21](#)

UK: Social revolutionary
Why it has been social reform not economic success driving the UK's rising prosperity. [Page 22](#)

American decline?
Why is the world's great superpower struggling to deliver rising prosperity? [Page 28](#)

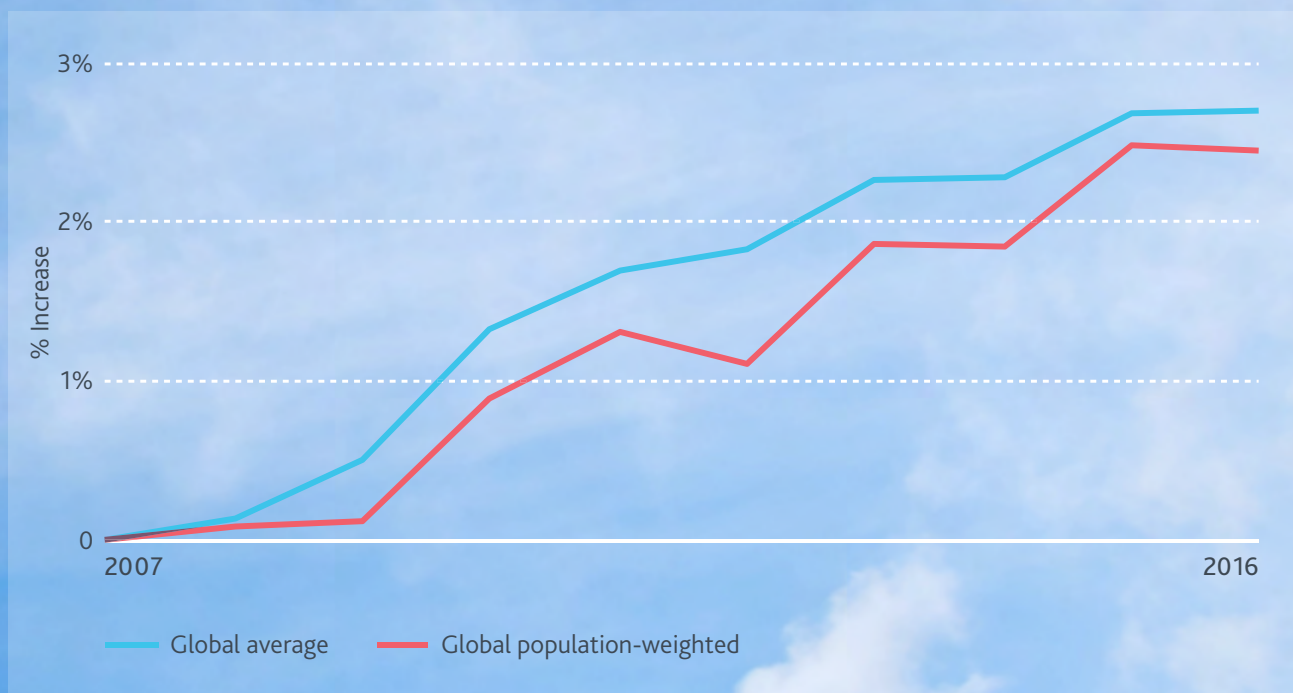
Populism stirring
Europe's rising populism is a problem for prosperity. [Page 32](#)

Beating the oil curse
How the UAE is leading the way to prosperity beyond commodity dependency. [Page 36](#)

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



Global prosperity is at its highest point in the past decade



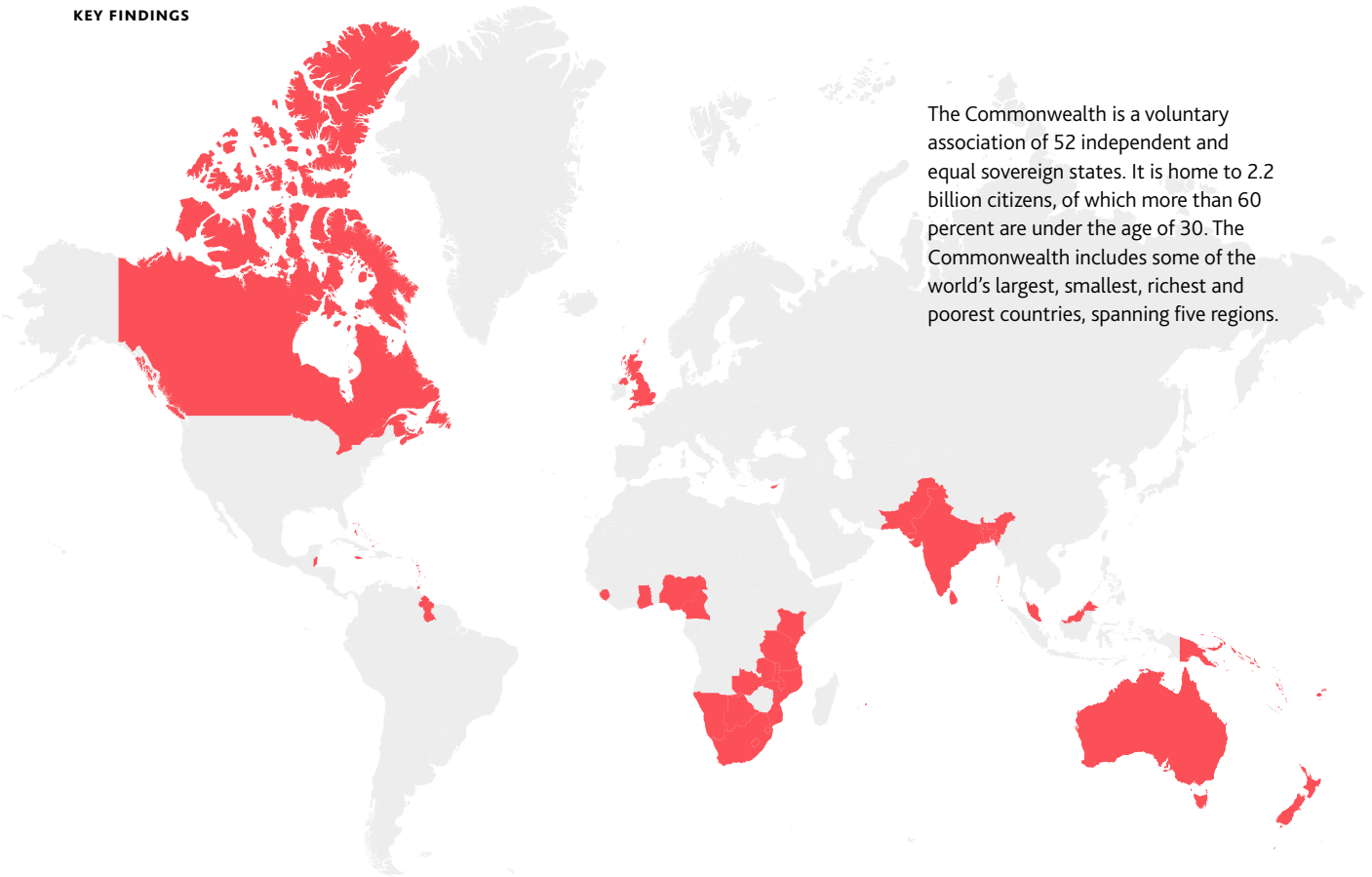
After a lacklustre performance during the 2008 and 2009 global financial crisis, global prosperity has risen to unprecedented levels. Whether we look at the global average or weight countries' scores by their populations, the picture remains the same: global prosperity is now three percent higher than it was in 2007.

Driving this trend towards higher global prosperity are improvements in Personal Freedom, particularly in Western Europe and Central and Latin America; improvements in Health and Education in Asia; and a better Business Environment in the Middle East and North Africa, Sub-Saharan Africa, and Eastern Europe.

However, the picture is not universally positive. The rise of Islamic State and other groups like AQAP in the Middle East since the Arab Spring has exerted a drastic limit on prosperity growth in the region.

The Western world is not immune to challenges either. American prosperity has stagnated over the past decade. Even countries that were less badly affected by the financial crisis, like Australia, have seen prosperity decline over the past decade. Indeed, it is the only country in the top 20 to have seen prosperity fall.

This demonstrates that despite the upward trend, countries cannot take rising prosperity for granted. To keep global prosperity rising requires resolving ongoing conflicts, mitigating against economic disruption, and tackling the stagnation of key social outcomes in major developed economies.



The Commonwealth is a voluntary association of 52 independent and equal sovereign states. It is home to 2.2 billion citizens, of which more than 60 percent are under the age of 30. The Commonwealth includes some of the world's largest, smallest, richest and poorest countries, spanning five regions.

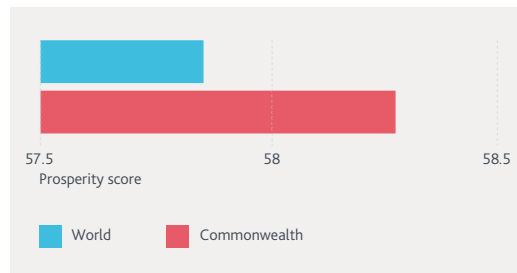
The Commonwealth Effect

Across the world, the Index captures a notable 'Commonwealth Effect'. The Commonwealth delivers greater prosperity, and greater prosperity given its wealth, than the global average.

This additional prosperity comes primarily from the Business Environment, Governance, Personal Freedom, and Social Capital sub-indices. On the delivery of prosperity, together the Commonwealth outperforms the world average in all but one sub-index.

This Commonwealth Effect transcends wealth. We see the developed Commonwealth "Anglosphere" bloc of New Zealand, Australia, Canada, and the United Kingdom deliver greater prosperity than any comparable bloc, including the Nordic area and Western Europe. In Africa, Commonwealth members together outperform the Sub-Saharan average in every sub-index.

What also transcends wealth is the root of this Commonwealth Effect. Whether in Africa or Australia, the pattern is the same. This additional prosperity comes from freer markets (reflected in a more competitive business environment and certain indicators of governance), freer peoples with greater opportunity, and most importantly, stronger civil society.



The Commonwealth States

Sub-Saharan Africa

Botswana, Cameroon, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sierra Leone, South Africa, Swaziland, Uganda, Tanzania, Zambia

Asia & Pacific

Australia, Bangladesh, Brunei Darussalam, Fiji, India, Kiribati, Nauru, New Zealand, Malaysia, Pakistan, Papua New Guinea, Samoa, Singapore, Solomon Islands, Sri Lanka, Tonga, Tuvalu, Vanuatu

North America

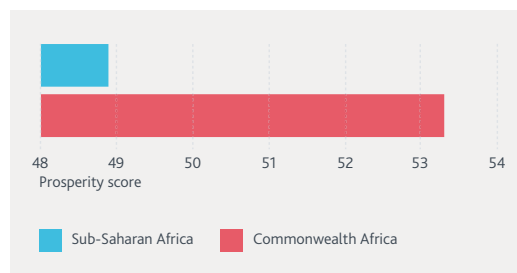
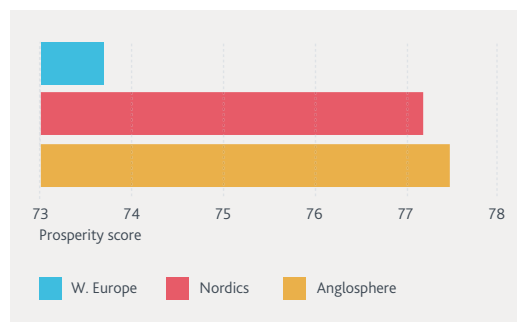
Canada

Latin & Central America

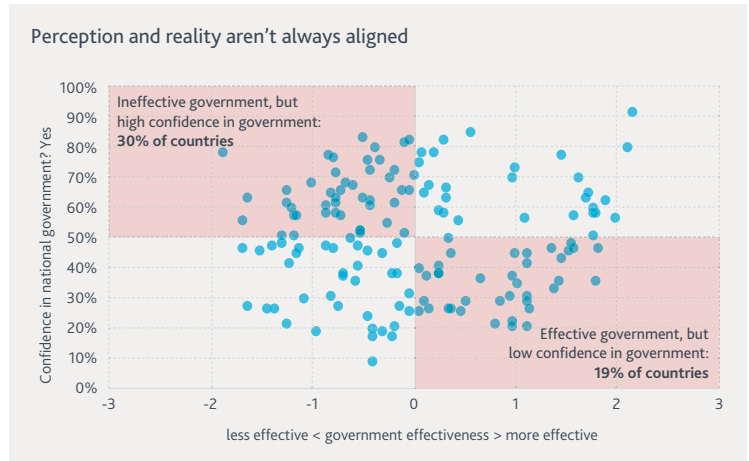
Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, St Kitts and Nevis, St Vincent and The Grenadines, Trinidad and Tobago

Europe

Cyprus, Malta, United Kingdom



KEY FINDINGS



China and India: Biggest drivers of prosperity

Most countries have seen their prosperity rise over the past decade, but their contributions to global prosperity have been very uneven. That the biggest gains have been made by poorer countries is unsurprising, but China and India stand out. Together they account for almost 40 percent of the growth in global prosperity over the past decade.

Combining the world's largest population with some of the fastest economic development in recent memory, China has lifted a large share of its population out of poverty and into prosperity. In doing so, it accounted for 19 percent of the growth in global prosperity over the past decade. This is due to China's move towards economic liberalisation and global economic integration.

Similarly, India, home to the world's second largest population, has liberalised and globalised its economy, moving more and more people from poverty to prosperity. India's prosperity growth accounted for 20 percent of the growth in global prosperity over the past decade.

India and China have developed very different prosperity profiles, and both face problems. China's Governance and Personal Freedom performance is weak. India, the world's largest democracy, faces different problems, namely in Education and Health. This explains why both still have some way to go to reach European or American prosperity levels. Still, their progress to date is responsible for much of the improvement in prosperity the world has seen.

Why do some people think bad governments are good?

The Prosperity Index is unique in its combination of objective and subjective data. The first is factual, the second based on survey respondents' perceptions. For the most part, subjective data align with objective data. Interestingly, however, there are cases where subjective and objective data diverge—that is, where there is a disconnect between reality and people's perceptions of it.

One such example is the relationship between survey responses on people's confidence in their national government and expert-based objective assessments of government effectiveness. We would expect there to be a positive relationship between these two variables—that is, for people to have more confidence in their government the more effective it is. In some instances, there is no such relationship. In some countries, such as Egypt and Bangladesh, people have a high degree of confidence in their government despite it being ineffective; in others, such as Austria and Iceland, people have little confidence in their government despite it being highly effective.

This is in part due to the variety of governance across countries. In more autocratic countries, people may feel uneasy about expressing their true views on their government, or they might have a limited sense of alternative forms of government, ones that have the potential to be more effective.

Whatever the reason for the disconnect between subjective and objective data, as exemplified in the government effectiveness case, the phenomenon raises an important point. Prosperity has both subjective and objective components, and the fact that they sometimes diverge makes it important to measure both.



Vietnam
81 percent of respondents claimed to have confidence in their national government



Iceland
43 percent of respondents claimed to have confidence in their national government



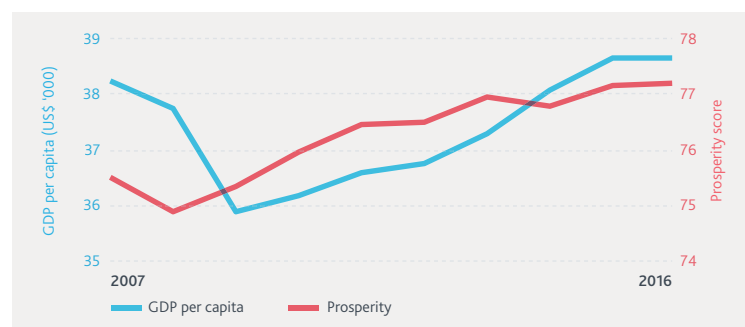
Why is the UK world-class at generating prosperity but not so great at sharing it?

Britain is flourishing, helped by a world-class performance in transforming wealth into prosperity. However, prosperity created is not prosperity shared. The opportunity for flourishing is not open to all. Despite strong prosperity generation, the absence of life chances in urban areas limits its reach.

The UK is a world leader on the top-level delivery of prosperity. When countries are compared on how much prosperity they deliver for every pound their economy generates, the UK ranks third in the world. This means that, despite being 12 percent poorer than Germany and 32 percent poorer than the US, the UK is more prosperous than both.

Britain also delivers more prosperity per pound than before the global financial crisis. Rising prosperity over the past decade, despite stagnant GDP per capita, makes the UK one of the best prosperity performers of any major developed economy.

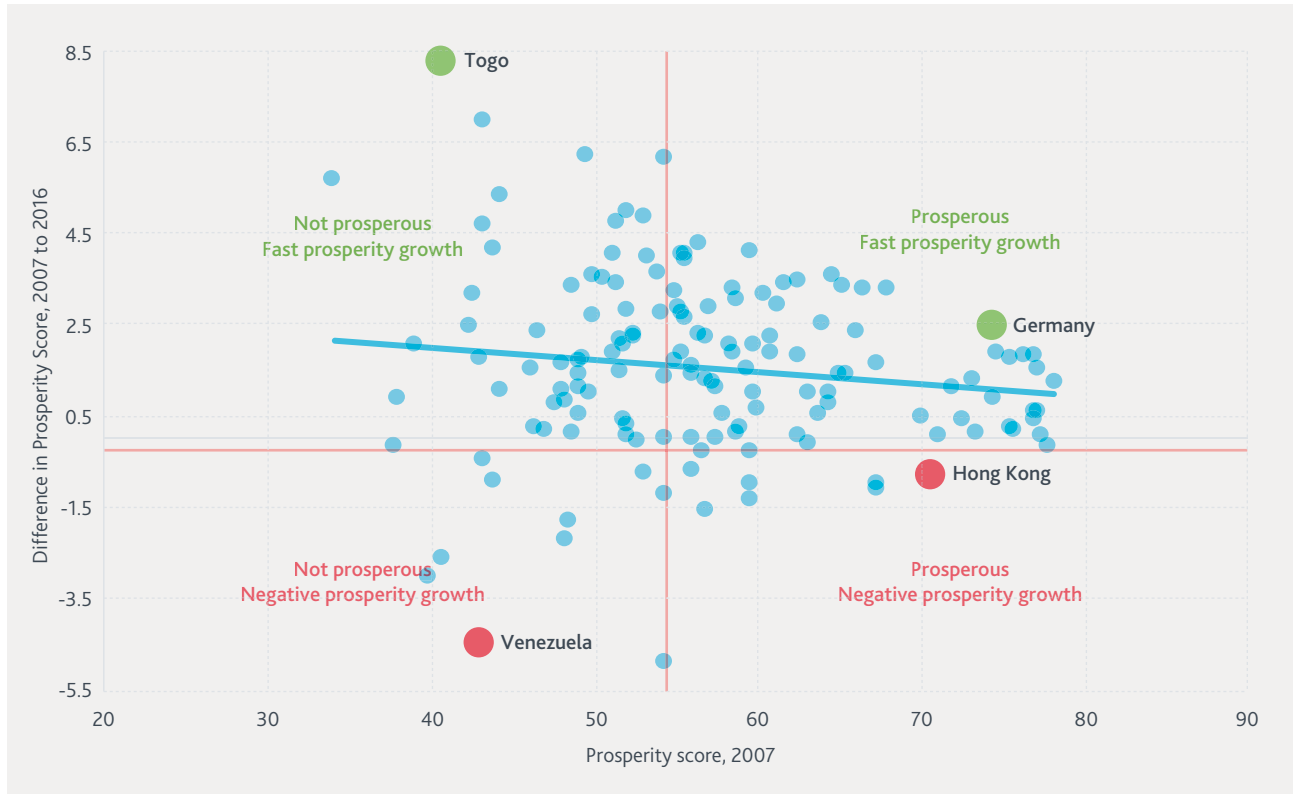
However, Britain is not good at making sure that prosperity reaches all. Our [UK Prosperity Index](#), published in October 2016, highlights a significant failure of the UK's urban areas – rich and poor – to deliver prosperity. Their rural counterparts, however, are flourishing.



UK: Falling wealth, rising prosperity

This failure is driven by an absence of life chances in many UK cities. Poor education, poor health, weak social support, the lack of opportunity, and low wellbeing are all holding back urban areas. For the citizens of these areas, prosperity and the opportunities it brings have not yet come knocking.

Despite ranking tenth in the Prosperity Index and third for top-level delivery, UK prosperity is limited by the fact that it does not reach the whole population. If life chances can be unlocked for all, then the potential for UK prosperity is significant indeed.



Global prosperity inequality is falling as the less prosperous grow faster than the prosperous

The conversation about global inequality is almost always one about the distribution of the world’s wealth, but it is not the whole story. What do we see if we expand our view beyond wealth to a broader definition of prosperity?

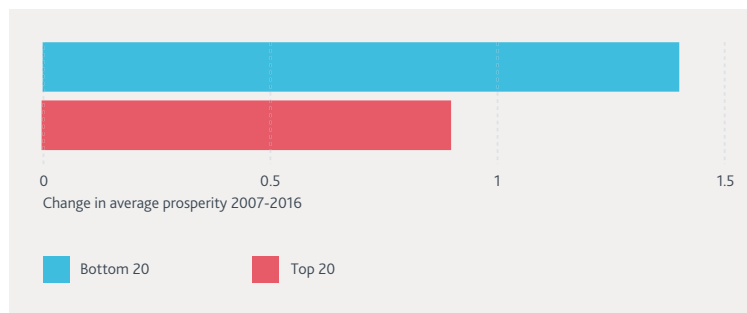
The Prosperity Index paints a more optimistic picture of the world than the one we see when looking at wealth alone.

Differences in prosperity between countries declined between 2007 and 2016. This decline in inequality was driven by faster prosperity growth in initially less prosperous countries. By growing faster, these countries have narrowed the gap between their level of prosperity and the higher level of prosperity enjoyed by more advanced countries. The outcome is a lower level of global prosperity inequality.

The graph above divides the world according to prosperity growth and the starting level of prosperity in 2007. Unsurprisingly, large gains have been made by less prosperous nations like Togo. However, progress has also been made at the top, with prosperous countries like Germany posting impressive rates of prosperity growth.

The sloping line shows that as you move up the prosperity rankings, more prosperous countries tend to have slower prosperity growth rates than less prosperous ones. It is this 'catch up' that is reducing the inequality of prosperity between countries, as the difference between the prosperity of those at the bottom and those at the top shrinks.

Looking at prosperity rather than wealth alone, we see a new story: an increasingly prosperous world, composed of increasingly equal countries.



Despite conflict marring prosperity growth at the bottom of the Index, prosperity has grown faster among the bottom 20 countries than among the top 20.

The world has never been more free, but some regions are freer than others

While most people now enjoy more Personal Freedom than they did in 2007, the improvement has been regionally uneven. Three world regions—Sub-Saharan Africa, Eastern Europe, and the Middle East and North Africa (MENA)—have seen their level of Personal Freedom decline slightly. Western Europe and Central and Latin America saw the biggest gains in Personal Freedom, while Asia and North America saw only slight increases.

It is encouraging that, in the face of large immigration and refugee pressures, Western Europe's growing level of Personal Freedom is largely due to higher levels of tolerance of ethnic minorities and immigrants—and this despite the fact that the region is experiencing a populist backlash. In Central and Latin America, the gains in Personal Freedom are down to higher levels of LGBT tolerance among its population and more people feeling satisfied with their freedom of choice in general.

In contrast to Western Europe, the decline in Personal Freedom in Eastern Europe is due to lower tolerance of ethnic minorities and immigrants among Eastern Europeans. MENA's decline in Personal Freedom is in part due to the deterioration in civil liberties in many Arab states as a result of the civil war in Yemen, for example, and the unrest following the Arab Spring in Egypt.

Ten years of changing prosperity

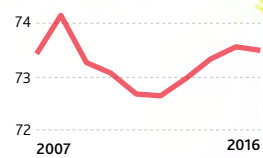
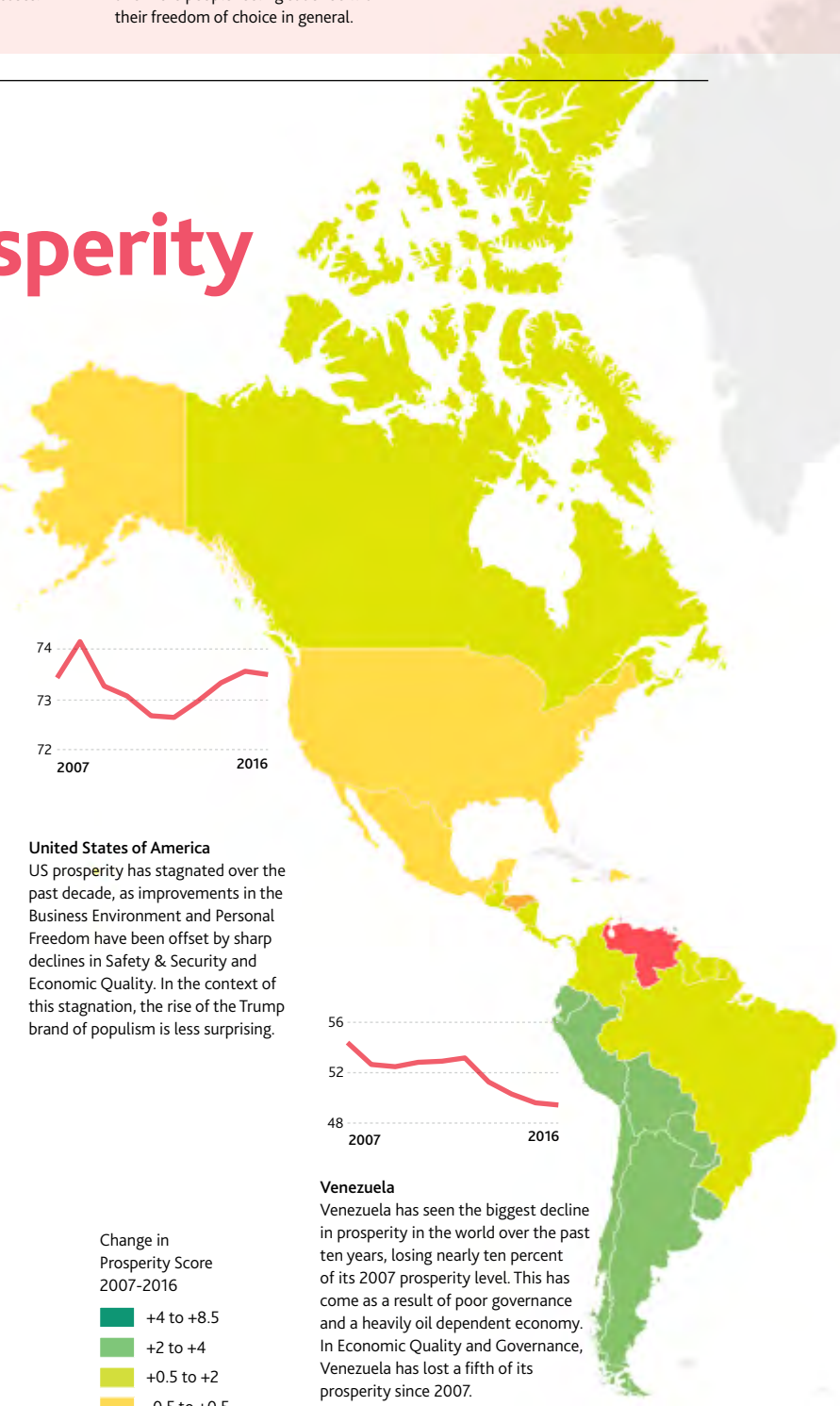
We have already seen that global prosperity is on the rise, however, that rise has not been evenly felt across the world. The map shows how much prosperity has been gained or lost over the past decade in every country covered by the Index.

The results are surprising. Just 28 countries have seen prosperity decline, from the world's biggest decline in Venezuela, to small falls in developed countries like Australia and Greece. A further 16 have seen negligible positive change, including developing countries like Tanzania and Mali, but half are also members of the OECD. This includes economic giants like the United States, where prosperity has stagnated over the past decade. Europe too has not been immune. The Netherlands, Ireland, and Denmark have failed to secure prosperity growth over the past ten years.

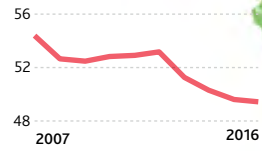
However, 70 percent of the world's nations have seen a notable increase in their level of prosperity. Be it Togo in Sub-Saharan Africa, Cambodia in Asia, Ecuador in Latin America, the UAE in MENA, or Lithuania and Germany in Europe, prosperity growth has been seen, and seen in abundance somewhere in every continent in the world.

The challenge for global prosperity is how to keep lifting people from poverty to prosperity over the next decade. We have already seen the challenge that so-called Islamic State and others are presenting for prosperity in the Middle East. Yemen, Libya, and Tunisia have all seen their prosperity retreat. Latin America is the only region in the world that has failed to deliver sustained prosperity growth. It is instead highly cyclical, locking the continent's prosperity into a loop of economic boom and bust. The developed world is not exempt either. Populism is threatening prosperity on both sides of the Atlantic.

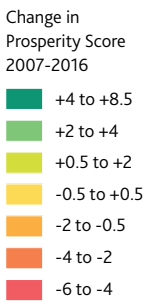
Prosperity may be at its highest point since 2007, rising sharply following the global financial crisis. However, trends over the past decade strike a note of caution. Rising prosperity has to be fought for, it cannot be taken for granted.

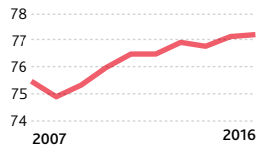


United States of America
US prosperity has stagnated over the past decade, as improvements in the Business Environment and Personal Freedom have been offset by sharp declines in Safety & Security and Economic Quality. In the context of this stagnation, the rise of the Trump brand of populism is less surprising.



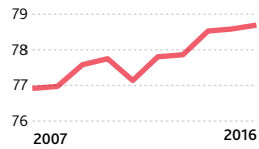
Venezuela
Venezuela has seen the biggest decline in prosperity in the world over the past ten years, losing nearly ten percent of its 2007 prosperity level. This has come as a result of poor governance and a heavily oil dependent economy. In Economic Quality and Governance, Venezuela has lost a fifth of its prosperity since 2007.





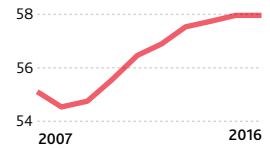
United Kingdom

The UK's strong prosperity growth has come as a result of social reform, not economic success. Significant improvement has been made in the Education sub-index, but in areas like the Business Environment, while still world-class, UK competitiveness is slipping.



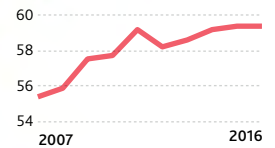
Norway

Norway has seen good prosperity growth over the past decade thanks to being one of the few countries in Western Europe not to have suffered marked decline in the Economic Quality sub-index.



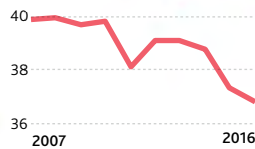
Mongolia

Described as a country "on the brink of prosperity", Mongolia has proved itself so over the past ten years. Rising prosperity has come thanks to fast improving Economic Quality and a society that is growing rapidly stronger.



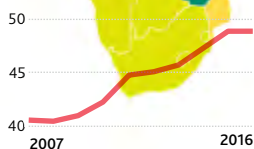
Indonesia

One of the fastest prosperity risers in Asia, Indonesia has seen significant improvement in Social Capital and Governance in the past ten years. Increasing altruism and improving fundamentals of good governance have helped drive Indonesia's rise.



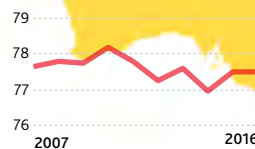
Yemen

Yemen has experienced the third biggest fall in prosperity in the world over the past ten years. While most areas of prosperity have been declining, the country has been sliding significantly in the Governance and Safety & Security sub-indices, as Al Qaida in the Arabian Peninsula and so-called Islamic State continue to challenge the Yemeni government.



Togo

Togo has seen the largest prosperity improvement in the world since 2007, improving in every sub-index. The biggest gains have been made in Business Environment where ease of starting a business has gone from the second worst to be on a par with Malta, and Personal Freedom where tolerance has been rising.



Australia

Australia is the only country in the global top 20 to have seen prosperity decline over the past decade, the result of weakening economic openness and the increasing terror threat affecting the country's Safety & Security performance.

Stairway to prosperity

Global prosperity has grown since 2007, but countries grew at different rates and some even saw their prosperity decline. We can think of these changes in prosperity scores as countries moving up and down the Prosperity Steps. A large positive change allows a country to climb up the steps, to rank among more prosperous countries, while a negative change means a country is moving down the steps, to rank among less prosperous countries.

How do countries move up the Prosperity Steps?

Looking at countries at the bottom of the rankings table, we see a lot of variation in performance across the pillars of prosperity. If, however, we look at countries at the top of the ranking table, we see the opposite picture: among top performers, scores are high in every pillar. In this sense, what Leo Tolstoy said of families applies to countries and their prosperity: "Happy families are all alike; every unhappy family is unhappy in its own way."

For example, India, which has a low prosperity score, scores well in Governance but poorly in Education. On the other hand, Azerbaijan, which also has a low prosperity score, scores well in Education but poorly in Governance. This is not the case for top performers in the Prosperity Index, where scores are high in every pillar. New Zealand, which enjoys the highest prosperity score, ranks among the top three countries in four of its pillars and among the top 20 in the remainder of its pillars.

This has implications for the way in which countries climb up the Prosperity Steps. For countries at the lower end of the steps, improvements can be made in a wider range of areas. India can improve its Education score, while Azerbaijan can improve its Governance score. For countries already at the upper end of the steps, the options are more limited because their performance is already high. For these countries, the challenge is more a matter of maintaining prosperity than improving it.

Charting movement up the Prosperity Steps

The chart illustrates how countries have climbed up the Prosperity Steps over the past decade. By splitting all 149 countries into quadrants, where the first quadrant contains the top 30 countries, the second countries ranked 31st to 75th, the next 76th to 119th, and the fourth quadrant the bottom 30 countries, we can plot the movement of countries up the steps.

The chart shows that climbing up the steps, from one quadrant to another, is difficult. Between 2007 and 2016, only eleven countries did so. Two – Mauritius and Uruguay – climbed from the second quadrant to the first; eight – Vietnam, Albania, Paraguay, Serbia, Ecuador, Indonesia, Sri Lanka, and the Philippines – climbed from the third quadrant to the second; and only one – Zimbabwe – climbed from the fourth quadrant to the third. This shows us that mobility is higher in the middle of the steps: moving from the third quadrant to the second is easier than it is at the top or bottom.



Venezuela – The world’s biggest prosperity loser

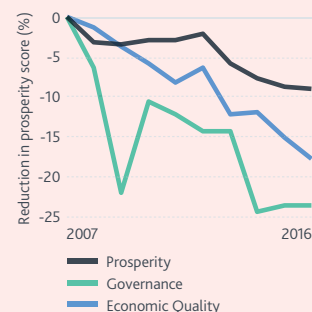
Venezuela has seen the biggest decline in prosperity over the past decade, falling in all but two sub-indices. Having prioritised oil over the development of other industries and now

finding itself in an era of structurally lower oil prices, Venezuela has seen its Economic Quality drop by 20 percent since 2007. A coup d'état in 2002 was followed by a national strike in 2003, which caused GDP to fall by 27 percent, and in 2014 there were violent protests triggered by corruption and hyperinflation.

This highlights Venezuela's real problem: Governance. Venezuela's Governance rank is the fourth-lowest

in the world, down 13 places since 2007. From judicial independence to rule of law, every variable in this sub-index is in decline.

Venezuela's experience offers other countries an important lesson. It is good governance, and not just the existence of resources, that is critical for the creation and distribution of prosperity.



Identifying countries at risk and countries with potential

The Prosperity Steps also allow the identification of countries that, while not moving up or down the steps, are hovering around the threshold – that is, they are placed to either climb up or fall down the steps.

Risk of Falling 1st to 2nd Quadrant	Potential to Grow 2nd to 1st Quadrant
Mauritius	Chile
Costa Rica	Italy
Uruguay	Cyprus
Czech Republic	Poland
Estonia	South Korea

Risk of Falling 2nd to 3rd Quadrant	Potential to Grow 3rd to 2nd Quadrant
Vietnam	Mongolia
Albania	Kyrgyzstan
Paraguay	Turkey
Colombia	Bolivia
Kuwait	Guyana

Risk of Falling 3rd to 4th Quadrant	Potential to Grow 4th to 3rd Quadrant
Zimbabwe	Gabon
Iran	Mozambique
Egypt	Venezuela
Uganda	Ivory Coast
Lesotho	Madagascar

The table above contains the countries that are just above or below the threshold between quadrants. This framework brings us back to the issue of improving and maintaining prosperity. For relatively less prosperous countries, like the UAE, the challenge is to improve performance in pillars where they are currently lagging behind. For already prosperous countries like Italy, the challenge is to maintain prosperity by not letting performance in any pillar slip.



Sitting on the step

Over the past ten years, Poland has moved up from 40th place in the Prosperity Index rankings to 34th place. In both 2010 and 2014, the country reached a peak of 32nd place, sitting close to the edge of the Prosperity Step that would see it rise into the first quadrant.

Poland's rise up the ranks is the result of rapid improvements in its Natural Environment, Business Environment, Governance, and Safety & Security sub-indices. Concerted efforts to make the country a better place for business, like the simplification of its registration and construction permitting processes, have helped Poland to rise from 57th to 45th in the Business Environment sub-index over the past ten years. Structural change to strengthen rule of law, judicial independence, and other indicators of good governance has also helped Poland's prosperity rise.

But what would it take for Poland to make it up the Prosperity Step into the first quadrant? The country has seen falling prosperity in Personal Freedom and stagnation in Social Capital. If it is to make it into the global top 30, action needs to be taken to strengthen altruism and reverse rising intolerance and restrictions on religious freedoms.

Mind the gap!

Exploring a country's prosperity potential

Across the world, prosperity is delivered to a greater or lesser extent as shown by the rankings and results on the previous pages. Some of the findings are unsurprising. The bottom of the ranking table is populated by some of the world's poorest countries, like the Central African Republic, while the top of the table is populated by some of the world's richest countries, like Norway.

However, the level of prosperity delivered by a country can, using GDP per capita, be compared against the level of prosperity expected given that country's wealth.

It is here where the countries in most need of praise can be identified, those delivering far more prosperity than you would expect given their wealth.

In the chart opposite, each dot represents a country. The curve shows the general tendency with which prosperity increases as GDP per capita increases. Its shape is fitted to all 149 countries covered by the Prosperity Index. If a country falls below the curve, then we can say that compared to all other countries, it is under-delivering prosperity for its citizens. That is, it has a prosperity deficit: its level of prosperity is lower than we would expect given its wealth. Likewise, if a country rises above the curve, then we can say that it is over-delivering prosperity for its citizens: it has a prosperity surplus.

More than absolute prosperity scores or rankings alone, the Prosperity Gap shows the Prosperity Index to be a tool for change. It provides leaders with the assessment they need to transform their nation into a more prosperous one and it provides citizens with the information they need to hold those leaders to account.

Explanatory Note:

The vertical axis measures a country's Prosperity Index score. The horizontal axis measures a country's level of GDP per capita, adjusted for purchasing power parity, and expressed in current international dollars. The fitted curve is logarithmic with a coefficient of 6.52 on logged GDP per capita, which is statistically significant at the highest level, and an overall fit of 63 percent. The curve intercepts the vertical axis at -2.22. The Prosperity Gap refers to the vertical distance from each country to the curve (the 'residual').



NEW ZEALAND

GDP per capita **\$34,762**

Prosperity rank **1**

Significant prosperity surplus

New Zealand has been the best deliverer of prosperity in the world for the past ten years. So strong is its prosperity delivery, it ranks 1st in the Prosperity Index, above 26 countries with greater wealth at their disposal. Its strong social capital, high level of freedom, and open trading economy have helped keep it at the top.



UNITED KINGDOM

GDP per capita **\$38,658**

Prosperity rank **10**

Significant prosperity surplus

The UK is the third best deliverer of prosperity in the world and this delivery has risen over the past decade. This is because the UK has managed to improve overall prosperity despite not growing much wealthier. This has largely been the result of radical social reform improving performance in areas like Education.



QATAR

GDP per capita **\$135,322**

Prosperity rank **46**

Significant deficit

Qatar has the highest GDP per capita in the world (\$135,321), far higher than second-richest Luxembourg (\$93,552). Its inclusion in the Index alters slightly the delivery line, mildly exaggerating the surpluses of other very high income countries like Luxembourg and Singapore. Without Qatar, the prosperity surplus of Singapore falls from +1 to +0.6.

SAUDI ARABIA

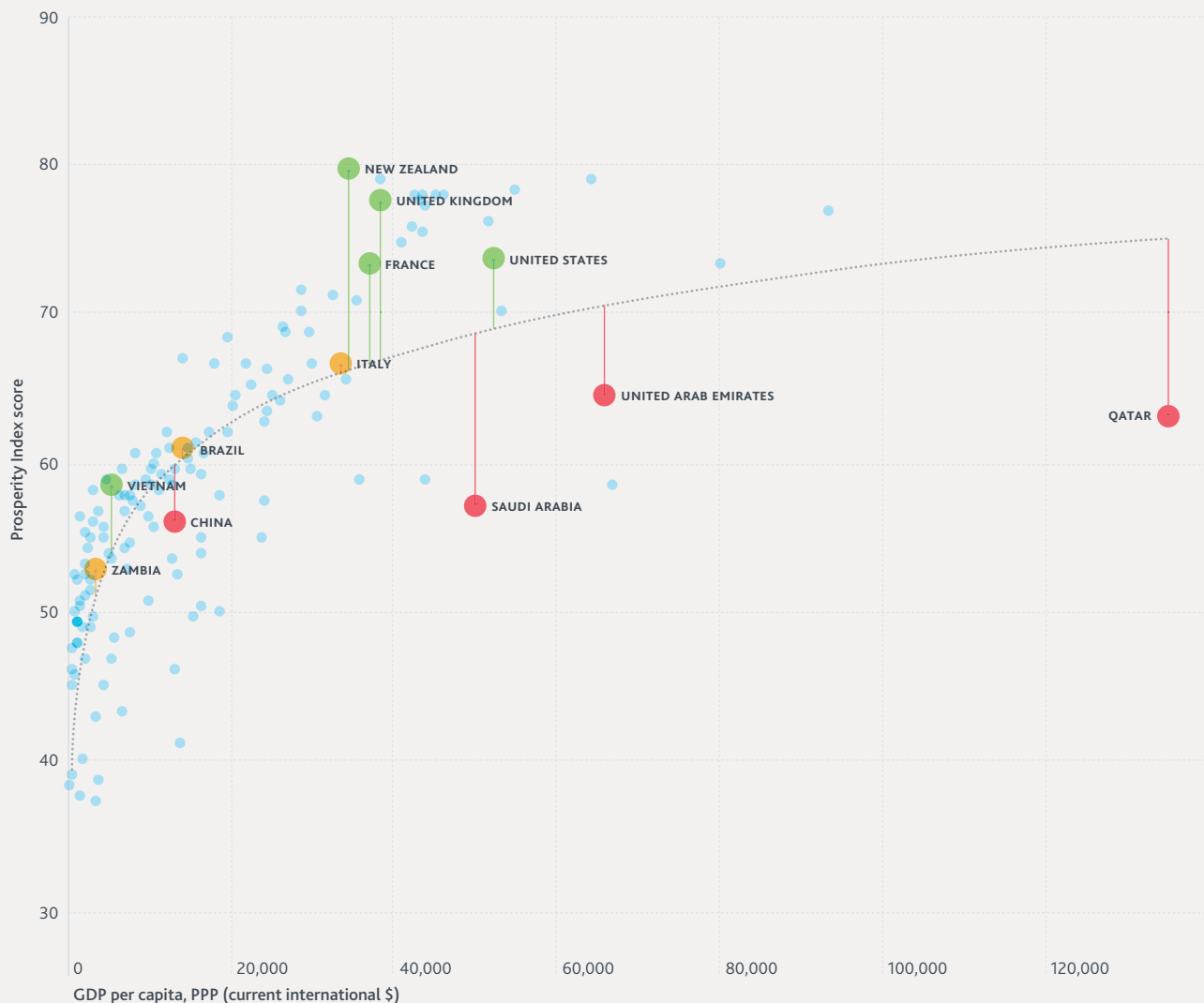
GDP per capita **\$50,284**

Prosperity rank **85**

Significant deficit

Saudi Arabia is carrying a significant prosperity deficit, common among oil-dependent economies. This deficit has been broadly static over the past ten years. While it is positive that the Kingdom's prosperity deficit has not been increasing with its fiscal deficit, little progress has been made in turning oil wealth into broader prosperity for its citizens.

VIETNAM	BRAZIL	FRANCE	UNITED STATES
GDP per capita \$5,668	GDP per capita \$14,455	GDP per capita \$37,306	GDP per capita \$52,549
Prosperity rank 75	Prosperity rank 52	Prosperity rank 18	Prosperity rank 17
<p>Mild surplus</p> <p>Vietnam has always consistently over-delivered prosperity and has the third highest prosperity surplus in Southeast Asia behind Cambodia and the Philippines. Its surplus comes mainly from its Economic Quality and Education performance.</p>	<p>Expected prosperity</p> <p>Brazil delivers as much prosperity as expected given its wealth. A rising surplus in Personal Freedom and shrinking deficit in Safety & Security have been offset by widening deficits in the Business Environment, Governance, and Health sub-indices.</p>	<p>Moderate surplus</p> <p>France's prosperity surplus has been consistently strong over the past decade. While the country has witnessed a collapse in Social Capital and seen recent terror attacks affect Safety & Security performance, the surplus has been maintained by rising freedom and education scores.</p>	<p>Moderate surplus</p> <p>While the United States continues to over-deliver prosperity, its prosperity level has stagnated over the past decade and declined relative to emerging and advanced countries alike. When delivery just among advanced economies is considered, the US under-delivers.</p>



ZAMBIA	CHINA	ITALY	UNITED ARAB EMIRATES
GDP per capita \$3,626	GDP per capita \$13,400	GDP per capita \$33,587	GDP per capita \$66,102
Prosperity rank 108	Prosperity rank 90	Prosperity rank 32	UAE prosperity rank 41
<p>Expected prosperity</p> <p>Zambia has been broadly delivering as much prosperity as you'd expect given its wealth, carrying a small surplus for the past ten years. Progress to deliver more in areas like the Business Environment have come at the cost of Social Capital and the Natural Environment.</p>	<p>Moderate deficit</p> <p>That prosperity growth has not kept up with China's economic rise is reflected in a widening prosperity deficit over the past decade. China's GDP per capita has nearly doubled in the past ten years, but the size of its prosperity deficit has quadrupled.</p>	<p>Expected prosperity</p> <p>Italy has seen its small surplus erased in the past ten years, as prosperity has fallen faster than wealth following the global financial crisis. The biggest declines have come in Economic Quality and Social Capital, where surpluses have been turned into equal sized deficits.</p>	<p>Moderate deficit</p> <p>The UAE is carrying a moderate deficit, not uncommon among oil-dependent economies. However that this deficit is noticeably shrinking is uncommon, the result of concerted efforts to move beyond oil-dependence. Over the past decade, the UAE's deficit has shrunk by 30 percent.</p>

TEN YEARS
TEN STORIES

10x10

For the past decade, the *Legatum Prosperity Index™* has tracked the flourishing of citizens worldwide. We look particularly at the level of prosperity delivered relative to a country's wealth. Some deliver a lot of prosperity with little wealth. Others have vast wealth, but have not turned it into better lives for their citizens.

Over the next 22 pages, we explore ten of the world's most interesting stories of prosperity delivery from the past ten years. From the large prosperity surplus that pushes New Zealand to the top of the Index, to oil-rich countries not so rich in prosperity, these stories highlight the foundations of prosperity that are

needed if people are to flourish.

From rising stars in Asia, to the clouds overhanging prosperous countries like the US and others in Europe, these stories are about what helps a nation deliver prosperity to its people, and how once unquestionable progress can rapidly change.

Free markets, free people, strong society

New Zealand and delivering prosperity the Anglosphere way





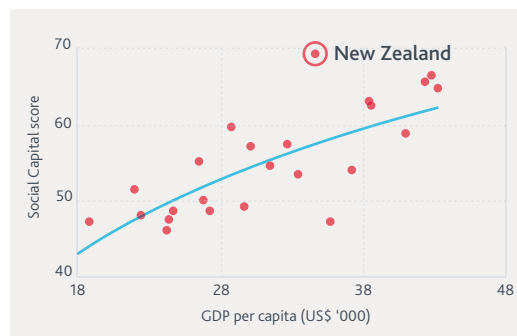
There is an old Māori proverb, *he kai kei aku ringa* – “There is food at the end of my hands.” It speaks to a resilience; an ability to use your basic skills and resources to create success.

This New Zealand has done in abundance. For the past decade, this remote island nation of just 4.7 million has stood out as the best deliverer of prosperity in the world—the best at turning its resources and the skills of its people into prosperity.

It has done this through a combination of strong society, free and open markets, and high levels of personal freedom. Alongside New Zealand (ranked overall first this year), other developed Commonwealth countries also deliver high levels of prosperity in this way: the UK (tenth), Australia (sixth), and Canada (fifth). Together, these “Anglosphere” nations perform better than any comparable developed bloc in bringing prosperity to their shores. The combination of free markets, opportunity, and strong society is their secret.

Social Capital drives New Zealand’s prosperity success

That New Zealand is a clear outlier in the Social Capital sub-index does not seem to be met with much surprise by many New Zealanders. They point to the country’s history as an agrarian society—remote rural communities tend to depend on one another to a greater extent—and the country’s Māori tradition. The strength of the country’s social capital stands out like no other, underpinned by the Māori idea of society built around the *whānau* (family), *hapū* (community), and *iwi* (tribe). The result is a nation with the strongest social capital in the world, where 99 percent of New Zealanders say they have family or friends to rely on in times of need.



Social Capital delivery, developed countries

It is not just in Social Capital (where New Zealand ranks first) that the country excels. Free people and free markets are clear traits too. New Zealand ranks first in Economic Quality, second in Business Environment, and third in Personal Freedom.

Social Capital stars in the developing world

Where else outside the developed Commonwealth do we see the emergence of strong society? Significant improvements in Social Capital have been recorded over the past ten years in

Indonesia, Uruguay, Sri Lanka, Rwanda, and Mongolia. Consistent performance has been seen in the Philippines, which ranks 21st. Yet, not all combine strong society with comparatively free people and opening markets. Those that do have significant potential for future prosperity, be they towards the bottom of the Index, or within the top 30.

Both Mongolia (76th overall) and Rwanda (88th) have seen small improvements in Personal Freedom.

However, Rwanda has also seen its markets opening and its labour market become increasingly flexible. It has risen from 110th to 35th in the Business Environment since 2007. Mongolia too has seen trade barriers fall and its market grow increasingly competitive. Uruguay (28th) combines its social capital with the sixth freest people in the world, and slowly improving market competitiveness.



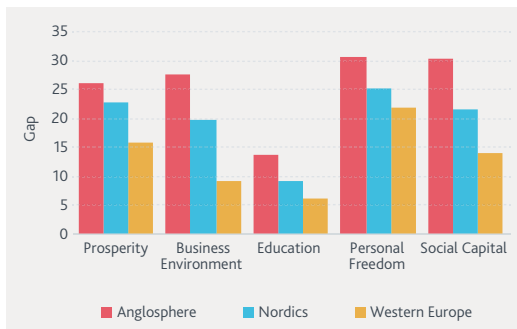
39 percent of Mongolians say they have volunteered in the past year, among the ten highest in the world

TEN X TEN: FREE MARKETS, FREE PEOPLE, STRONG SOCIETY

The Commonwealth Effect

It is not only New Zealand that should be noted for its prosperity delivery, but close Commonwealth allies Australia, the UK, and Canada too. These four Anglosphere nations all rank among the top five deliverers of prosperity in the world. Together, they outperform any similar developed bloc both in their prosperity level and in its delivery.

Why are these Anglosphere nations – tied by common language, values, and institutions – the best at delivering prosperity in the world? Their comparative strength is most obvious in the Business Environment, Education, Personal Freedom, and Social Capital sub-indices; the result of economic openness, opportunity, and strong society.



The Commonwealth Effect

Delivering prosperity the Anglosphere way: free markets, opportunity, society

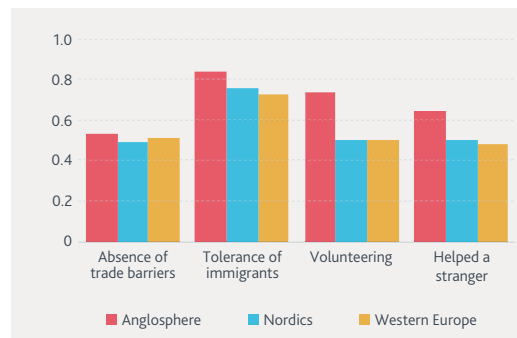
Free markets and undistorted economies are critical to the success of these nations. Together, this bloc has lower non-tariff trade barriers, more flexible labour markets, more competitive regulation, and a more open environment for new businesses than the Nordic countries or Western Europe.

So too is opportunity more abundant in the Anglosphere nations, despite the fact that some still struggle to share prosperity through their populations. UK urban areas deliver notably less prosperity than their rural counterparts (see page 24) and child poverty remains an issue in New Zealand, particularly among the Māori population. Nevertheless, together, New Zealand, Australia, Canada, and the UK offer a level of opportunity higher than that found elsewhere.

Freedom is at the heart of this opportunity. In these countries people are most free to pursue their ambitions and achieve their potential. Of all the world’s nations, New Zealand is the most tolerant of immigrants. These countries also offer greater opportunity for their citizens to flourish through their education systems. Human capital is stronger in these countries, mainly through the quality and quantity of tertiary education. Most importantly, the link between socioeconomic background and educational attainment is less pronounced than in the Nordic area or in Western Europe. Opportunity knocks on more doors.

Free markets, freedom, and opportunity are one thing, but their potential is limited when civil society is weak – when people do not support one another to be the best they can be. The final, and perhaps most important, aspect of prosperity in Anglosphere nations is that markets, individual freedom, and opportunity are supported by a strong society.

In these countries, people look out for each other to a much greater extent. Volunteering and charitable donation rates are higher, friend and family networks are stronger, and the altruistic desire to help someone you do not know is more prevalent than in the Nordic or Western European blocs. This social capital is important. Strong social capital has been linked to higher economic growth and higher levels of subjective wellbeing. In the case of the Anglosphere nations, it helps them deliver a lot more prosperity with their wealth than is found elsewhere.



Freer markets, freer people, stronger society

This high level of delivery cannot be achieved through free markets and free people alone. The success of these English-speaking nations is testament to the importance of strong society alongside an open economy and free people in the creation of prosperity.

“Free markets, freedom, and opportunity are one thing, but their potential is limited when civil society is weak – when people do not support one another to be the best they can be.”

Forget the BRICs – make way for the VIPPs!

In 2001 Jim O’Neill, then Chief Economist at Goldman Sachs, coined the famous acronym BRICs, referring to Brazil, Russia, India, and China. He predicted that by 2050 these four economies would be the biggest contributors to global economic growth.

O’Neill got two countries right: China and India. As of 2016, these two economies account for almost a quarter of global economic output, up from a tenth in 2001. According to the Prosperity Index, they accounted for over a third of the past decade’s growth in global prosperity. Meanwhile, Russia and Brazil continue to grapple with economic and political unrest, and contribute less to global economic output in 2016 than they did in 2001.

We need a wider perspective on a country’s potential to grow

What went wrong? The BRICs were chosen purely for their economic growth potential, and on this basis O’Neill was right to group them as he did. From the perspective of 2001, the BRICs showed a lot of economic promise: the demographic projections mostly showed labour force growth, their growth rates showed an ability to harness technological progress, and their investment rates were high.

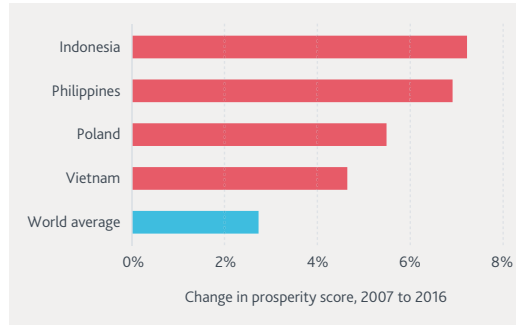
But non-economic factors do not only matter, more generally, for prosperity – they matter for economic growth too. Over the past decade, the countries that have been among the strongest performers in rising up the prosperity rankings have shared certain common foundations: high scores in Education, Governance, and Social Capital. Education makes people more productive and better able to lead prosperous lives; good governance provides the policy stability needed for growth and the freedom that allows people to flourish; and strong social capital built on high levels of trust oils the wheels of commerce and improves individuals’ wellbeing.

While the BRICs shared similarly promising economic foundations, their performance across these other pillars of prosperity varied, and it is this variation that explains their different trajectories. For example, Brazil’s Governance ranking dropped from 63rd to 74th place over the past decade, and Russia’s remains ranked at a lowly 108th. These are not the foundations on which economic growth, and still less prosperity, can be built.

Introducing the VIPPs

So which countries show the most promise now? We looked for countries that have performed solidly in the three foundational sub-indices – Education, Governance, and Social Capital; which have populations large enough to make a substantial contribution to global prosperity; and which are on an upward prosperity growth trend. These are the VIPPs: Vietnam, Indonesia, Poland, and the Philippines.

Together, the VIPPs account for 6.6 percent of the world’s total population. The largest – Indonesia – alone accounts for 3.5 percent. As they are home to such large populations, growth in the prosperity of the VIPPs is growth in the prosperity of hundreds of millions of people worldwide.



All the VIPPs have seen faster prosperity growth than the world average 2007-2016

Prosperity growth in the VIPPs over the past decade is encouraging. Indonesian prosperity grew by over seven percent, while Vietnam – the slowest of the group – grew by close to five percent. Meanwhile, the world average prosperity growth was close to just three percent.

Maintaining such fast prosperity growth requires the foundations of good governance, social capital, and education. In this regard, we see that the VIPPs perform well. Their 2016 scores in Education are all above the world median score. In Governance, Vietnam is below the world median because it is not democratic, but otherwise it has reasonably effective governance. The remainder of the VIPPs score well above the world median. In Social Capital, Poland falls slightly below the world median, but the rest of the VIPPs enjoy high levels of social capital.

A combination of large populations and positive prosperity growth trends makes the VIPPs well placed to drive global prosperity growth over the next decade. Their solid foundations in education, governance, and social capital may help them avoid the fate of the BRICs.



75 percent of Indonesians have donated money to charity in the past 12 months



83 percent of Vietnamese are happy with the quality of their local education system and schools



67 percent of people in the Philippines have confidence in their national government

% of world median score in:	Governance	Education	Social Capital	Population Millions
Indonesia	116%	101%	125%	257.6
Philippines	110%	103%	120%	100.7
Poland	129%	117%	97%	37.9
Vietnam	87%	109%	104%	91.7

Economic deficit, prosperity surplus

The social revolution driving rising UK prosperity

Standing in Hull, it is hard to imagine the UK as the third-best deliverer of prosperity in the world. Walk through this northern city's estates and you are struck by a deep-rooted poverty of prosperity. It is the least prosperous part of the UK; a city where children grow up without knowing aspiration and the elderly die having never seen much beyond the end of their street.

Yet, Britain stands out as a world leader in turning its wealth into prosperity. The Prosperity Index ranks it third for delivery and tenth overall. At the heart of this success is an aggressive programme of social reform that has seen delivery in areas like education rocket. Britain is not alone. Those countries that have seen prosperity grow despite a tumultuous economic path following the global financial crisis have done so by delivering on social progress. However, such progress has not touched all, and lost potential is prosperity lost too. If Britain can bring human flourishing to all, then her future is extremely positive.

At the economic heights before the financial crisis, the UK ranked ninth for its delivery of prosperity. Wealth per head today is not notably higher than in 2007. The wealth increase over the past decade in the UK has been around a third of that in the US, and just a seventh of that in Germany. Yet, with similar wealth, the UK is delivering far more prosperity, something not frequently seen among OECD countries.

Much has been made of Britain's dogged economic policy and its strong growth in recent years, but the Prosperity Index does not point to notable economic success as the factor at the heart of the UK's growing prosperity surplus. While scoring well in the Economic Quality sub-index, the UK's surplus here has been shrinking despite record employment and comparatively strong growth. Rising non-tariff trade barriers and less effective anti-monopoly policy are to blame. So too in Business Environment, where the UK is a world leader, its competitive edge has been slipping.

Social progress is at the heart of the UK's growing prosperity surplus

It is social progress, not economic success, that has driven the UK's growing ability to turn its wealth into prosperity. Radical reforms, such as those in welfare and education, have sought to return responsibility to the individual. In Education, the UK has risen from 14th to sixth over the past decade. Policy reforms such as the mass extension of vocational education, improving access to good education through Free Schools, and raising the school leaving age have done much to strengthen Britain's human capital and extend opportunity. Here the surplus has risen by 43 percent. In Health (ranked 20th), the UK's surplus has risen by an impressive 176 percent, driven by rising satisfaction with personal health and improvement in key outcomes such as mortality and diabetes.

Alongside health and education, the UK is safer than it was ten years ago. Crime rates have fallen, people feel safer, and the terrorist threat is being contained. The UK has risen from 32nd in 2007 to 13th in 2016 in the Safety & Security sub-index. Prosperity has also been rising in the nation's communities. Volunteering rates have risen from 23 percent ten years ago to 33 percent today. A rising surplus in Social Capital shows a nation whose communities are growing stronger and taking greater responsibility.

The prosperity payoff of social reform is seen elsewhere among countries which have increased prosperity with similar or even shrinking wealth. Finland, whose wealth is well behind 2007 levels, has seen prosperity rise over the past decade, predominantly as the result of improvements in Education, Personal Freedom, and Social Capital. Countries such as Germany, on the other hand, whose wealth today is far higher than in 2007, have seen progress in prosperity largely as a result of economic, not social, improvement.

Yet, prosperity still does not reach all

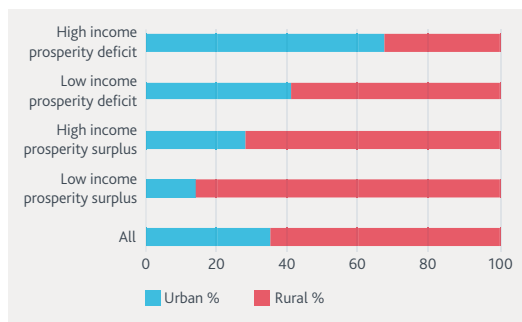
This development of UK prosperity through social reform over the past decade offers good prospects in the task, so far unachieved, of bringing prosperity to all. Perhaps the most striking aspect of UK prosperity delivery is the fact that such prosperity has been achieved, according to the [UK Prosperity Index](#), without realising the potential of the whole population. In places like Hull, and elsewhere, people have been left behind.



BRETINGTONS
STEAK
—AND—
LOBSTER
HOUSE
01634
400192



Rural areas deliver greater prosperity surpluses than their urban neighbours. This ability to turn less wealth into more prosperity is the result of rural areas performing well in the delivery of life chances. Be it good education, opportunity, good health, strong community, or economic security, rural areas outperform the UK's cities.



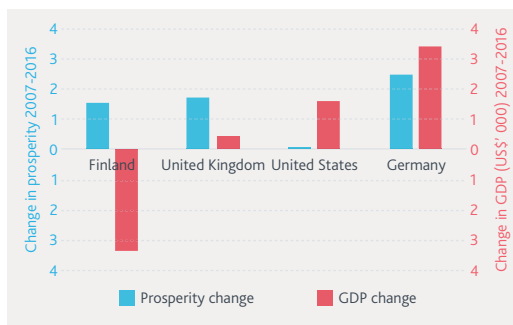
Rural areas are more likely to be delivering more with less

The [UK Prosperity Index](#) points to a wholesale failure of urban areas to deliver prosperity with their wealth because they fail fundamentally on providing basic life chances—health, education, social support, opportunities—to their citizens. Rural areas, on the other hand, are flourishing. It also points to the power of communities themselves to turn things around. With social capital growing in the UK, the potential for this community transformation is growing too.

Alongside broadly improving health and education, the fundamentals are there. Using the [UK Prosperity Index](#), policy-makers can see where prosperity has not yet reached and why. Britain's prosperity is strong, and if new prime minister Theresa May is successful in delivering a country that "works for everyone", it has no limits.

Competitiveness and a poverty of aspiration still limit UK prosperity

However, slipping economic competitiveness strikes a warning note, particularly given Britain's new need to go it alone in a global economy. The ongoing capacity for wealth creation is important to the UK's future, particularly in more deprived areas like Hull, whose economy was stripped of its major industry (fishing) when Britain joined the EU in the 1970s, from which many of the city's social difficulties stem.



How has prosperity improved with changing wealth?

Nevertheless, if Britain can sit third for prosperity delivery when it is not delivering for a large part of its population, imagine what would be possible if it did. A nation that frees individuals to rise as far as their talents can take them is limited only by the ingenuity and aspirations of its people. Despite her success, Britain remains limited by an absence of aspiration. If the lost potential of those in Hull and others around the country who have been left behind by the UK's rising prosperity can be realised, then Britain has a very prosperous future ahead.



84 percent of Britons think that working hard will get you ahead, up from 75 percent in 2007



78 percent of Britons feel safe walking alone at night, up from 62 percent in 2007

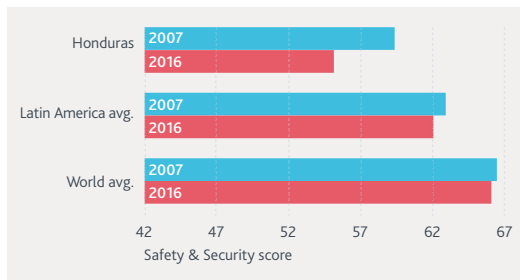


16 percent of Britons say they have a health problem that prevents them doing things, down from 21 percent in 2007

Why has Latin America not learned how to deliver prosperity?

Unlike any other region in the world, Latin American prosperity follows the economic cycle. When economies are booming, so too is prosperity. As economies shrink, prosperity falls too. Why is Latin American prosperity so closely related to its economic fate?

On the streets of Rio de Janeiro, a teenage boy was shot dead outside his home on his way to school. For denouncing the murder, the boy's father was killed that same day. These were just two of the 4,000 killings that happen every year in Rio. Nearly as many people are murdered annually in Brazil as are killed in Syria's civil war. Brazil is not alone. Latin America is the most violent region in the world: with just ten percent of its population, it has almost half of its homicides. Honduras is particularly badly affected, with the city of San Pedro Sula now earning the title of murder capital of the world.



Prosperity held back in Latin America by declining Safety & Security

This absence of personal safety in the region speaks to a fundamental failure to provide the basic structural foundations of prosperity. However, it is not just the safety of its citizens that Latin America is failing to secure.

Governance in Latin America is fundamentally weak. The region has very low scores in government confidence and effectiveness. Just 37 percent of citizens in the region have confidence in their national government. This compares poorly to the developed and developing world alike. In Europe, it is 41 percent and in Asia, 58 percent. Rule of law is the second lowest of any region in the world after Sub-Saharan Africa. Latin American prosperity is structurally weakened by the absence of strong governance foundations.

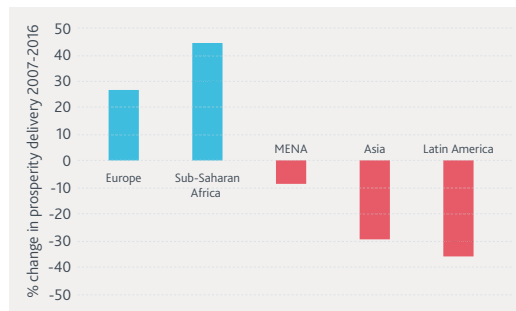
Other foundations of prosperity are similarly absent. After Safety & Security, the region's second worst global performance is in the Education sub-index, with a median rank of just 82nd. Poor education quality and low levels of human capital are limiting the potential for prosperity growth. The average Latin American worker has just 2.7 years of secondary schooling.

Without structural foundations, Latin American prosperity is subsequently highly dependent on economic performance. When the economy is doing well, economic opportunity abounds, masking the challenge of poor education and weak governance. The result is that prosperity rises, though on shaky ground.

When the economy is on the slide, however, prosperity falls. With no structural foundations beyond the performance of the economy, prosperity gained is quickly prosperity lost. There is nothing in place to ensure growth can be sustained. With weak human capital, little can be done to help drive new sources of growth through innovation and entrepreneurship. Without basic effective structures of governance, government can do little to help lift prosperity. Crime rates rocket as people look elsewhere for opportunities, further harming the chance of progress. The whole fabric of prosperity generation breaks down.

The effects of the recent slowdown in commodities-backed growth are already being felt in the region. Brazil's prosperity is in decline, and Chile and Colombia are stagnating. Where prosperity growth is found, such as in Argentina, the rate of growth has been significantly curtailed.

That Latin America has no real structural foundations for prosperity is most stark when we consider the extent to which regions have learned how to deliver greater prosperity with their wealth over the past decade. Just two parts of the world—Sub-Saharan Africa and Europe—have learned how to deliver more to their citizens with their economic wealth. The rest of the world is delivering less, but nowhere more so than Latin America.



Latin America is delivering less prosperity with its wealth today than it was in 2007

If Latin America is to learn how to deliver greater prosperity to its citizens, then it needs to begin by addressing the fundamental foundations of human flourishing. Unless its citizens are safe, educated, and governed by an effective and fair system of governance where the rule of law is supreme, then prosperity has no foundation in which to take root. Without the structural necessities of prosperity delivery, the fate of the region's prosperity will forever be tied to the fate of its economy.



49 percent of the world's citizens have confidence in their national government



37 percent of Latin America's citizens have confidence in their national government

Corruption in Southern Europe

Is the remedy as dangerous as the disease?

A warning from Italy

Looking out across the chaotically corrupt Eternal City, Marcus Tullius Cicero gave vent to anger: "Exploiting the state for selfish profit is not only immoral; it is criminal, infamous." He rose in the public's estimation, but not in that of his fellow senators, who had him assassinated a year later.

More than 2,000 years later, and Rome is no longer the Eternal City but the "Mafia Capital", so named after a scandal that came to light in 2014. This centred on the Palazzo Senatorio, home of the Roman city council, which stands symbolically on top of the most famous of Rome's seven hills, the Campidoglio or Capitoline Hill, where the first Romans built their citadel. Crime syndicates, newspapers revealed, had stolen millions of euros destined for city services with the help of corrupt officials.

Corruption is not a specifically Roman problem. Italy ranks poorly across a range of anti-corruption and good-governance measures, and recent surveys show that most Italians think corruption is widespread throughout their government and businesses. Does it matter? Many Italians think that they have comfortable lives, but the Eurozone's third largest economy ranks just outside the global top 30 for overall prosperity. The famed political scientist Samuel Huntington argued that corruption can raise prosperity by enabling individuals to bribe their way through an inefficient bureaucracy. While there may be some truth in this argument, the weight of evidence suggests that corruption, by weakening social trust and the rule of law, erodes the foundations of prosperity in the most pernicious ways.

In October 2015 the mayor of Rome resigned in the wake of the "Mafia Capital" scandal. Eight months later, he was replaced in a landslide electoral victory by Virginia Raggi of the anti-establishment Five Star Movement, which is led by the 68-year-old comedian Beppe Grillo. Speaking of the corrupt officials who preceded her, Raggi told *The Observer*, "We have seen a pit of waste which they have created – they have robbed Rome."

Raggi's platform centres on fighting corruption, which is unarguably a good policy. But there are concerns that this may come with more of the Five Star Movement's ideas, such as "degrowth", an ecological, anti-capitalist ideology that threatens prosperity.

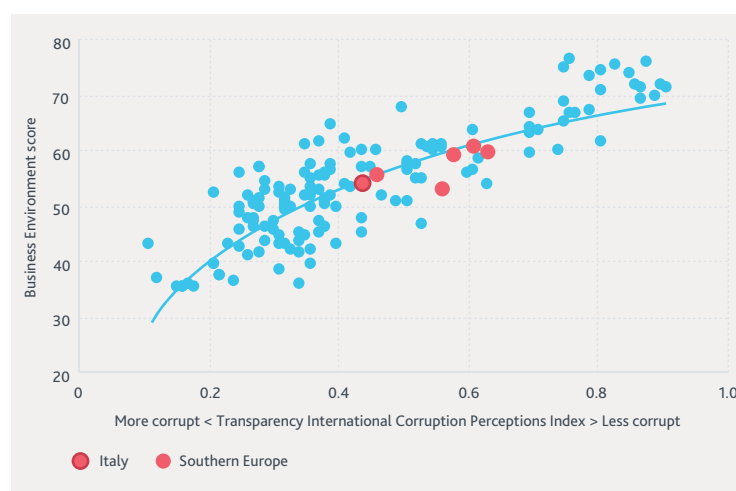
Beware of the backlash: corruption threatens prosperity across Southern Europe

The wider Southern European experience, from Spain to Greece, shows that these two policies – fighting corruption and anti-capitalism – often go hand in hand.

When corruption between government and businesses is widespread, people tend to vote for anti-establishment politicians like Raggi and for the anti-capitalist parties to which they belong. In the process they end up endorsing regulation, nationalisation, and higher taxes – creating an economic environment that handicaps businesses.



90 percent of Italians think that corruption is widespread in government



Golden Dawn, the Greek anti-globalist and fascist political party, rode a wave of public anger into the Hellenic Parliament in May 2012, winning seven percent of the popular vote and winning parliamentary seats for the first time since registering as a party in 1993. Its success lay in channelling anger about chronic corruption, economic austerity, and immigration, capitalising on the fact that its members had never belonged to previous highly corrupt governments. Its plans to eliminate cronyism and corruption would involve nationalising banks and Greece's natural resources.

It appears that voters favour state economic intervention as a means of punishing corrupt businesses and politicians. Indeed, they are willing to incur the costs of this punishment themselves in order to achieve an economy which they deem to be fairer.

The graph above shows that more corrupt countries tend to have worse Business Environment scores. Italy's Business Environment performance is as expected given its level of corruption.

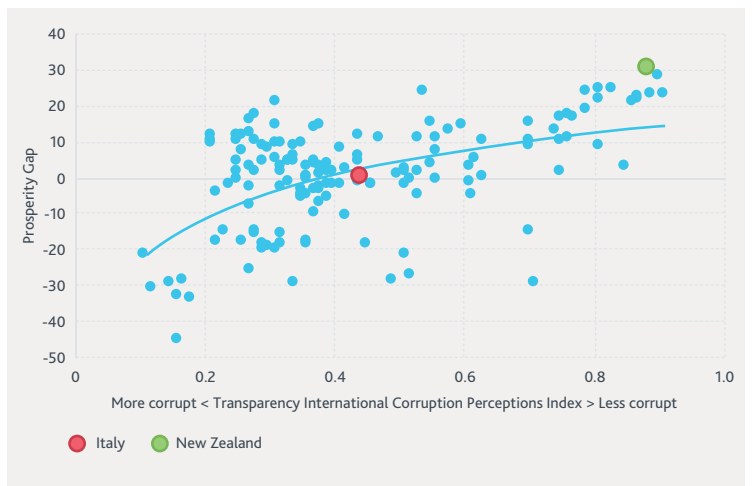
The graph opposite shows that less corrupt countries tend to deliver more prosperity with their wealth. New Zealand massively over-performs here, and Italy delivers slightly less prosperity with its wealth than its corruption level would suggest.

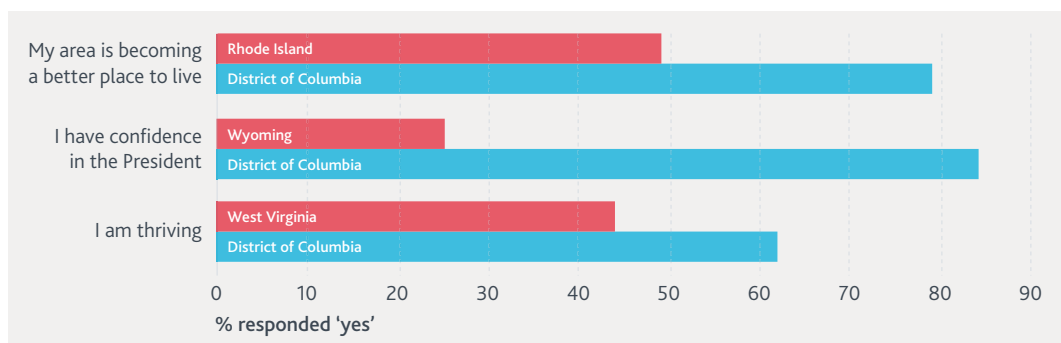


Protesters stand in a tangled web of wool at a demonstration against political corruption on 13 February 2011 in Turin, Italy

Perhaps that economy will be “fairer”, but it will not be able to deliver prosperity. One of the few things on which most economists agree is that free markets, along with compensation for those who lose out from liberalisation, are better than state economic intervention at delivering broad-based prosperity.

There has always been corruption in Southern Europe and particularly in Italy, so much so that the abuse of a system is becoming the system itself. Italy maintains a respectable global prosperity rank – though the lowest in the G7 – despite its corruption, but it is unclear how long it can continue to do so. Like Cicero’s Rome, Italy’s prosperity is in decline. Rampant and endemic corruption is one of the causes.





As with UK prosperity, the US experience of decline is different across the country. Perceptions of individual flourishing, government confidence, and the future of the local area change drastically between the most optimistic areas and the areas where people feel US prosperity stagnation more acutely. Data source: Gallup US Dailies

Is prosperity declining in the United States?

The politics of relative decline

At the 2016 Democratic National Convention in Philadelphia, US vice president Joe Biden thundered to rapturous applause, “But folks, let me tell you what I literally tell every world leader I’ve met with—and I’ve met them all: it’s never, never, never been a good bet to bet against America.”

In one sense, Biden is right. Grand narratives of American decline that emerged after the seemingly unbounded prosperity and youthful enthusiasm of the 1950s have been shown to be false. The economic power of the US did not decline relative to that of the Soviet Union, as the Nobel Prize-winning economist Paul Samuelson predicted in the many editions of his seminal textbook right up to the collapse of the USSR. Neither did American strength decline relative to that of Japan, as Harvard professor Ezra Vogel warned in his *Japan as Number One*, published in 1979. But Biden is wrong in another way, one closer to his own experience. Claiming that America is in decline—“betting against America”—has long been a popular, but not always successful, route to the White House.

In 1976 Gerald Ford’s election campaign ran television advertisements that claimed the president was “making us proud again”. Ronald Reagan’s 1984 re-election campaign declared, “It’s morning again in America.” Now it is 2016 and we have Donald Trump, perhaps the most radical “declinist” yet, who wants to “Make America great again”.

On the issue of decline, Trump is partially right. The Prosperity Index shows that America is in relative decline and, while the picture is not too worrying yet, Trump’s anti-trade, anti-immigration, anti-government plans to reverse that decline will make things worse. It is, in fact, Americans’ experience of relative decline that in part explains Trump’s popularity.

Why American prosperity is stagnant and declining

We think of a country in decline as one in which living standards are in free fall and where society is collapsing. This kind of decline—absolute decline—is what the Roman Empire went through in its final years. Its population shrank, its infrastructure crumbled, and its territory split into various polities until it was no more.

It is true that the median American household has a lower income now than it did in the late 1990s. Adjusted for inflation, it peaked in 1999, dropped to a lower level after the global financial crisis, and has hovered around that same lower level since then. But there is more to living standards than income alone. Americans enjoy better technology, have larger houses and more leisure time, and live longer.



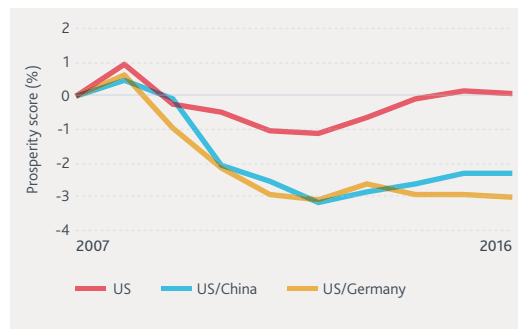
Income aside, living standards in the US have improved; the country is not following Rome's path of absolute decline.

A better analogy for the US today is the British Empire's relative decline in the late 19th century. Once the "workshop of the world", Britain experienced a decline in both its economic output and its productivity relative to the emerging industrial powerhouses of Germany and the US. The US economy grew faster and larger than the economies of Britain and Germany, but then its mid- to late-20th-century rivals emerged – the Soviet Union and, after that, Japan. The collapse of the USSR and the bursting of an asset bubble in Japan meant that American prosperity surged ahead of the rest again.

China is now to the US what the US was to Britain in the late 19th century. Its rapid economic growth has taken its share of global economic output from 2.3 percent in 1980 to 16.5 percent in 2014, making it 0.6 percentage points larger than the US economy. Millions of Chinese citizens have been lifted out of poverty in the process. American prosperity remains higher than Chinese prosperity – according to the Prosperity Index, it is some 32 percent higher. But this lead has narrowed from 35 percent over the last decade. At this rate of convergence, China's prosperity will match that of the US in another decade.

Perhaps the comparison is unfair: China is an emerging economy and is seeing gains in welfare that Americans enjoyed a long time ago. But if we look to a fellow OECD member – Germany, for example – the story is the

same. America's prosperity score stood at 99 percent of Germany's in 2007, but had dropped to 96 percent by 2016.



Absolute decline, relative decline or stagnation?

We can think of a country being in decline in one more way: when it is stagnant. In this sense, the US has been in decline since household income peaked in 1999. More broadly, prosperity has also been stagnant for the past decade. The American prosperity score is at the same level now as it was in 2007.

There is some truth in Trump's "American decline" narrative. While American prosperity is not in free fall, as he claims, it is stagnant and losing ground to advanced and emerging countries alike. Researchers continue to debate the causes of this decline, but there has been no consensus yet, which complicates the search for policy fixes.



21 percent of Americans are dissatisfied with their standard of living. This is more than twice the percentage in Germany



81 percent of Americans think that working hard gets you ahead. This compares to 86 percent in China

Prosperity grows rapidly from peace

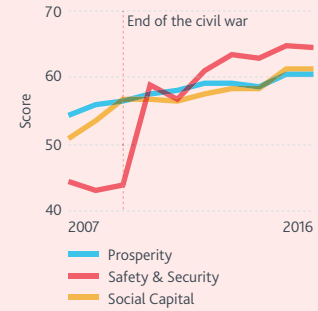
Countries like Yemen (149th) and Afghanistan (148th) demonstrate that deep internal conflict, often with external intervention, has a devastating impact on prosperity. However, there is a more positive story: that of the rapid

flourishing of prosperity that is possible when peace finally comes.

Sri Lanka has achieved the biggest rank improvement in the Prosperity Index over the past decade, rising 33 ranks to 55th since 2007. The end of the civil war in 2009 brought the beginnings of a peace that has allowed Sri Lankan prosperity to flourish. The country has risen from 145th to 83rd in Safety & Security, and Health, Economic

Quality, and the Business Environment have improved.

However, what is most striking is the way Sri Lankan society had begun to heal itself as war drew to a close. The country has risen from 63rd to 19th in Social Capital as trust has strengthened and altruism grown. Those reporting they had helped a stranger has risen from 43 percent in 2007 to 61 percent today.



TEN X TEN: IS PROSPERITY DECLINING IN THE UNITED STATES?

Populism will not make America great

There is at least consensus on the effects of Trump's tweet-sized policies: build a wall along the Mexican border, restrict Muslim immigration, make NATO allies pay for protection, start a trade war with China. Each one will harm the components of American prosperity. Restricting and deporting immigrants, to the extent Trump proposes, requires a police state with constant identity checks, home raids, and neighbours spying on one another; it corrodes Americans' Personal Freedom and Social Capital. Trump's proposed treatment of NATO would damage American and global Safety & Security, while his anti-trade plans would knock America off first place in Business Environment.

Decline breeds the populism that threatens American prosperity

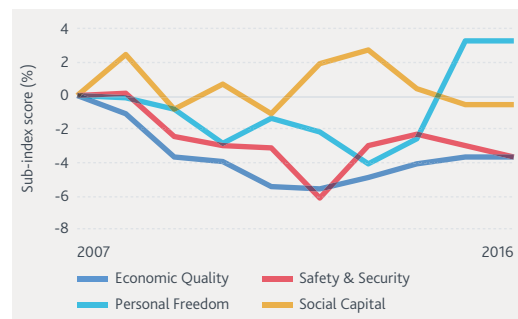
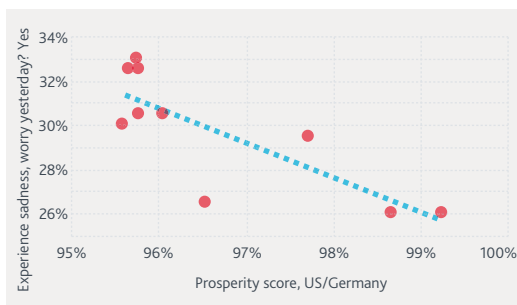
It is not the level of prosperity but the trend which people experience most acutely. Our wellbeing is amplified during periods of growing prosperity and is diminished, at a greater rate, during periods of declining or stagnant prosperity.

Research by the Nobel Prize-winning economist Daniel Kahneman has shown that we are more sensitive to losses than we are to equivalent gains. A loss can be absolute, like that experienced by the ancient Romans, or it can be relative, like that experienced by Americans today. Although the US remains one of the world's most prosperous countries, its stagnant prosperity over the past decade has caused widespread discontent. The experience of decline causes anxiety among voters and so broadens the appeal of populists like Trump who, by embodying radical change, promise relief from stagnation.



which the Index shows to have improved recently, these are the pillars of prosperity that are most in need of improvement. American Social Capital, Safety & Security, and Economic Quality are at a lower level now than they were a decade ago.

Make America Great Again: In the context of the United States' prosperity stagnation and relative decline, the appeal of the Trump brand of populism to those who feel left behind by globalisation is not surprising. The Prosperity Index has pointed to decline in the US long before Trump emerged as a voice for discontent.



American relative decline is associated with sadness and worry

But what populism, whether represented by Trump or by others, offers instead of relative decline is absolute decline: an America where people have lower Personal Freedom and weaker Social Capital; an America that is unsafe and closed to global commerce. Apart from Personal Freedom,

Populism threatens areas in most need of improvement

Now, it is not Joe Biden's world leaders who are betting against America, but American leaders themselves.



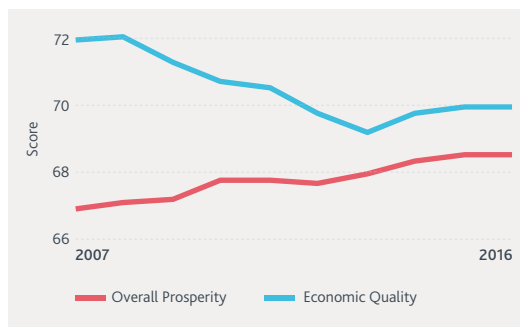
“What populism, whether represented by Trump or by others, offers instead of relative decline is absolute decline: an America where people have lower Personal Freedom and weaker Social Capital; an America that is unsafe and closed to global commerce.”

Why is populism stirring beneath the surface of Europe's growing prosperity?

Rapid economic and social change breeds uncertainty and fear that populists can exploit.

The political theorist Margaret Canovan argued that populism would “accompany democracy like a shadow”. In Europe today, it is clear that populism is no longer a mere shadow but an increasingly ominous force. Whether it stems from the radical left or from the radical right, the rise of populism threatens to destabilise a region that has long been one of the world's most prosperous.

While European prosperity has continued to rise over the past decade, particularly in Eastern Europe, many people feel angry, betrayed, and unrepresented. Change, even positive change, can be unsettling, and post-war Europe has undergone particularly rapid political, economic, and social change—a transformation that has become even more pronounced since 1989.



Europe's Prosperity Rises, but Economic Quality falls

While globalisation has brought economic growth to the region, many Europeans have not shared in its benefits. Income inequality is on the rise, and many working-class people see their jobs being moved abroad or, worse, “taken from them” by cheaper foreign labour.

Rapid technological change has also seen industries eliminated or changed to the extent that workers and the elderly no longer have the necessary skills or knowledge to compete. The global financial crisis of 2008 exacerbated these issues as economies contracted, unemployment increased, and poverty, which had declined across Europe, crept back up.

It is unsurprising that the greatest support for populist parties comes from these particular groups—the poor, the elderly, and workers who feel let down by the “system”: the “losers of globalisation”.

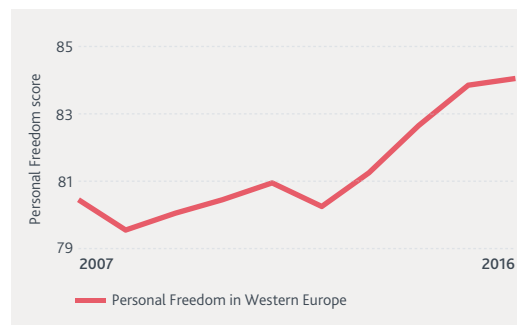
Prosperity has gone up overall in Europe over the past decade, but economic quality has not: this is what is felt most acutely. France, Denmark, the UK, Austria, and

Sweden—all countries that “over-deliver” prosperity and are some of the most prosperous in the world—have seen their prosperity surplus in Economic Quality fall while witnessing a surge in popularity for populist parties: from France's Le Front National to Austria's Freedom Party and the Danish People's Party. Even economic powerhouse Germany is not immune: the economy has slowed and the populist Alternative für Deutschland (AfD) has gained popularity, but, notably, Germany's performance in Economic Quality has not dropped as much as that of its regional peers, buoyed by falling unemployment and its high-quality exports. The AfD appeared on the political scene much later than other populist parties in the region and still has less support. Greece's prosperity has declined overall, particularly because of poor Economic Quality following its debt crisis, and the radical left-wing party Syriza (Coalition of the Radical Left) soared to electoral victory in 2015.

While populists often run on platforms which promise greater prosperity, populism can, in fact, threaten economic prosperity with its protectionist tendencies that seek to weaken the liberal capitalism and free markets found in Europe. Limiting the influx of foreign workers, for example, could dampen a country's growth prospects, while over-regulation of private enterprises could make a country's business climate less competitive.

Globalisation has changed economies as well as societies. Europe has become more culturally diverse, more secular, and more tolerant of differences in culture, religion, or sexual orientation. This is reflected in rising Personal Freedom scores across Europe over the past decade, particularly in Western Europe.

Not everyone views this as a positive development: right-wing populists have exploited feelings of fear and uncertainty over these changes in social norms. The rise of far-right populism can be viewed as a backlash against what is perceived as “too much personal freedom”, which could lead (in the AfD's words) to the “slow cultural extinction” of national identity. Recent terrorism in Europe and the ongoing refugee crisis have only added fuel to this fire.



Liberalism's Discontent: More Personal Freedom, more anti-liberal populism?

Just as “too much personal freedom” might explain a rise in right-wing populism, so too can “too little”. Eastern Europeans lag behind their Western peers in Personal Freedom: tolerance of immigrants and minorities is low to begin with, making the region susceptible to right-wing populism. Although Eastern Europe has not yet experienced the same widespread multiculturalism as Western Europe, leaders in Hungary and Poland have already exploited fears over potential changes and won on populist platforms.



33 percent of people in France have confidence in their national government



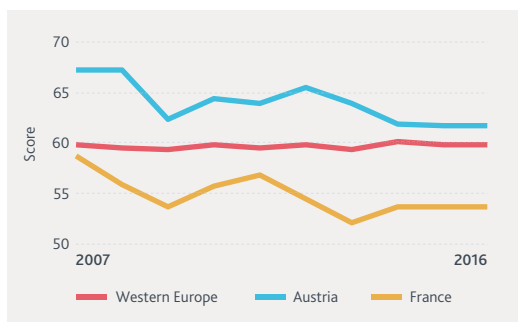
44 percent of people in Hungary think their country is a good place for immigrants, down from 56 percent in 2007



12 percent of Austrians gave financial help to another household in the past year, down from 45 percent in 2007



While Personal Freedom has improved, Social Capital has stagnated or declined in much of Western Europe, further opening the door for populism. Community life is paying the price for this increased freedom and tolerance, populists argue. They see multiculturalism as eroding civil society and have thrived in countries like France and Austria, where Social Capital has considerably declined since 2007. In both countries, integration of non-nationals into the labour market and local communities has not been achieved effectively.



Social Capital stagnates and declines across Western Europe as societies become more fluid

Notably, France's performance has declined to the point that it now has a prosperity deficit in Social Capital—the second-largest Social Capital deficit in Western Europe. France's integration record is fairly dismal, so the surge in popularity for Le Front National is perhaps not surprising. By contrast, Social Capital went up in Germany, whose experience with integration has been relatively positive. The Afd's popularity might have gone up since the refugee crisis, but it enjoys far less support than Le Front National, whose leader Marine Le Pen is a presidential contender. The generally positive socioeconomic conditions in Germany still limit the Afd's ambitions: integration is certainly challenging, but it is confidence in Germany's strong civil society that let Angela Merkel claim, "We can do this."

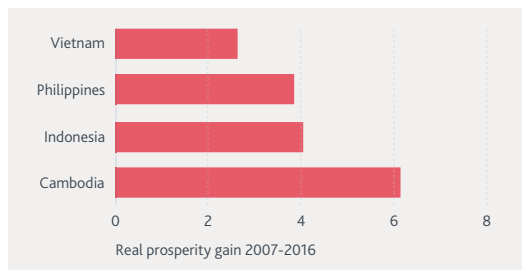
As the Index shows, prosperity has been rising steadily in Europe, but changes in Economic Quality, Personal Freedom, and Social Capital, amplified by the refugee crisis, have given rise to populism. Populism threatens future prosperity with its rejection of the reality of European society, which is changing and opening up. But it is important to remember that, while populist parties are enjoying "a moment", they are rarely winning outright majorities—yet. Mainstream parties must address people's concerns over rapid economic and social change, while restoring faith in the benefits of globalisation and open, liberal societies.

Marie Le Pen, leader of the French populist right-wing party Front National, addresses supporters following the election of 62 Front National candidates in the 2015 French departmental elections. Opinion polls for the 2017 Presidential Election have Le Pen on between 25-33 percent, which would guarantee her a place in the second round run-off.

The bright stars of Southeast Asian prosperity

Cambodia, Indonesia, the Philippines, and Vietnam have all seen rapidly rising prosperity over the past decade. However, investment in the fundamental roots of prosperity growth in Cambodia, Indonesia, and the Philippines has seen them magnify the prosperity effects of economic growth by delivering greater prosperity with their rising wealth.

Some of the biggest individual prosperity gains over the past decade have come from Asian nations as rapidly rising wealth has lifted hundreds of millions of people out of absolute poverty and towards prosperity. Wealth in Indonesia has risen by nearly 40 percent in the past ten years. Greater prosperity has accompanied it: the country has posted the third-biggest rank rise of any country in the Index.



Real prosperity gains in Southeast Asia 2007-2016

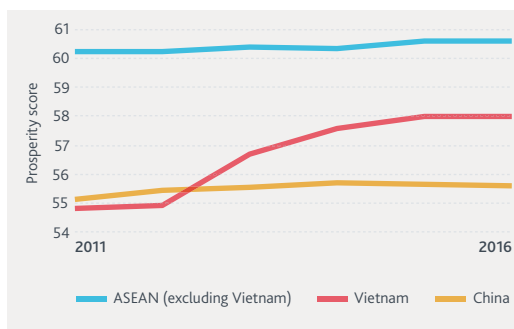
Yet, it has been more than simply rising wealth that has driven the rapidly growing prosperity of countries like Indonesia. The prosperity gains from rising wealth have been magnified by an increasing ability to turn that wealth into prosperity. Indonesia has turned a small prosperity deficit into a surplus, the surplus of the Philippines has almost doubled, and Cambodia's small surplus has increased more than fourfold over the past decade.

These countries have in common increasingly competitive economies and business environments, like many Asian countries, but crucially also greater delivery of prosperity across key structural areas like Governance, Personal Freedom, and Social Capital. Surpluses in Social Capital have been growing, as has combined performance in Governance and Personal Freedom. Investment in the structural foundations of prosperity growth have amplified the prosperity gains made from rising wealth.

That is in the Philippines, Indonesia, and Cambodia. Vietnam is a different story. In 2007, Vietnam had the largest prosperity surplus in Southeast Asia. It was easy to see why. Walk through the streets of Ho Chi Minh City, and it was hard to imagine that war and famine once reigned here. Construction had begun on the futuristic Bitexco Financial Tower past which cars carried a new generation of Vietnamese, relentlessly chasing business opportunities rather than simply food and shelter.

Vietnam has performed well since. Its embrace of a market economy and integration into global manufacturing flows have transformed it from a lesser-developed economy to a middle-income country in just a generation. What

is striking about Vietnam is its recent rapid convergence with its ASEAN peers. Vietnamese prosperity has passed, and surpassed, that of China in the past five years alone.



Vietnam's prosperity convergence with its Southeast Asian peers

It has done so through considerable improvements in both Economic Quality and Education, where Vietnam now ranks among the world's top 50 countries. The proportion living on under \$1.90 a day has fallen from 22 percent to three percent, lifting more than ten million out of extreme poverty. The Index shows more and more Vietnamese are satisfied with their household income and living standards.

In Education, more Vietnamese than ever are happy with their education system and literacy rates continue to rise. In some tests, Vietnamese students scored higher in core subjects than the average for OECD countries. Unsurprisingly, Vietnam now has the largest surplus in these two sub-indices of any country in Southeast Asia.

However, Vietnam's overall surplus, while still high, has shrunk slightly since 2007. Vietnam no longer has the largest surplus in Southeast Asia, overtaken by Cambodia and the Philippines. Vietnam is getting richer, and this wealth is bringing prosperity, but Vietnam is not getting any better at turning wealth into prosperity. The prosperity gains from its wealth creation are stubbornly fixed.

This is largely the result of a failure to invest in the structural foundations of prosperity growth. Vietnam's rapid prosperity gains from economic progress are at risk of leaving no lasting mark. Deficits in Governance and Personal Freedom are growing. In Governance the country ranks 104th and in Personal Freedom 124th. Vietnam not only has the lowest combined score for these sub-indices in Southeast Asia, it is also the only one of its peers to see performance decline since 2007.

Investment in the roots of prosperity delivery is reflected in growing prosperity dividends in Indonesia, Cambodia, and the Philippines. Vietnam's performance is impressive, but at risk of being less resilient than that of its peers. If it is to truly take off, this resilience must be addressed. Together, Vietnam, Indonesia, the Philippines, and Cambodia have the potential to be shining stars of global prosperity. However, unless gains are rooted in prosperity's structural foundations, future prosperity growth will be heavily dependent on growing economic wealth. Economic storms will always batter nations. Without free people, fair governance, and strong society, the resilience of prosperity in weathering the next storm is in question. Bright stars can fast be extinguished in a storm laden sky.




95 percent of Cambodians are satisfied with their freedom to choose the course of their lives, up from 71 percent in 2007



50 percent of Indonesians volunteer, up from 24 percent in 2007



49 percent of people in the Philippines have confidence in the honesty of elections, up from 38 percent in 2007

A young child with short dark hair, wearing a yellow polo shirt with a grey collar, is focused on painting. The child is holding a blue paintbrush and dipping it into a purple container. In the background, other children in similar yellow shirts are also engaged in painting activities at a wooden table. The setting appears to be a classroom or a school activity room with colorful posters on the wall.

**More Vietnamese
than ever are
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continue to rise.**

Beating the oil curse

The UAE leads the way to prosperity beyond commodity dependency

Saudi Arabia was once the kingdom of easy living. Sitting on the world's second-largest proven oil reserves, Saudi citizens enjoyed free comprehensive healthcare and heavily subsidised water and electricity, and their streets were lined with SUVs. With petrol cheaper than water—just 16 cents a litre—few worried about oil consumption. And thanks to generous unemployment benefits supplemented by occasional cash hand-outs, Saudi nationals rarely worried about jobs either.

Now the crude oil price is plateauing at around \$50 per barrel, less than half of what it was two years ago. Given that less favourable oil prices are forecast for the coming decade, the Kingdom's mounting fiscal deficits—equivalent to roughly 20 percent of GDP—are serious grounds for concern.

Benefits from crude oil have provided wealth but not prosperity. Despite being the 11th-wealthiest country globally in terms of GDP per capita, Saudi Arabia is ranked only 85th on the 2016 Prosperity Index, the lowest of the six Gulf Co-operation Council member states. The Kingdom has one of the world's largest "prosperity deficits", revealing alarming inefficiency in transforming the vast oil windfall into economic and social progress.

The authoritarian political system is evidenced in the Kingdom's weak performance in the Governance and Personal Freedom sub-indices. The ability to maintain stability in the country, based on a bargain of a wealthy lifestyle for the population in exchange for acquiescence in the family's rule, may start to weaken as oil prices decline. The real obstacle, however, is the fostering of a truly prosperous Arab nation commensurate to its remarkable wealth lies in its economic system.

Like many other oil-rich countries, Saudi Arabia built almost the entire economy around the petroleum industry. According to the IMF, over 80 percent of its exports in 2014 were generated from oil and refined products, while oil revenues made up 90 percent of the government's incomes.

A highly capital-intensive business, the oil industry is by nature not a powerful employment generator. It diverts talent and capital that could be applied to innovation and economic diversification, crowding out the private sector and broader job creation.

Most of the jobs created in infrastructure and the service sectors go to low-cost foreign workers. Consequently, the government has to sustain a disproportionately large public sector to accommodate a growing younger population: approximately two-thirds of Saudi workers are employed by the state, a situation not unique among Gulf states. Less than 60 percent of the labour force and barely one-fifth of women are actively seeking a job; unemployment rates among Saudi nationals hover at around 11 percent. All this represents a huge monument to the waste of the country's talents.

Fully aware of the public sector's difficulty in meeting the increasing demands for jobs, the government has now turned to the private sector. But companies face quotas for Saudi employees and those hiring foreigners may incur extra fees. Such distortionary labour policies dissuade potential entrepreneurs and foreign investors. Innovation and productivity inevitably suffer. In the Business Environment sub-index of the Prosperity Index, Saudi Arabia ranks 25 places below its major regional competitors, the United Arab Emirates (UAE) and Qatar, both of which have a more diversified economy.

However, the Saudis are not the only victims of overdependence on the oil industry. On average, oil-dependent countries (defined as those whose oil rents exceed ten percent of total GDP) rank 22 places lower than what their level of wealth would suggest. In comparison, countries not reliant on oil as a main source of revenues over-deliver by an average of four points. As the chart opposite shows, countries with high oil dependency perform significantly worse on both actual prosperity level and the ability to convert wealth into a prosperous life.



22 percent of women in Saudi Arabia participate in the labour force



77 percent of people think the UAE a good place to start a business, greater than in any OECD country

Does dependence on oil resource drag prosperity down?



Gap between achieved and expected prosperity based on wealth



Even allowing for geographical location, the inefficiency of oil-dependent countries is still striking. Political indicators aside, these states share lacklustre economies, restricted business environments, and poor educational attainment incompatible with their relatively high GDP-to-population ratio.

Recent progress made by the UAE will perhaps provide a model for the region to move to a more diverse economy and prosperous society. The UAE has looked more to the OECD than to regional peers in its efforts to deliver prosperity. Policy decisions over the past decade have reduced dependence on oil and instead diversified the economy by encouraging the manufacturing and financial sectors.

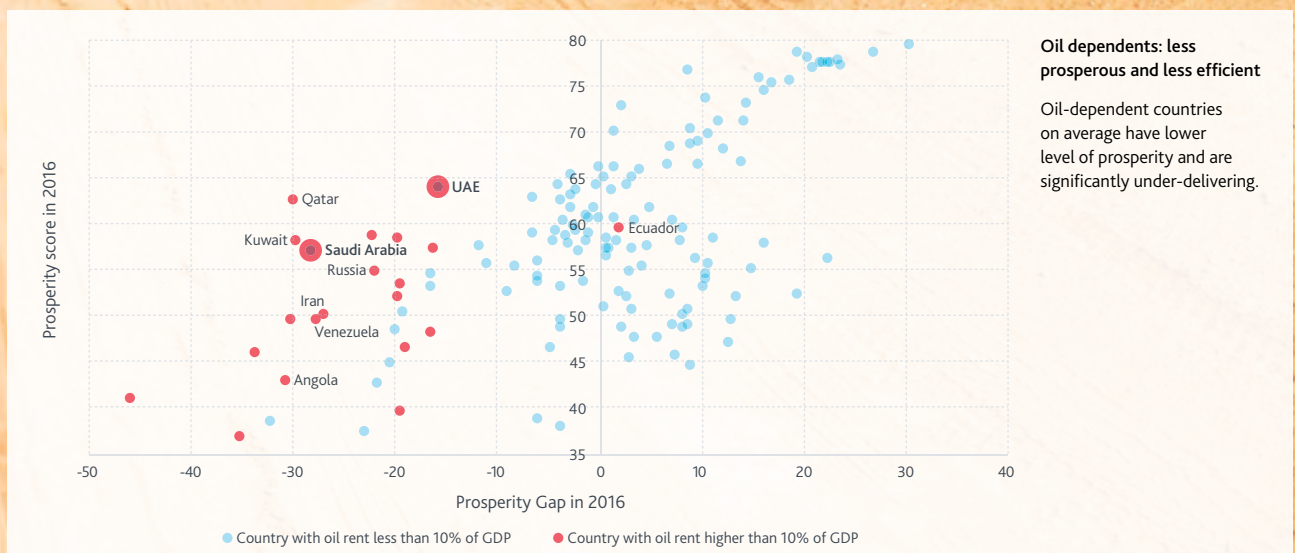
The UAE has become the Gulf's business hub because of its openness to foreign investors, flexible labour policies, advanced infrastructure, easy access to credit, and the

excise of British law. This in turn invigorated the economy and brought more jobs. Market liberalisation, exemplified by the introduction of a competition law in 2012, pushed the country further away from oil reliance by encouraging competition between and within sectors.

These changes substantially improved the country's performance in Economic Quality and Business Environment, which surged by 22 and 19 ranks respectively within a decade. By 2016 the UAE had the highest prosperity score among all oil-dependent countries globally and had almost erased its 20-rank deficits in the economy-related sub-indices.

The UAE's experience shows that oil is not destiny. With the right incentives, countries endowed with oil reserves can escape the grip of oil reliance and create a dynamic economy, thereby increasing overall prosperity.

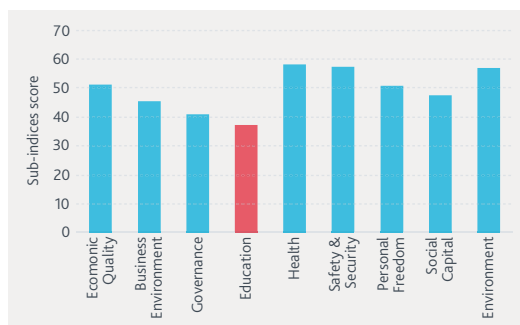
Falling oil prices have hit government revenues, falling from 41 percent of GDP in 2013 to around 29 percent of GDP in 2015. However, growing economic diversification in the UAE has helped the country to improve its prosperity delivery and drastically reduce its prosperity deficit



Rising prosperity across Africa has not lifted educational outcomes

In the outskirts of Serenje, a typical middle-of-nowhere place in Zambia, there is no war, nor has there been any devastating natural or health catastrophe in recent memory. It is the kind of little village that could as easily be in rich Botswana as in poor Burundi. Some 20 children are waiting for school to start—literally: they are waiting for the rainy season to end so that the bricks can dry in the sun before being hardened in kilns and used to build the school. The gift of a classroom is still over a year away.

When considering why Sub-Saharan Africa has not translated a decade of growth into greater prosperity, the immediate answer is always economic or institutional. Indeed, resource dependency has limited the impact of economic growth, and prosperity is likely to be further constrained as structurally lower commodity prices affect growth. Our 2016 *Africa Prosperity Report*, published earlier this year, pointed to good governance and robust institutions in securing prosperity, but highlighted the many Sub-Saharan nations that have failed to develop the leadership and stability needed to become more prosperous.



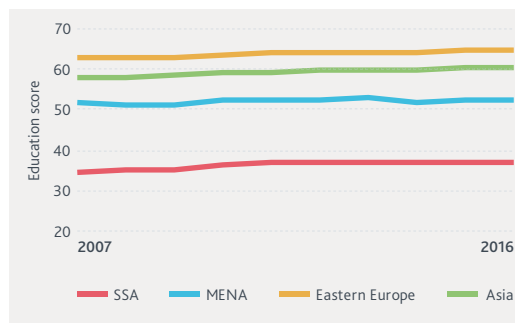
Education is Africa's worst performing sub-index

Critically, many have also failed to develop and invest in their education system. The region underperforms significantly in the Education sub-index, even when its wealth is taken into account. For the children in Serenje, their personal flourishing is on hold. So too is Zambia's prosperity.

However, the children of Serenje are in many ways the lucky ones. For many Sub-Saharan children, there are not even plans for schools. Where schools do exist, many children cannot attend because they must work to support their families, or—if they are girls—because they are forced into marriages at a young age: according to data release by UNICEF in 2016, 12 percent of girls in Sub-Saharan Africa get married before the age of 15, and as many as 39 percent before the age of 18.

Sub-Saharan Africa's poor performance in Education is constraining prosperity

Why has something so obvious as education been overlooked? One factor is booming commodities markets masking the need for investment in people as well as in infrastructure. Now that growth rates are falling, many African nations are discovering that they lack an education system developed enough to sustain the high growth rates of the commodities boom. Even the region's more prosperous countries—South Africa, Rwanda, Ghana—are no exception. Since 2007, all three have performed well relative to their wealth in the areas of Governance and Personal Freedom. Yet, ominously, they have consistently underperformed in Education.



No convergence: Africa's Education score is significantly lower than other regions, and shows no sign of catching up

There are bright spots. In the past decade, several education indicators have improved: both primary completion rates and literacy rates have substantially increased, with Kenya, Ghana, and South Africa performing alongside OECD



53 percent of people in Sub-Saharan Africa are satisfied with the quality of their education system. This compares to a global average of 62 percent



62 percent of people in Sub-Saharan Africa think that their children have the opportunity to learn and grow everyday. This compares to a global average of 70 percent



averages. But educational performance is as diverse as the region itself. Last year, only 38 percent of pupils completed primary school in Chad. In Niger, youth and adult literacy rates remain stuck at 26.6 and 15.7 percent, respectively.

Education is critical in igniting positive prosperity momentum

Improving education in Sub-Saharan Africa is a daunting challenge, but remains key in the path towards greater prosperity. Africa’s population is rocketing—23 of the 30 countries with the highest population growth are in Sub-Saharan Africa—and with growth rates falling, high-quality education is needed to raise human capital and productivity. Skilled, literate workers will of course be more able to find better employment, and avoid insecurity and poverty.

Our 2016 *Africa Prosperity Report* pointed to a need for Sub-Saharan Africa to develop its manufacturing sector, rather than jumping from primary industry to services as is happening in countries like Nigeria, where services already account for over half the economy. This premature deindustrialisation limits the potential for long-term development by constraining the emergence of a middle class with rising incomes. It also means that human capital is not properly developed. The jump to services is a jump from low-skilled agricultural work to low-skilled jobs in the service industry. However, without an adequate education system, this jump is simply development along the path of least

resistance. Manufacturing, and the growth it could deliver for Sub-Saharan Africa, require a level of human capital and skills that many countries have failed to develop.

Tackling educational outcomes is key if the continent is to progress up the prosperity ladder. But how can education systems be improved? The education sector often encapsulates broader problems in a country. Where schools do not exist or when children have to walk barefoot for miles to reach them, then we know that there is not just a lack of schools but also of transport infrastructure and wealth creation. When the majority of a country’s students come from relatively wealthy families, then again we know there is a problem with access to education for the country’s poorest. Solutions to these issues are not about education alone.

Education has the power to unlock one of the region’s most under-utilised resources: its people. As a Swahili proverb goes, “Wealth, if you use it, comes to an end; learning, if you use it, increases.”



49 percent of children complete primary school in Angola, the region’s fifth richest country



81 percent of children in Zambia complete full primary education



27 percent of Niger’s youth is literate

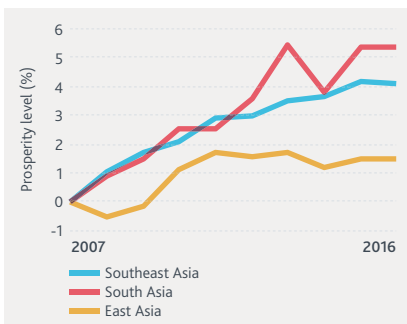
Regional Analysis

ASIA-PACIFIC



South and Southeast Asia have made strides in prosperity gains

Four of the five countries with the largest prosperity gains in absolute terms between 2007 and 2016 – Cambodia, Sri Lanka, Indonesia, and Nepal – come from South and Southeast Asia. Two factors are at play. First, easing of ethnic tensions and victory over military insurgents have allowed resources previously used to maintain security to be channelled into economic and social programmes. Second, proximity to fast-growing China has created numerous opportunities. China's enormous appetite for primary commodities and consumer products has boosted export industries and facilitated local economies' integration in the global production chain. Moreover, businesses squeezed out of China by rising costs can easily migrate south to benefit from the cheap, educated labour and business-friendly policies.



Greater prosperity growth in South and Southeast Asia

Divergent domestic circumstances set Nepal and Afghanistan apart

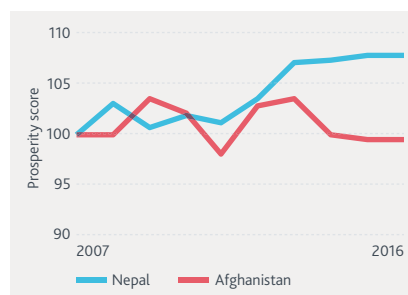
Enjoying similar levels of wealth per person, Nepal and Afghanistan have followed

starkly contrasting paths over the past decade, emphasising the importance of safety and stability to prosperity-building in developing countries.



Despite suffering a devastating earthquake in 2015, Nepal has risen 15 ranks over the past ten years

In Nepal, the transition from monarchy to republic, after the peaceful resolution of the civil war, brought better governance and enhanced civil liberties. In contrast, recurrent conflicts in Afghanistan devastated the economy, aggravated ethnic divisions, and foiled international and domestic efforts to create effective and clean governance. The divergence between the two countries' trajectories is clearly captured in the Prosperity Index: while Afghanistan continues to struggle at the bottom of the ranking table, Nepal has made a 15-rank jump since 2007, to become in 2016 the 94th most prosperous country globally – and this in spite of the devastating effects of the earthquake in 2015.

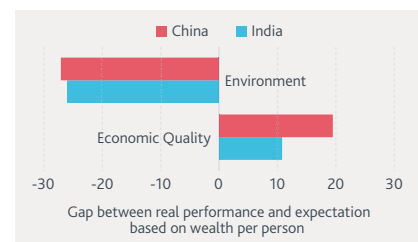


Nepal leaves Afghanistan further behind

China and India in need of greener development

China and India's unprecedented economic growth has lifted hundreds of millions out of poverty, substantially raised their people's living standards, and its increasing beneficiaries have kept pressing policy-makers for deeper economic reforms.

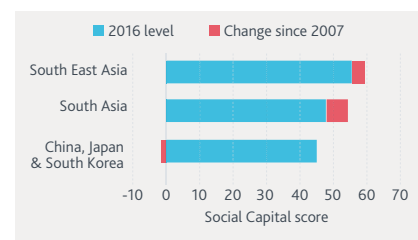
These achievements have come at a cost, however. Increasingly acute environmental deterioration in both countries exposes a darker side of their developmental stories. While both can boast a marked over-delivery in Economic Quality, their considerable deficits in Natural Environment – larger than any other Asian country's, with the exception of conflict-torn Pakistan and Afghanistan – indicate a long journey before they achieve comprehensive prosperity. Moreover, both countries face challenges from unbalanced prosperity paradigms: while China's long-term prosperity development may be constrained by its below-par Governance and Personal Freedom scores, democratic India struggles to improve its Education, Health, and Safety & Security performance.



Stuck between economic development and environmental degradation

Social Capital crisis in East Asia?

Already at a low level, Social Capital in China, Japan, and South Korea took a further hit over the past decade, while countries in other parts of Asia saw theirs steadily accumulating. People in these countries have historically been reserved in expressing opinions, which may explain some of the deficit. A more convincing explanation, however, highlights globalisation's impact on traditional family- and community-based social structures. This is reflected in a decline in the help extended within and between families, and in the alienating effects of rapid urbanisation, demonstrated by a widespread mistrust of strangers in China.



Declining Social Capital in East Asia

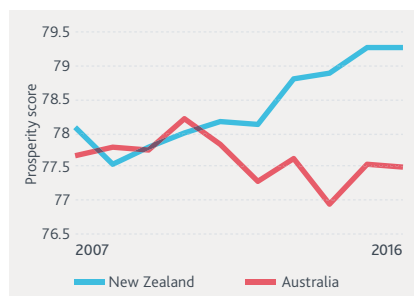
Divergent paths for Australia and New Zealand in the Pacific

Australia and New Zealand long enjoyed similar levels of prosperity, but in the past six years have markedly diverged.



New Zealand lead Australia in the Prosperity Index

The cause of this divergence has predominantly been structural. While in many ways New Zealand has been improving structural competitiveness, Australia's has been declining. Be it labour market flexibility, government transparency, regulation, judicial independence, or effectiveness of government, the two countries have been moving in opposite directions. For example, on hiring and firing flexibility, Australia has fallen from 71st in the world into the bottom ten, while New Zealand has risen from 107th to 58th.



Divergence in the Pacific

NORTH AMERICA



North American prosperity: still high, but stagnating

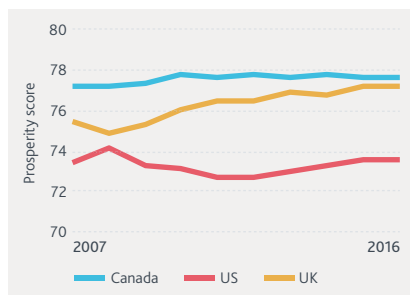
Compared to other top 20 countries, North American prosperity has seen marked stagnation over the past decade. Canadian prosperity

has risen marginally, while US prosperity is no different in 2016 than it was in 2007. Compared to progress in countries like the United Kingdom, North American prosperity is stagnating.



The US needs to see improvements in its Safety & Security sub-index if prosperity is to improve

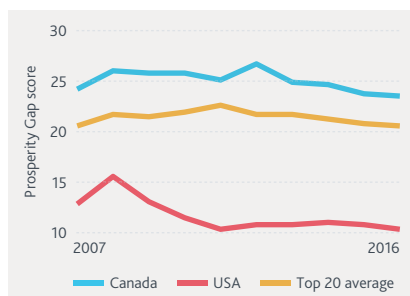
To reverse the trend of stagnation, North America must progress in areas where prosperity is weak. In both Canada and the US, declining performance in Health and Safety & Security is undermining gains made elsewhere. Canada has slipped two ranks in each sub-index since 2007, and the US has fallen ten ranks to 52nd in Safety & Security and 11 ranks to 32nd in Health.



Stagnation in North America

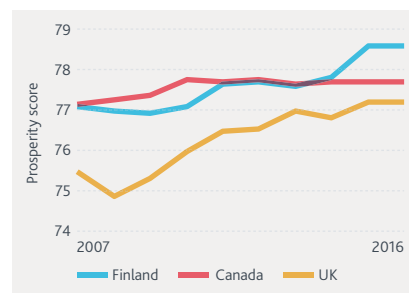
Life, Liberty, and the Pursuit of Happiness

Economic growth rates in the US have improved and unemployment is now lower than in Canada and most of Western Europe. However, stagnating prosperity and a declining prosperity surplus are fuelling discontent among Americans. Satisfaction with living standards and household incomes is falling. While the US's comparatively strong recovery from the global financial crisis is a matter of record, it has not seen improvement in the lives of Americans.



American delivery of prosperity compared to wealth is disappointing

While it is true that household income in real terms is now below 1990s levels, the real cause of stagnation is social. Safety & Security is in serious decline, driven by violence and terrorism. Serious issues exist in healthcare, where satisfaction with the current system has fallen and key problems such as obesity and mental health are on the rise. Personal Freedom has been hit by falling levels of tolerance. Together, these social issues are a significant obstacle to an increase in American prosperity.



Canada under threat

Canada: Land of the free, land under threat

While Canadian prosperity has been broadly static over the past decade, the composition of that prosperity is on the move. Canada and its fellow developed Commonwealth nations – New Zealand, the UK, and Australia – form a bloc that is better than any other comparable grouping at delivering prosperity to their citizens. The pattern of this delivery is very clear.

Canada's prosperity has been growing broadly along the lines seen in other comparable nations. Greater labour market flexibility has improved the country's Business Environment ranking to third. Governance has been improving, and Personal Freedom and Social Capital remain among the three best in the world. Free markets, free people, and strong society are increasingly the cause of Canada's prosperity success.

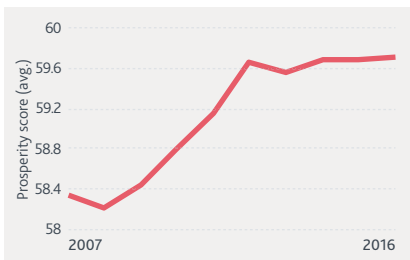
However, a note of caution is required. Despite stagnating wealth, the UK has maintained strong prosperity growth by means of social reform. So too has Finland. With Canada slipping in both Health and Education, the nation's consistent top six finish is threatened. If Canadian prosperity remains static, large gains by countries currently ranked below Canada threaten to propel them upwards and beyond. Finland has already overtaken, and the UK is rapidly catching up.

LATIN AMERICA & CARIBBEAN



A decade of prosperity gains about to disappear?

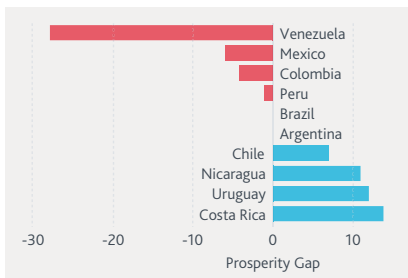
With literacy rates higher than 90 percent, improved democracy levels, large reductions in absolute poverty, and efforts to reduce inequality through ambitious social programmes, Latin America has undergone a deep social and economic transformation over the past ten years. Particular achievements can be observed in the region's best-performing sub-indices since 2007: Health and Personal Freedom. The fear is that a decade of prosperity gains will be lost now that the windfall from the commodities boom has subsided and demand from China is disappearing. Latin America finds itself at a turning point again. Can the regional leaders finally overcome the long history of boom-and-bust cycles?



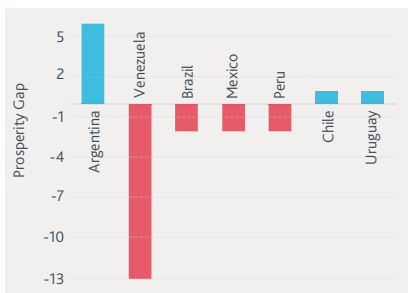
Rapid increase in prosperity in Latin America followed by stagnation since the end of the commodities boom

Latin America's hard-won prosperity increases are starting to fragment

Interestingly, the prosperity surplus in Latin America—the amount of prosperity delivered relative to wealth levels—has been small but relatively stable. Not surprisingly, Costa Rica, Uruguay, Nicaragua, and Chile enjoy the highest prosperity surpluses, while Colombia, Mexico, Peru, and Venezuela are among seven of 23 Latin American countries covered by the Prosperity Index that are still struggling with a prosperity deficit.



Delivery of prosperity relative to wealth, 2016



Change in delivery of prosperity, 2007-2016

Argentina is this decade's rising star, with the largest increase in delivery of prosperity compared to wealth in the region, thanks in particular to a 42-rank improvement in its Education sub-index. This is highly encouraging for a nation whose past has been marred by severe economic crises.

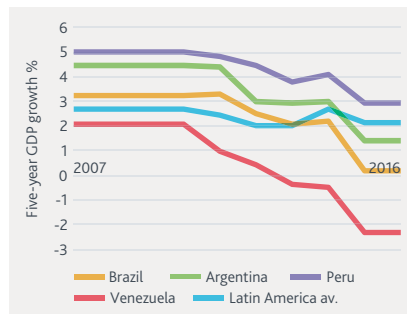


Argentines have cause to celebrate as one of the few strong performers in the Latin America region

Venezuela keeps the unenviable title of Latin America's biggest disappointment, with one of the world's largest prosperity deficits. Over-dependence on oil and low oil prices means that there is currently little hope for increased prosperity. Not only has its Economic Quality sub-index collapsed by 36 ranks but standards of living have plummeted by 56 percent, and with a 57-rank decline Social Capital is at an all-time low. Gains made in the past decade have pretty much evaporated.

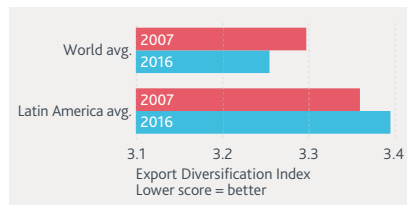
In terms of prosperity, Latin America compares poorly with peers in Asia

Despite the few bright spots, Latin America overall is delivering far less prosperity to its citizens than its peers in developing Asia. GDP growth has almost completely collapsed since 2010, and this has been followed by deterioration in the region's average Health, Environment, and Governance ranks.



Trailing five-year GDP growth 2007-2016

Why is Latin America particularly prone to an erosion of prosperity when growth slows? Latin American growth is built on a weak foundation—primary commodity exports. A boom in the demand for primary commodities temporarily drives growth, but it does so without establishing the structural foundations needed for longer-term development. When the bust comes, Latin American countries find themselves without demand for their exports and—more problematically—without the Business Environment, Education, and Economic Quality needed to provide an alternative source of success. Prosperity evaporates.



Export Diversification Index (Lower score = more diversification)

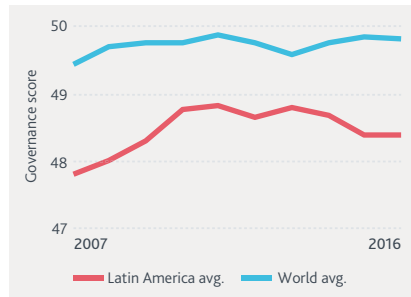
In order to achieve greater resilience, more investment in the workforce is essential. Despite overall improvements in the Education sub-index, secondary education per worker is only 2.7 years; this contrasts with Sri Lanka and Mauritius, where it is more than 3.7 years, and Kazakhstan, which reaches as high as 6.6 years. Tertiary education is still too underdeveloped.

Declining Safety & Security scores are caused by extremely high levels of internal violence, mainly driven by organised crime, drug-trafficking, and gangs; these are undermining human development and the growth of prosperity.

A new model for Brazil?

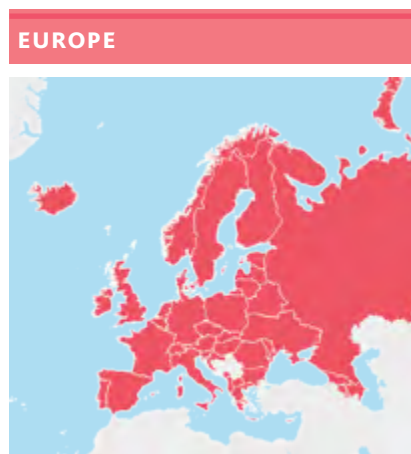
For years, Brazil relied on the commodities boom to reduce poverty and, indeed, to transform it into one of the world's greatest economies. It is now facing the dire consequences of that complacency, but—fortunately—it still has the greatest potential for diversification of any Latin American country. Since the impeachment and removal from office of President Dilma Rousseff in 2016, the question has become: what new model should replace doctrinaire socialism in order to rescue the Brazilian economy, whose GDP has fallen for six successive quarters?

Brazil is indicative of a wider trend. Since the commodities boom ended, left-leaning governments in the region have lost credibility with their populations and been ousted in Brazil, Argentina, and Peru; the hard-left government of Venezuela faces considerable opposition in the streets as the country's economy collapses. The results of these political developments are still unclear, but if Latin America wants to make strides forwards, it will have to drastically improve its worst-performing sub-index: Governance.



Governance lagging significantly behind world averages

Is Latin America at a turning point? It is a continent full of untapped potential, facing increased expectations from a rising middle class that demands more than poverty alleviation. With a significant reversal in the groundwork that has been achieved and a middle class confronting the ruins of a once buoyant economy, Latin America needs to take far firmer measures to hold onto its gains in prosperity. It is one thing to obtain prosperity and another to keep it.



Europe's prosperity is rising: Why is it uneven between Western and Eastern Europe?

Europe has long been a region of stability and prosperity; its citizens are among the healthiest, wealthiest, and safest in the world. Globally, 15 of the top 20 countries are European: Norway (second) leads Western

Europe, while Slovenia (20th) is the most prosperous country in Eastern Europe.

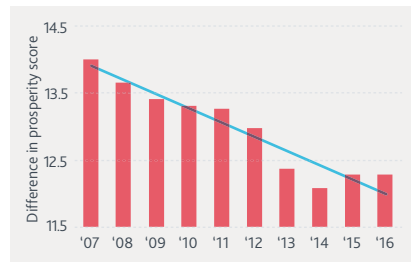


The effects of the 2008 global financial crisis are still being felt across Europe

Our research has uncovered some surprising trends, however. Although overall prosperity in Europe has increased over the past decade, the effects of the 2008 global financial crisis are still being felt across the region.

Even more significantly, ongoing economic turmoil in the eurozone, the refugee crisis, and Britain's vote to leave the EU have exposed north-south and east-west divisions that threaten further progress.

Overall, the Prosperity Index shows Eastern Europe converging with Western Europe, having improved its delivery of prosperity at a faster rate than western countries. But, at the same time, poor performance in Governance, Personal Freedom, and Social Capital means that the region is not as prosperous as it might be. The convergence with Western Europe, though steady, should be faster than it is.



Eastern Europe is steadily converging with Western Europe

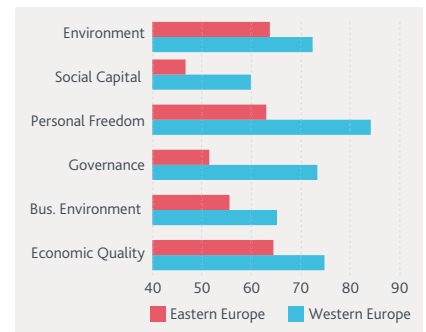
Western Europe Populist backlash against economic and social integration

Since the 2008 global financial crisis, the region has seen slower growth and many countries have declined in Economic Quality. However, with the exception of Greece, Cyprus, Italy, and Spain, Western Europe has maintained or even increased its delivery of prosperity. Finland, despite a considerable decrease in GDP per capita, has improved its prosperity levels, with the result that it now has the highest prosperity surplus in Europe.

One reason for Western Europe's rising prosperity is the steady improvement in Personal Freedom as societies become more open and multicultural. It is encouraging that tolerance

towards immigrants and ethnic minorities does not appear to have declined over this period: in Germany, France, and the UK, 12 percent more people believe their country is a good place for immigrants than ten years ago.

However, despite this evidence that tolerance of immigrants has increased, Northern Europe is witnessing a revival of right-wing, anti-immigrant populism in response to these economic and social changes. In Southern Europe, meanwhile, left-wing populist parties are benefiting from economic discontent within the eurozone.



How do Western and Eastern Europe compare across the sub-indices of the Prosperity Index?

Eastern Europe Prosperity held back by corruption

Business is booming, but Economic Quality has not followed

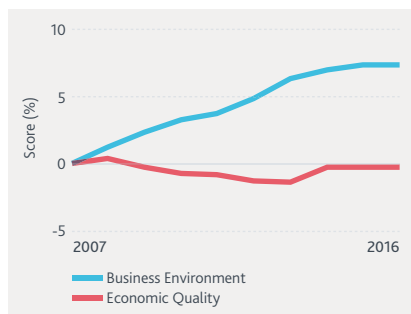
Eastern Europe continues to lag behind Western Europe in all sub-indices of the Prosperity Index, though there have been notable improvements in Business Environment as post-communist states continue market reforms. Macedonia and Romania have made particular strides here: remarkably, Macedonia now ranks as the second-easiest country in the world in which to start a business after New Zealand.



Macedonia is currently the second-easiest country in the world to start a business

We might expect that improvements in Business Environment would lead to better Economic Quality. Yet, this is often not the case. Why? The answer is that, despite rapid GDP per capita growth, this new wealth has not been distributed equally. Corruption continues to hamper the sharing of economic prosperity in a region where anti-monopoly

laws are weak. Poverty is still a reality in Bulgaria, Moldova, and the non-EU Balkan states, where development has been uneven and favoured urban areas.



Improvements in Eastern European Business Environment: not translating into better Economic Quality?

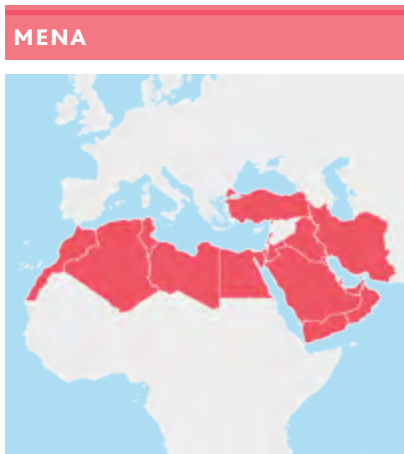
Performance in the Natural Environment sub-index has also improved considerably, despite overall economic growth. This is notable given that other rapidly developing economies in Asia have made far less progress in combating air pollution or promoting conservation over the same time period. This development is largely due to Eastern European states catching up with EU environmental regulations, highlighting the importance of regional co-operation in the protection of the natural environment.

Performance in Governance and Social Capital has not converged with Western Europe

One of the keys to Eastern Europe's prosperity deficit lies in its poor scores in Governance and Social Capital. Corruption—especially, corrupt or compromised judges—holds back good governance in many parts of the region. In Hungary, Governance has been falling as a consequence of the weakening of the independent judiciary by the current government.

An exception to this gloomy picture is Romania, which has made good progress in Governance. The anti-corruption agency set up in the country has jailed more corrupt politicians than in the rest of the region combined. As a result, it is moving towards prosperity faster than its neighbours.

Social Capital is also considerably lower than in Western Europe. Corruption is, again, perhaps one reason for this: there is less trust in law enforcement given the widespread bribery of officials. Civic participation in charitable organisations is hindered by lower disposable incomes. Depressingly, a quarter of a century after the end of the Soviet Union, the communist legacy of an eroded civil society still haunts the region.

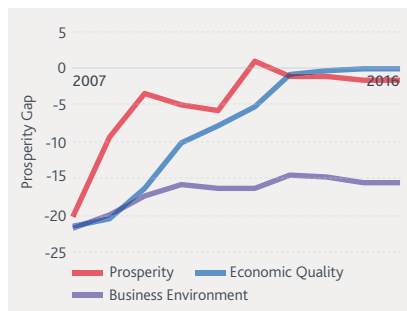


The UAE joins Israel to lead prosperity in the MENA region

The UAE has long looked to the OECD, not its Gulf neighbours, as a target peer group. The Index shows that it has reached this target, making the biggest absolute prosperity gain over the past decade to sit alongside OECD member Israel at the top of MENA's prosperity rankings.

Ranking 41st to Israel's 40th, the UAE's success has largely been driven by reforms to open and diversify the economy. Now, after almost erasing the gaps in Economic Quality and Business Environment, the UAE has a smaller overall prosperity deficit than any of the other Gulf states.

It is not only about the economy, however. Over the past decade, Social Capital in the UAE has risen from 51st to 25th largely as a result of more Emiratis participating in voluntary work in their communities. Small improvement has been made in Governance as measures of government effectiveness and the rule of law rise. The UAE has also improved in Health, rising into the top 30 globally as life expectancy climbs. The country retains an ambitious agenda for national success and has proved that ambition can pay off. Prosperity can rise further yet.



The UAE is closing its Prosperity Gap

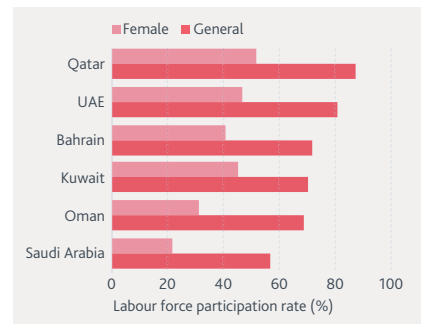
Saudi Arabia: oil-rich, but not prosperous
Saudi Arabia is the worst performing of the Gulf Co-operation Council (GCC) countries. Besides severe restrictions on Personal

Freedom even by Gulf standards, it also faces the region's weakest performance in Economic Quality and Business Environment. Years of dependency on oil exports have created an economy that is—unlike the UAE's—undiversified and uncompetitive. Labour force participation is the lowest of any GCC state.



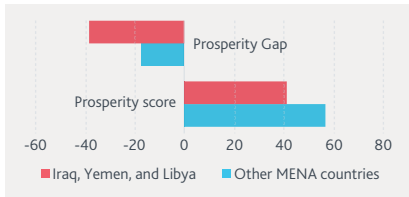
Saudi Arabia's recently launched 'Vision 2030' initiative seeks to improve prosperity in the nation

Saudi Arabia faces problems across the board, not just in its economy. It ranks poorly in terms of Safety & Security as well as Education and Health outcomes. Recognising the issues facing the country, the current leadership of the Kingdom has launched "Vision 2030", a long-term plan for economic diversification and social transformation. The Index shows that such an initiative is desperately needed if prosperity is to rise.



Saudi Arabia's labour market: a lot of untapped potential

War is devastating the region's prosperity
Over the past decade, no other region has experienced such devastating effects of war on its prosperity. As of 2016, the three least prosperous countries in MENA—Iraq, Yemen, and Libya—are all mired in violent civil war. The near-complete breakdown of prosperity in these countries is stark: war has caused the suspension of most economic activity, health and education have been devastated, and civil society has been dismantled. Yemen, 2016's least prosperous country, has seen terrorism-related deaths more than treble since 2007, while Libya has seen its rule of law collapse.



Prosperity completely destroyed by war

Post-Arab Spring syndrome

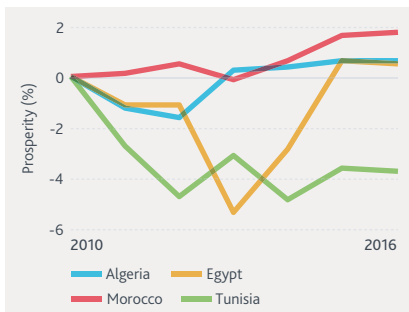
The social movements that swept the Arab world around 2011 have set North African countries on different prosperity trajectories. Five years on, the prosperity legacy of the Arab Spring is both varied and unclear.

Tunisia's trajectory has been downwards. While a new constitution and democratic elections saw great progress in Personal Freedom and Governance, IS insurgency has undermined both the country's security and its heavily tourism-dependent economy. Prosperity has suffered as a consequence.

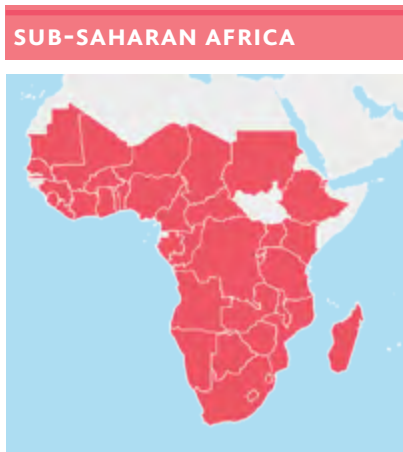


Tourism in Tunisia has suffered as a result of a series of IS related incidents in the country

In contrast, Morocco's trajectory has been upwards. Its semi-authoritarian monarchy saw it through the Arab Spring with less turmoil than its neighbours. This stability has enabled a modest rise in prosperity, predominantly the result of the stability itself improving performance in Safety & Security and enabling ongoing economic progress. Satisfaction with living standards has risen from 57 to 75 percent in the past decade alone.



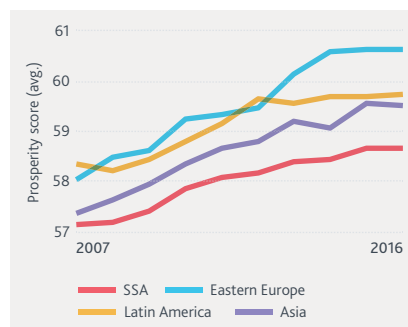
Uncertain legacy of the Arab Spring



Africa's prosperity is growing yet still below world average

... and the gap between best and worst performing countries remains significant

The Prosperity Index records a large variation across Sub-Saharan Africa, from South Africa and Botswana with the best scores, to Sudan and the Central African Republic with the worst. The number of countries delivering prosperity above what their wealth levels would otherwise suggest has increased. Yet in 2016, as in 2007, more than half of these countries sit in the bottom 30 of the Index. The median rank of Sub-Saharan African countries remains low, at 124.5 (it was 125.5 in 2007). Meanwhile, that of developing Asia has improved from 85 to 75.5, and that of Eastern Europe from 62.5 to 55. In other words, despite strong absolute prosperity growth, Africa is lagging behind other developing regions.



Africa's prosperity is rising but still lagging behind other developing regions

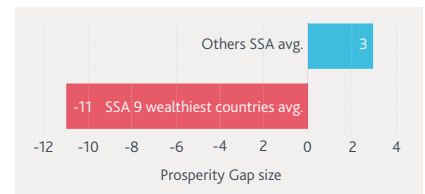
Commodity-dependent economies struggle to convert wealth into prosperity

The majority of Sub-Saharan Africa has seen economic growth, though at a slower rate than in the past decade. However, many of the region's richest economies underperform significantly when prosperity delivery is measured against their wealth. Oil-rich Gabon and Angola, posting some of the largest prosperity deficits globally, are striking examples of such underperformance. Similarly, Nigeria and the Republic of Congo struggle to deliver prosperity in spite of

sizeable commodity endowments and are, in addition, afflicted by unstable political and security environments. Overall, economies across the continent remain in need of more diversification, in terms of quality of exports and revenue sources.

...while business environments improve

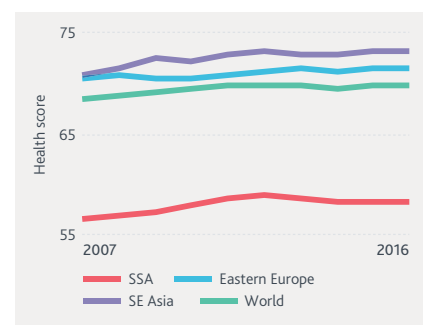
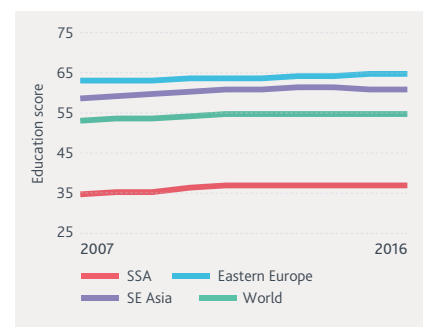
On the other hand, the business climate has become far more competitive, thanks to policies that make it easier to start new businesses and gain access to credit. This is particularly evident in Ghana, Togo, and Rwanda. However, a chronic lack of electricity and political turmoil remain the major obstacles to developing a thriving business environment, not only in these countries but in the whole region.



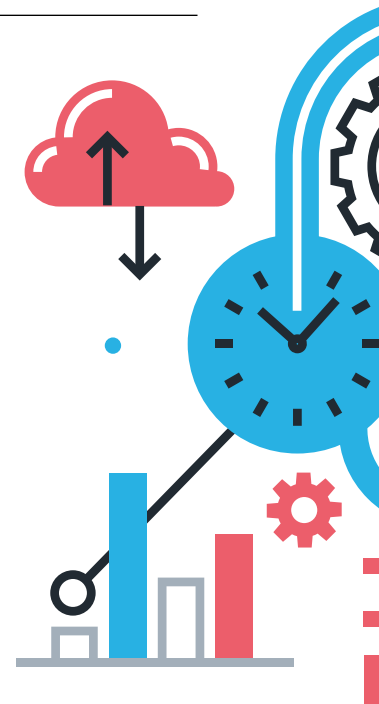
Sub-Saharan Africa's wealthiest countries are under-delivering prosperity

In the race for better health and education outcomes, Africa trails last in the field

Despite some progress in Health and Education, the overall score of both sub-indices remains far below the average of other developing regions, crippling countries' chances of building a prosperous society. Literacy rates and primary completion rates have increased, but it is the quality of education that is not improving. Similarly, life expectancy and immunisation rates have both increased by five to ten percent, but in the vast majority of African countries over half the population has no access to basic sanitation, and in Niger, Togo, and Madagascar less than 12 percent have such access.



Methodology



The *Legatum Prosperity Index*[™] is a framework that assesses countries on the promotion of their citizens' flourishing, reflecting both wealth and wellbeing across nine pillars of prosperity and 104 variables. It captures the richness of a truly prosperous life and with it seeks to re-define the way we measure national success, changing the conversation from what we are getting to who we are becoming. This makes it an authoritative measure of human progress, offering a unique insight into how prosperity is forming and changing across the world.

A nation's prosperity has traditionally been measured by macroeconomic indicators of wealth such as average income per person, GDP per capita. In moving to "GDP and beyond" to cover both wealth and wellbeing, and not just one or the other, the Prosperity Index faces the challenge of finding a meaningful measure of national success. This is something that the Legatum Institute has strived to achieve with academic and analytical rigour over the past decade.

This short methodological overview offers the reader an understanding of how the Prosperity Index has been refreshed for the 2016 release, following a two-year methodological review, to get us closer to a measure of prosperity that is transparent and policy-relevant. It is constructed by combining established theoretical and empirical research on the determinants of wealth and wellbeing, and with the input of academic and policy expert advisors. This version of the Prosperity Index covers more countries and more variables, adds a new pillar on the environment, and reflects new sources of data.

We endeavour to create an Index that is methodologically sound. To that end, we also publish a full methodology document to provide the reader with all the information required to understand the *Legatum Prosperity Index*[™] in a way that is transparent, useful, and informative. For more information on our methodology please refer to the 2016 *Methodology Report* published at www.prosperity.com.

Pillars



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



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



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



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



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



The **Safety & Security** sub-index ranks countries based on national security and personal safety.



The **Personal Freedom** sub-index measures national progress towards basic legal rights, individual freedoms, and social tolerance.



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



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



Step by step

1

Selecting the variables

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

2

Standardisation

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

3

Variable weights

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

4

Pillar scores

In each of the nine sub-indices, variables' distance to frontier scores are multiplied by their weights and then summed to generate countries' sub-index scores, and the countries are then ranked according to their scores in each sub-index.

5

Prosperity Index score

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

Acknowledgements

The Legatum Prosperity Index Team



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Learn more about the Legatum Foundation at www.legatum.org



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



PROSPERITY INDEX

The Legatum Institute is a charitable public policy think tank whose mission is to promote policies that lift people from poverty to prosperity.

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