Foreword

The Prosperity Index tells us that the story of human progress goes beyond economics. It tells us that for nations to flourish they must provide opportunity and freedom to their citizens. It shows how access to quality healthcare and education provide the foundations on which nations can grow. It proves that effective and transparent government empowers citizens to take control of their lives. And it shows that protection from violence and oppression, as well as strong social bonds, are crucial to a thriving society.

The 2015 Prosperity Index highlights the continued rise of many South East Asian economies—with Singapore climbing to first place in the Economy sub-index. Indonesia stands out as the top performer overall, having climbed 21 places in the global rankings in the last seven years. This has been driven by big improvements in the Economy and Entrepreneurship & Opportunity sub-indices.

While many developed economies, particularly those in Europe, remain in the doldrums, there is further evidence that some countries are escaping the worst of the financial crisis. Since 2013, the UK has improved the most economically of any major EU economy. This is partly because full time employment amongst the poorest has risen from being the second lowest of any major developed economy in 2009, to the highest of any major economy in the EU.

Last year the Prosperity Index struck an optimistic tone, explaining that the world was becoming increasingly prosperous. This remains true, but the 2015 Prosperity Index reveals that the world is becoming an increasingly dangerous place.

The rise of Islamic State has changed the nature of global security, particularly in the Middle East. The prelude to this in both Iraq and Syria was the fragmenting of social bonds. Worryingly, other countries in the region are seeing similar fissures emerging. A dramatic decline in the Safety & Security sub-index in Africa and the Middle East has been driven by increased tensions and violence between different social groups as well as an increase in refugees and internally displaced persons.

Falling levels of safety and security also blight the United States’ performance this year. The US has fallen one place in the overall rankings to 11th but one finding stands out: the US ranks outside the top 30 in the Safety & Security sub-index, down two places to 33rd this year. In contrast, Canada has risen to first place in the Personal Freedom sub-index this year, reflecting high scores in measures of tolerance and civil liberties.

I hope you enjoy this edition of the Prosperity Index.

To interact with the data, rankings, and analysis visit www.prosperity.com

Sian Hansen

Executive Director, Legatum Institute
## THE LEGATUM PROSPERITY INDEX™ RANKINGS 2015

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SINGAPORE RISES TO 1ST IN THE ECONOMY SUB-INDEX

This year Singapore ranks 1st in the Economy sub-index, up from 2nd last year, displacing Switzerland. The country has the second highest capital per worker in the world: $240,750 per worker. 47% of the country’s manufactured exports are classified as ‘high-tech’, the third highest in the world.

THE UNITED STATES IS AN INCREASINGLY DANGEROUS PLACE

This year the United States ranks 33rd on the Safety & Security sub-index, down from 31st last year. Safety & Security is the only sub-index in which the US ranks outside the top 30. It is also the only Western country to register high levels of state-sponsored political violence. According to Amnesty International the country has the same level of political violence as Saudi Arabia.

THE UK IS AN INCREASINGLY WORLD-LEADER IN ENTREPRENEURSHIP

This year the UK ranks 6th on the Entrepreneurship & Opportunity sub-index, up from 8th last year. The country now ranks the best in Europe for people starting businesses and 88% of Britons believe that if you work hard you can get ahead in life, up from 84% last year, and 78% in 2010.

TOLERANCE REIGNS

Canada, Norway, New Zealand, Iceland, and Ireland are the five most tolerant countries towards immigrants. The UK comes in at 17th. 92% of Canadians believe that their country is a good place for immigrants; this figure is 90% for Norway, New Zealand, and Iceland; and 89% for Ireland.

Key Findings
**Key Findings**

**SINCE 2009 THE WORLD HAS BECOME A MORE DANGEROUS PLACE**

The Prosperity Index shows that the world has become a more dangerous place since 2009. In the last seven years there have been dramatic declines in the Safety & Security sub-index in Africa and the Middle East, and all other regions except Europe have witnessed some decline. This has been driven by increased tension, violence, and displaced people.

**INDONESIA IMPROVING**

Indonesia has climbed 21 places up the Prosperity Index in the last seven years—the most of any country in the world. The country’s success is the result of a vibrant economy; rising 23 places in the Economy sub-index and 14 places in the Entrepreneurship & Opportunity sub-index. Start-up costs have fallen from 26% to 21.1% of gross national income per capita, the number of secure internet servers has increased by 5.3 (per 1 million people), and the number of people satisfied with their living standards has increased from 63% to 71%.

**CANADA, LAND OF THE FREE**

Canada is now the freest country in the world, having risen five places to 1st in the Personal Freedom sub-index. The country is the most tolerant of immigrants in the world—92% of people think the country is a good place for immigrants. It is also the fifth most tolerant of ethnic minorities—92% of people think that the country is a good place for ethnic minorities. 94% of Canadians believe that they have the freedom to choose the course of their own lives—the fifth highest in the world.

**STRUGGLING VIKINGS**

Three of the five Nordic countries have slipped down the Economy sub-index rankings since 2009 and the one that has improved, Iceland, remains low at 29th. The countries are failing to address unemployment. Unemployment stands at 7.8% in Sweden, 9.4% in Finland, and 6.3% in Denmark. Across all the Nordic countries employment is only 59.3%.

**START-UP COSTS FALLEN**

Start-up costs have fallen from 26% to 21.1% of gross national income per capita.

**Increase in internet servers per 1 million people**

Increase in internet servers per 1 million people: 5.3

**Change in Safety & Security sub-index score (2009-2015)**

Safest: Least Dangerous  More Dangerous

**Just Opened**

Safer

**Safer**

**Dangerous**

**94%**

100% 94% 92% 92%

92% Tolerance of Immigrants

92% Tolerance of Ethnic Minorities

Freedom of Choice

7.8% 7.0% 7.8%

7.7% 6.3% 9.4%

7.0% 7.8% 7.8%
This graphic is based on the 110 countries originally included in the Prosperity Index. It excludes the 32 countries added in 2012 and therefore rankings may differ from the 2015 reported rankings.

In 2012 the number of countries in the Index increased to 142 (from 110 countries in 2009–2011). This should be borne in mind when looking at ranking movement over the seven years. This is particularly relevant for lower ranking countries that appear to have declined significantly in 2012. This may be due to the addition of 'new' countries above them.

YEAR-ON-YEAR PROSPERITY RANKINGS 2009–2015

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Mapping Prosperity in 2015

Norway is the highest ranked country

Central African Republic is the lowest ranked country
Since 2008 the vast majority of advanced economies have seen a spike in unemployment. The table below contrasts the performance of countries embracing three different labour market models: the Club-Med countries, the Nordic countries, and the Anglo-Saxon countries. While the Club-Med countries are clearly the worst performers, the Nordic countries have also struggled to bring down unemployment. The Anglo-Saxon countries saw a similar growth in unemployment to the Nordic countries, but have since seen improvements in their labour markets—some dramatic (see figure opposite).

The Nordic countries feature heavily at the top of the Prosperity Index. Norway tops the Index (for the seventh year running), Denmark is 3rd, Sweden 5th, Finland 9th, and Iceland is 12th. However, there is one area where the performance of these countries over the past seven years has been decidedly unexceptional. While many other advanced economies have made progress on the Economy sub-index since 2009, the Nordics have been going backwards. Three of the five Nordic countries have slipped down the Economy sub-index rankings since 2009 and the one that has improved, Iceland, remains ranked 31st.

Their performance stands in stark contrast to that of the Anglo-Saxon countries, which, as a group, have risen up the Economy sub-index. Particularly striking is the fact that the economic performance of the Nordic countries is closer to that of the Mediterranean states (see graph above).

Data from the Prosperity Index can pinpoint the primary source of the Nordic malaise. The countries are being let down by their poor labour market performance. During the crisis they, along with many other advanced economies, suffered a sharp rise in unemployment. Yet, while other countries have seen unemployment fall—often to pre-crisis levels—it has either not budged or declined only slowly in many Nordic countries.

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The IMF has identified three broad types of labour market model (Blanchard 2014):

- An ‘Anglo-Saxon’ model—this is based on low employment protection and unemployment insurance;
- A ‘Nordic’ model—this is based on a higher degree of employment protection, generous, but conditional unemployment insurance, and strong active labour market policies (schemes that help the unemployed find work);
- A ‘Continental’ model—this is based on higher employment protection, generous unemployment insurance but limited active labour market policies. The ‘Club-Med’ countries are often thought of as representative of the ‘Continental’ model.

The OECD grades the degree of employment protection in each country and finds that the Nordics and Club-Med countries have distinctly higher levels of protection than the Anglo-Saxon countries. The sankey graph on the previous page compares the three largest regions of the world.

Despite the fact that the Nordic states have struggled to bring down unemployment after the financial crisis, some will retort that it remains the case that these countries tend to have very low unemployment rates. However, as the research of Nina Sanandaji (opposite) shows, there is evidence that many Nordic countries are ‘hiding’ unemployment.

The experience of the Nordics since the financial crisis, highlighted by data from the Prosperity Index and beyond, adds to the debate over which labour market policies are best. There was (and remains) a lot of vocal support for the Nordic model. The labour market performance of these countries since the crisis, and even before it, undermines this.

The merits of the Nordic versus the Anglo-Saxon model will continue to be a point of intense contention. Yet, there is growing evidence that the Nordic economies are failing, at least compared to some other advanced countries, to create jobs. This matters for prosperity and Finland’s plight should act as a warning. The Prosperity Index shows that the Nordics are prosperous places, however, prosperity cannot be taken for granted and without robust job growth the Nordics will struggle to remain at the top of the pile.


The best-performers (see figure right).

Anglo-Saxon

Nordics

Club-Med

% of people in Employment in 2014 (Gallup World Poll)

2.55

2.60

1.43

2.35

Nordics

Anglo-Saxon

Club-Med

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At first glance, the unemployment rate in Norway seems unusually low. The oil-rich country is often praised for its ability at keeping unemployment rates down. One key reason however, is that early retirement through disability pension is routinely used to classify long-term unemployed individuals who are healthy enough to work as outside of the labour force. This coincides with an unusually generous benefit system. A study from the OECD in 2010 reached the conclusion: “No other OECD country has such a high level of sickness absence and, at the same time, such a generous sickness benefit scheme.” The study noted that the share of Norwegians of working age receiving disability benefits in 2008 was five times the number of unemployed (OECD 2010).

The Norwegian labour market is characterised by high taxes, unusually generous benefit systems, and rigid labour market rules. As a result immigrants find it challenging integrating into the economy. However, international data shows that the unemployment rate of the foreign-born labour force in Norway is merely 7% amongst men and 8% amongst women, the same low level as the United States (OECD 2013). Yet again, much of the true level of unemployment is hidden in the system. An in-depth study by Bjørnljulf Clauussen, Lisbeth Smeby, and Dag Braeubaug (Claussen 2012) looked at individuals aged between 30 and 55 who were granted disability pensions between 1991 and 2003. They noted that fully 25% of the men and 24% of the women granted disability pensions were born in the Middle East and North Africa.

Brita Kaltenbrunner Bernitz and co-authors (Bernitz 2013) have shown that it is also common practice in the Nordic countries to support young individuals through early retirement. Early retirement amongst the young is higher in regions with higher unemployment rates. Furthermore, Norway, which has the most generous benefit system in the region, has a higher rate of youth early retirement. Early retirement amongst the young is higher in regions with higher unemployment rates.

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Perhaps the most frequently cited quote about Russia’s unpredictability is that of Winston Churchill describing the “action of Russia” as “a riddle wrapped in a mystery inside an enigma”.

Indeed, anyone who has followed the “action of Russia” over the past two years will recognise the resonance of Churchill’s words today. From its ongoing support of Syrian President Bashar al-Assad, to the annexation of Crimea, the action of Russia remains as unpredictable today as in 1939.

President Vladimir Putin’s increasingly muscular approach to foreign policy masks a deterioration of the domestic reality. Economic conditions in modern-day Russia are getting worse: falling oil prices have hit the country’s economy hard (oil constitutes 50% of government revenue and 70% of exports); interest rates shot up at the end of 2014 (although they have since fallen somewhat); Russia’s credit rating has been downgraded to ‘junk’ status; and the IMF has predicted that Russia could lose up to 9% of GDP due to the economic sanctions imposed by the US and EU. The combination of sanctions, falling oil prices, and lack of diversification has contributed to the present malaise.

Up until this year, the Prosperity Index has tracked the country’s decline. Last year we reported that the country had declined the most of all European states when it fell seven places to 68th on the Index. Between 2009 and 2014 the country saw declines in the Economy, Personal Freedom, and Social Capital sub-indices. Putin’s Russia, the Index showed, was becoming increasingly less prosperous.

Since the Annexation of Crimea

- The Crimea Bounce
- PERCENTAGE OF RUSSIANS WHO FEEL...
  - That they approve of the Government increased by 12%
  - Confidence in the military increased by 27%
  - Confidence in elections increased by 13%
  - Confidence in the courts increased by 21%
  - That the Government is preserving the environment increased by 9%
  - Inflation, defaults, and contraction
  - Non-performing loans stands at -15.8%
  - Change in GDP -4.6%

Source: Gallup World Poll
And so it may come as a surprise—an enigma even—that Russia's performance in the 2015 Prosperity Index has seen a marked improvement since last year, rising in the global rankings by ten places. But the overall rankings don't reveal the whole story. Digging into the underlying data reveals more.

The country's strong performance has been driven by big improvements in the areas of Social Capital, Governance, and Personal Freedom. However, these improvements have been caused predominantly by dramatic increases in the subjective data—put simply, despite living in a country in decline, the Russian people are responding to surveys more positively than they did a year ago (see graph previous page).

And so how can we square the difference between Russia's objective reality versus the buoyancy of its people? Peter Pomeranzev offers a compelling answer (opposite page) in what he describes as the battle of the 'television versus the fridge'. Put simply, Putin's Russia operates a very effective modern-day propaganda machine controlling the media (the television) to divert attention away from deteriorating living standards (the fridge).

And this is certainly borne out in the data from the Prosperity Index, in which we see “two Russias” emerging: the first Russia (using objective data) paints a picture of optimism and hope for the future. So which is the real Russia? In many respects they both are. One of the fundamental insights of the Prosperity Index is that the way people feel is often as important as their objective conditions. If a person is afraid to walk the streets at night (something we measure in the Index) it can be as debilitating to their quality of life as living in a high-crime area.

However, the Prosperity Index also shows that a wide gulf between opinion and reality can only be sustained for so long. In the same year that Russia annexed Crimea, Ukraine overthrew a widely despised government. Yet, the sense of euphoria did not last long. With inflation currently running at more than 50% and the economy shrinking, the Prosperity Index shows that only 28% of Ukrainians are satisfied with their standard of living—the eighth lowest in the world. Ukraine is now ranked 70th on the Index, down seven places since last year.

Vladimir Putin is a master of misdirection and manipulation. To use Pomeranzev’s analogy, it would appear at the moment that the television is winning the battle over the fridge. The data show that President Putin is successfully deflecting attention away from the harsh reality of declining living standards. But for how long can this continue?

In Russia they call it the ‘battle between the television and the fridge’—the tension between propaganda-fuelled patriotic euphoria and the darkening economic reality. This year’s Prosperity Index, based largely on data from 2014, right after the annexation of Crimea and Putin’s announcement of a new era of Russian greatness, shows how the battle is playing out.

The television, it appears, is more powerful than the fridge. Or to choose a different metaphor: Putin is a toreador using propaganda as his cape to avoid the bull of reality. So far very successfully—though it begs the question of what new patriotic and military flourishes he will need to dangle to keep the bull at bay.

There is, however, another factor worth bearing in mind: the difference not only between reality and perception, but perception and behaviour. For all the official public support of the Kremlin, capital outflow from the country doubled between 2013 and 2014, from $61bn to $151.5bn. Now that doesn’t sound all too patriotic after all. A problem with perception polling in authoritarian regimes is it can be hard to tell how honest respondents are being. In a society such as Russia’s, propaganda is not always about indoctrination; it can also be a signal sent to the population to follow a certain code, such as Russia’s, propaganda is not always about indoctrination; it can also be a signal sent to the population to follow a certain code, defining what you should and shouldn’t say in public if you want to stay safe—especially when you’re talking to a pollster.
Regional Analysis

The 142 countries in the Prosperity Index are divided into five regions. We have analysed developments in these five regions and chronicled the key trends and findings. Just as each country’s path to prosperity is different, there are also regional differences in how prosperity is developing.

In the Americas, issues of governance and safety and security are sure to dominate electoral agendas this year and next. On current projections, the ASEAN economies could be more economically prosperous than their East Asian rivals by 2025.

A close examination of the Europe data reveals that an “Iron Curtain” of health and wellbeing continues to divide the continent. Some Middle Eastern states saw sharp declines in key social indicators before falling prey to the Islamic State. Worryingly, the same indicators are now falling in other countries in the region.

Finally, it may not come as a surprise to find that West Africa is driving prosperity in the continent. However, it is not Ghana and Nigeria, but many of the small countries that have been most successful over the last couple of years.
2015 and 2016 are decisive years in both South and North American politics. With Argentines, Canadians, Venezuelans, and US citizens scheduled to go to the polls in the last quarter of 2015 and through 2016, issues of political stability, approval rates, and government effectiveness dominate the landscape of many countries whose election results have the potential to affect the whole region.

The Prosperity Index has some startling news for the Americas region: Governance is the lowest-scoring category (of the eight categories within the Index), and has been since 2013 (see graph right). Worryingly, in addition to Governance issues, Safety & Security challenges are evident across the region and are likely to dominate much of the political debate.

The poor performance in Governance is led mainly by Latin American and Caribbean countries. Besides Venezuela and Haiti having some of the lowest Governance levels in world-ranking 138th and 139th, respectively—Bolivia (97th), Argentina (104th), and Paraguay (114th) also highlight an issue which spans the entire region, with only a few exceptions. Venezuela has shown the third biggest decline in Governance in the world since 2009 (behind only Tunisia and Syria), and Argentina has shown the third biggest decline since last year.

The failure of governments to address safety and security issues has been demonstrated by recent unrest in the US and Brazil, both of which have contributed to the region’s poor performance in the Governance sub-index. Safety & Security problems continue to pose a big threat in the Americas; it is the second worst performing sub-index and the region has witnessed a decline since 2009. The US’s performance on this indicator has contributed to this trend.

The Safety & Security sub-index is the US’s lowest rank at 33rd and it has been consistently the lowest for the country since 2009. The US records some of the highest rates of property theft in the world: 17% of US citizens report that they have been a victim of theft—close to the rate recorded in Nicaragua, Panama, and Brazil, which is 18% (see figure left).

More worrying still is the level of state-sponsored violence recorded in the US: a level of 3 (on a 1 to 5 scale), equivalent to countries such as Venezuela, the Dominican Republic, and El Salvador. In fact, the US is one of the only Western countries that scores so poorly in this measure. Perhaps reflecting this, fewer people than ever feel safe. Only 74% of people report feeling safe walking alone at night, as low as in Egypt and Serbia.

Against this backdrop of Safety & Security problems, candidates in the 2016 US Presidential campaign—and indeed political candidates across the region—will have to work hard to convince an already concerned electorate that they will be able to overcome these challenges. Government approval in the US stands at just 35% and confidence in the honesty of elections is at 40% (placing between Cameroon and Albania).

Countries in the Americas region are very different, but issues of Governance and Safety & Security are common throughout. In the upcoming elections the candidates face an uphill battle to convince an electorate that they can be real actors of change capable of creating safer environments. Right across the region, indicators are heading in the wrong direction. Once elected, political leaders have an opportunity to turn this around.
The magnificence of the Chinese economic miracle has long enticed the world. However, recent jitters are beginning to cast doubt on the vitality of the Chinese dragon. The 2015 Prosperity Index casts that shadow beyond China to reach across East Asia, and points instead to the ASEAN nations as the light of economic prosperity in Asia.

In absolute terms, the East Asian economies still dominate the Economy sub-index, however their hegemony is under threat. 2015 sees the smallest ever gap between each bloc’s average score in the Economy sub-index. If current trends continue, by 2025 the average ASEAN nation will be economically more prosperous than the average East Asian one (see figure above). East Asia will no longer be the dominant economic bloc.

Underlying weakness in the Chinese economy, particularly in the labour market, has been apparent in long-term Index data. Whilst rising to 3rd in the Economy sub-index this year (reflecting 2014 data), this is predominantly a result of stable inflation, high domestic savings, broad satisfaction with living standards, and FDI inflows. However, unemployment has been ticking up (China risks falling into the region’s bottom third) and job market expectations are still some of the lowest in the region.

Yet, East Asia’s problems don’t stop at China. Japan has fallen from 7th (the most developed peer) to 11th to 24th. In contrast, the ASEAN bloc is on the rise. Singapore has always ranked highly on the economy (1st this year), but other ASEAN nations have posted large seven-year improvements: Thailand rises from 27th to 13th, overtaking Hong Kong, Korea, and Taiwan, despite the latter two rising up the ranks. Vietnam rises from 41st to 32nd, Cambodia rises eight places to 80th, and Indonesia from 60th to 39th. Within Asia-Pacific, the potential for the ASEAN rise to drive prosperity elsewhere through trade and investment has long been known among some nations. New Zealand, the first developed country in the world to sign a free trade agreement with China (2008), followed just a year later with a joint NZ-Australia FTA with the ASEAN bloc, after a number of Closer Economic Partnership Agreements in the 2000s. Whilst China remains the bigger trading partner, investment flows between New Zealand and ASEAN nations are far more significant than those with China, and rapidly growing (see opposite).

However, prosperity is not simply about economics. Yet neither is the ASEAN challenge to East Asia. The Index shows that its dominance is beginning to be challenged elsewhere too. 2015 sees the smallest gap between East Asia and other sub-regions, not just in the Economy, but in every sub-index except two.

In both Education and Social Capital, the ASEAN challenge is marked (see graph opposite). The educational lights of East Asia—South Korea and Taiwan—are slipping in their competitiveness, falling from 12th to 20th and 8th to 22nd respectively since 2009. At the same time, Vietnam has improved from 81st to 57th, Singapore from 39th to 15th, and Indonesia up nine places to 78th. Within Social Capital, ASEAN society is more generous with time and money than in East Asia. Yet, East Asia’s problems dont stop at China. Japan has fallen from 7th to 25th in the Economy sub-index since 2009 and Hong Kong from 11th to 24th. In contrast, the ASEAN bloc is on the rise. Singapore has always ranked highly on the economy (1st this year), but other ASEAN nations have posted large seven-year improvements: Thailand rises from 27th to 13th, overtaking Hong Kong, Korea, and Taiwan, despite the latter two rising up the ranks. Vietnam rises from 41st to 32nd, Cambodia rises eight places to 80th, and Indonesia from 60th to 39th. Within Asia-Pacific, the potential for the ASEAN rise to drive prosperity elsewhere through trade and investment has long been known among some nations. New Zealand, the first developed country in the world to sign a free trade agreement with China (2008), followed just a year later with a joint NZ-Australia FTA with the ASEAN bloc, after a number of Closer Economic Partnership Agreements in the 2000s. Whilst China remains the bigger trading partner, investment flows between New Zealand and ASEAN nations are far more significant than those with China, and rapidly growing (see opposite).

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Since the fall of the Berlin Wall the post-Communist countries of Eastern Europe have witnessed profound economic and social change. The relative success of their transitions from planned to market economies and from authoritarianism to more democratic rule continues to be debated (Shleifer 2014). However, the Prosperity Index shows that in the areas of health and wellbeing the continent is still starkly divided and that this division has little to do with wealth.

The division in the continent is highlighted by the Health sub-index. Post-Communist countries score an average of 1.01 on this sub-index and have a median rank of 48. In contrast the other European countries have an average score of 2.60 and a median rank of 15 (see graph above).

This division has been the subject of academic study. Research into wellbeing has revealed a post-Communist paradox: people in these countries report lower levels of life satisfaction than would be expected given their relative wealth (Inglehart 2013). In terms of health, a recent paper in the Lancet bemoaned the ‘health divide’ in Europe (Marmot 2012).

Data in the 2015 Prosperity Index sheds new light on these two issues—even controlling for GDP per capita the evidence indicates that the post-Communist countries of Eastern Europe are less healthy and less happy.

Analysing the 43 European countries in the Prosperity Index we find that people living in post-Communist countries live 6.5 years less than their counterparts in other European countries. However, this is just the crude difference, and is partly driven by the greater wealth and development of the majority of the Western European states. Using regression analysis we can control for the effect of wealth. Doing so reveals that people in the post-Communist states still live four and a half years less.

Repeating this analysis for a range of health indicators, while also controlling for the effect of wealth, we find that people in post-Communist countries have more health problems, enjoy less physical health, are less satisfied with the healthcare they receive, and are less likely to be satisfied with their lives. The regression-adjusted estimates show that these differences are not the result of income differentials (see table above).

If not predominantly because of a lack of wealth, why are the post-Communist states failing to catch up with their West European counterparts?

In terms of wellbeing and life satisfaction, some authors have suggested that the end of the Soviet Union saw the collapse of not just an empire, but of a belief system. This coupled with economic dislocation and a decline in national pride meant that many people were extremely miserable—in 1990 people in Russia, Belarus, Ukraine, Bulgaria, and Romania reported some of the lowest levels of subjective wellbeing in the world (Inglehart 2013). The effects of this dislocation may still be felt today.

In terms of health, there are a range of reasons why health outcomes are generally lower in the post-Communist states. Higher levels of alcoholism, poor diet, and other socio-demographic factors are clearly important. Studies also suggest that many post-Communist states have failed to build effective welfare states and health systems (Safaei 2012), and that those post-Communist states that have built more effective healthcare systems have better health outcomes.

The Prosperity Index provides support for this hypothesis. In post-Communist European countries where more effective governmental systems have emerged, health outcomes are better, and people are more satisfied with the healthcare they receive (see right).

After the fall of the Berlin Wall there was hope, and possibly expectation, that the newly independent countries would quickly resemble their Western European peers. The development of competitive markets would lead to greater wealth and in turn greater prosperity. The evidence is that even where markets have produced wealth, comparable to some Western European countries, they have not brought equivalent improvements in personal health and wellbeing. The gulf between Eastern and Western Europe in terms of health is often overlooked by commentators who prefer to focus on economic or political differences. The Prosperity Index shows that the gulf in health is real, wide, and needs to be addressed.

References:


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MIDDLE EAST AND NORTH AFRICA

How vulnerable are societies to Islamic State?

When the official declaration of the established Caliphate came from Abu Bakr al-Baghdadi in June 2014, the world began to ask itself how and why large swathes of Iraq and Syria could fall after two years of intensified insurgency and the gradual territorial advances of IS forces. As the violence spread to a Tunisian holiday resort and the streets of Europe, the question became, where would be next to fall to IS territorial control?

There is no shortage of possibilities. The territorial ambition of al-Baghdadi is well known and the reach of Islamic State is becoming increasingly apparent: attacks in Tunisia and Egypt, disrupted plots in Saudi Arabia and Morocco, and network expansion in Yemen. Insurgency is spreading.

Intelligence can point to active IS cells. Military analysts highlight the capabilities of national defences. Political and cultural experts point out the resolve of governments and the historical divisions that may ignite. All these factors matter.

But so too does the state of society. This is where the 2015 Prosperity Index can offer an unique insight. In Syria and Iraq prior to the Islamic State’s advance, the Index records a distinct and significant pattern of decline. Falling family strength and social support, growing unemployment, economic scepticism, dissatisfaction with the level of freedom in everyday life, and increased levels of worrying all characterise society’s fundamental weakening prior to the territorial advance of IS and the conversion of insurgency to rudimentary statehood.1

This social vulnerability is not just confined to those nations where IS retain some territorial control. Looking across the region, similar trends can be observed in a greater or lesser extent in many countries. Using the Prosperity Index, the changes in these key indicators can be mapped across the region, and—based on prevalence and magnitude—social vulnerability to IS can be estimated.

The region can broadly be categorised in three ways: High Risk (red), countries with trends similar to Iraq and Syria of similar or greater magnitude; Medium Risk (orange), countries with trends similar to Iraq and Syria of similar or greater magnitude; Lower Risk (yellow), countries with broadly opposite trends. The average change in the key variables by risk group (see graphs on the map) show the trends clearly.

Whilst Yemen and Kuwait both rank in the High Risk group, the weakening observed is less than was seen in Iraq prior to 2013. Most worrying are Tunisia and Morocco where the Index records greater social weakening (higher risk) than in Iraq. Given recent attacks in Tunisia, this is probably not surprising, but the trend in Morocco will concern European governments given its geographic proximity and popularity among holiday-makers. Social support has fallen 20 points here since 2009. Employment is down from 45% in 2012 to just 34% today, and unsurprisingly job market optimism is down from 43% in 2013 to just 20% today.

Yet there are positive trends too. Despite the attacks mounted by IS in Egypt and its activity in the country, Egypt shows remarkable resilience and improvement on the key indicators tracked. Whilst family strength has fallen, economic and job expectations have rocketed. Just 10% thought it a good time to find a job in 2012. Today that stands at 32%. IS may be active, but the Index demonstrates that Egyptian society may currently be less vulnerable than others.

Lebanon is also broadly positive, with smaller but sustained growth across the tracked variables. However, it is also a perfect example of the volatility of the situation. Things may have been improving on 2009, but with growing unrest and dissatisfaction with the interim government, the country’s resilience could change almost overnight.

Islamic State faces significant challenges in transforming localised insurgency into territorial control and expansion. The Index can help illustrate where society is at its most vulnerable, and where it is more resilient.

Whilst Lebanon shows us that lower risk countries need to be monitored, the focus for counter-IS campaigns should certainly be on high risk nations like Morocco, but not simply on tackling IS as a symptom. What the Index shows is that attention also needs to be paid to the underlying fundamentals that are weakening society and increasing its vulnerability to extremism. The message to governments is clear: support family, give opportunity, increase freedom, and provide jobs to your citizens, and you make it harder for Islamic State to take root.

1 Data trends from 2009 to 2013 in Iraq and Syria—due to data availability, some variable data range is 2009-2012.
SUB-SAHARAN AFRICA

Minnows swim faster in West Africa

It may come as no surprise that within sub-Saharan Africa the most prosperous region is Southern Africa. What may be surprising, however, is that West Africa is rising fastest, led not by the large economies of Nigeria and Ghana, but by smaller nations such as Senegal and Togo.

The vast majority of sub-Saharan African countries place in the bottom third of the global rankings. But those which perform best are in the south of the continent, which is far ahead of the others in its average prosperity score. South Africa, for instance, is 75th followed by Botswana at 77th.

Yet, West Africa is on the rise and is progressing significantly faster than any other region.

The progress in West Africa from 2014 to 2015 has been driven by significant gains in the Social Capital, Economy, Health, and Entrepreneurship & Opportunity sub-indices. These were also the main areas of growth from 2012 to 2015, following the pattern that we see on the continent as a whole, but at a greater pace.

Senegal has emerged as one West African success story. Despite having an economy two and a half times smaller than Ghana’s (and more than thirty times smaller than Nigeria’s), it has seen the biggest rise in overall prosperity in the region, climbing 18 places in the past four years.

One reason for Senegal’s success is a steady improvement in the Governance sub-index, in which the country has risen 26 places since 2012. Driving this improvement are significant gains in regulatory quality, rule of law, and political rights. Its advance seems to have filtered through to the Senegalese people. In 2014, 67% of Senegalese citizens reported confidence in the national government (a 36% increase since 2012). Moreover, 79% of citizens say they are confident in the honesty of elections (up from 37% in 2012).

Senegal has also seen an improvement in the Health sub-index, rising 21 places since 2012. In that time period, the rate of immunisation against infectious diseases has risen from 70% to 92%, whilst child immunisation rates against measles have risen from 60% to 84%. Life expectancy has risen 4.4 years and infant mortality has fallen. It is perhaps unsurprising then that Senegal was praised by the WHO for a strong and decisive response to Ebola and its containment efforts were considered didactic to other nations: it suffered just one case and no deaths.

Togo, one of Africa’s smallest countries with a population of less than seven million, has been another big driver of prosperity in West Africa. It has achieved the second largest increase in score over four years after Senegal, rising seven ranks in overall prosperity. This has been a consequence, in part, of the country becoming safer, making it stand out in sub-Saharan Africa and globally. It has risen 24 places in the Safety & Security sub-index over four years, led by falling levels of state-sponsored political violence, theft, and group grievances, as well as greater demographic stability. Togo is also becoming a freer country and has risen 15 ranks in the Personal Freedom sub-index since 2012, reflecting democratic gains since the successful legislative elections of 2007, which have followed years of political unrest.

But what can be said of the countries usually seen as the West African regional leaders? Nigeria and Ghana have been left behind and the common thread that ties their failure together is that, unlike Togo, they are rapidly becoming less free.

Indeed, despite success among others in the region, Ghana is actually declining in prosperity, falling 15 ranks since 2012. Its drop has been largely driven by a deterioration in the Personal Freedom sub-index where it has plunged 30 places. And as freedom in Ghana has spiralled downward, social bonds have also weakened as the country has fallen 22 places in the Social Capital sub-index over four years.

Also bucking the trend in West Africa, Nigeria is standing still in terms of prosperity. It did not rise or fall in rank over the past year, but has fallen by two places since 2012. As in Ghana, poor performance is largely driven by the country becoming less free. It has seen a massive decline in the Personal Freedom sub-index since 2012, tumbling 37 places down the rankings. All variables in this sub-index have worsened. Nigerians report to have less freedom to choose what to do with their lives and that the country is becoming a worse place to live for immigrants and ethnic minorities.

Though these two regional giants often dominate discussion of West Africa, with their economic growth rates taking the spotlight, the Prosperity Index goes beyond conventional analysis to show that they are falling in important respects. The question remains—will Nigeria and Ghana be held back in their overall performance by the absence of freedom? While they stand still, smaller countries race ahead.
Methodology

The 2015 Legatum Prosperity Index™ offers a unique insight into how prosperity is forming and changing across the world. The Index is distinctive in that it is the only global measurement of prosperity based on both income and wellbeing.

Traditionally, a nation’s prosperity has been based solely on macroeconomic indicators such as a country’s income, represented either by GDP or by average income per person (GDP per capita).

However, most people would agree that prosperity is more than just the accumulation of material wealth. It is also the joy of everyday life and the prospect of being able to build an even better life in the future.

In recent years, governments, academics, international organisations, and businesses have increasingly moved their attention towards indicators that measure wellbeing as a complement to GDP. Attempting to understand how we complement GDP, the so-called ‘GDP and beyond’ approach provides a stimulating challenge, one we strive to meet with academic and analytical rigour in creating the Legatum Prosperity Index™. Indeed, the Index recognises the need for a country to promote high levels of per capita income, but also advocates improvements in the subjective wellbeing of its citizens.

This short methodological overview provides an understanding of how the 2015 Legatum Prosperity Index™ is constructed by combining established theoretical and empirical research on the determinants of wealth and wellbeing.

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

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

For more information on our methodology please refer to the Methodology and Technical Appendix published on www.prosperity.com.
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We encourage you to share the contents of this document. In so doing, we request that all data, findings, and analysis be attributed to the 2015 Legatum Prosperity Index™.

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