

Mandelson warns Ministers against one club golfer formula for tackling the deficit

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National success depends on individual wellbeing as well as material factors, former Business Secretary says at launch of 2010 Legatum Prosperity Index
Ministers must not become one club golfers focused solely on spending cuts and overlooking the contribution social policies make to growth and jobs as they struggle to put Britain on the path to recovery, Lord Mandelson, the former Business Secretary, will say today (Tuesday October 26) as he launches a new league table of global prosperity.

Speaking at the publication of the 2010 Legatum Prosperity Index, Lord Mandelson, also a former EU trade commissioner, will warn the Coalition against repeating the mistakes of the 1980s with an exclusive concentration on fighting inflation through monetarist policies.

The Legatum Prosperity Index ranks 110 countries for material wealth and wellbeing to produce overall scores that put the Nordic countries at the top, the USA tenth and Britain remaining in thirteenth place. (see below for detailed rankings).

Lord Mandelson will tell a lunchtime audience of business people, politicians and journalists at the RAC Club in London: Just as there is no single silver bullet capable of transforming a developing country's economy, we in the West – the post-industrialised economies – must not make the mistake of focusing so tightly exclusively on one dimension of our prosperity that we ignore the other ingredients of growth.

This is relevant as we recover from the worst financial crisis in living memory – the first crisis of globalisation – and address the need, rightly, to cut the national deficit we incurred in fighting this crisis.

We saw what happened in the 1980s when a similarly tight focus on monetarist policies to keep inflation low saw unemployment soar as our industrial base crumbled. We have been paying the price every since.

The lesson is clear: tough choices have to be made in such circumstances and no one will win any medals for shying away from these decisions. But the rewards of growth and prosperity will elude ministers who become one-club golfers, fixated on one policy alone.

The Legatum Prosperity Index, the world's most comprehensive survey of wealth and happiness, finds that Britain has failed to make headway in the international league table of national success

The UK is stuck at 13th, well outside the top ten, says the survey, which employs a ground-breaking new definition of prosperity bringing together extensive data on economic performance and quality of life.

Low scores in health and education, relative to other countries, hold back the UK, according to the 2010 Legatum Prosperity Index, a survey of economy and wellbeing among 110 countries covering 90 per cent of the world's population.

Although the fundamentals of the UK economy are sound with low inflation and high levels of capital per worker, a dramatic loss of public confidence in financial institutions since the banking crisis and deep gloom over job prospects is undermining the country's performance on this key variable.

Of the 110 countries covered by the survey, Britain ranks a staggering 101st on public confidence in financial institutions, 98th on optimism about job prospects and 93rd on expectations of future

economic performance – the kind of ratings usually found in the world's poorest countries.

Overall, top three performers are the Scandinavian countries of Norway, Denmark and Finland with Sweden also doing well in sixth place.

Although they have relatively high levels of taxation and large welfare states, all four have embarked on economic liberalisation in recent years, freeing up their labour markets and slashing government spending.

After the economic crisis of the early 1990s, Scandinavian countries underwent neoliberal reforms – freer trade, deregulation, and cutting back on welfare state expenditure. In the mid-90s, Denmark liberalised the labour market and now the World Bank considers it the most flexible labour market in Europe. Sweden also lowered many of its trade barriers in the mid-90s, and since then, all Nordic countries have followed relatively free trade policies.

Another key finding – which will alarm supporters of the European Union – is the split that is developing between the north and south of Europe.

Three of the four original so-called PIGS (Portugal, Italy, Spain and Greece) fell back while northern European countries, such as Germany and the Netherlands, as well as the Nordic states maintained or improved their rankings.

There is also divergence to the east with the Baltic States of Latvia, Estonia and Lithuania all falling back.

The survey concludes that small is beautiful – the United States is the only big country to make the top ten.

Much of the masses of data underpinning the 2010 Legatum Prosperity Index predates the global recession of 2008/2009 so the full effects of the financial crisis are yet to be seen.

The initial impact has been a fall in public confidence in financial institutions, reducing the scores of developed countries on the economy element of the Index.

Their ratings are likely to fall further next year as the full effect of the slump works through the system and spending cuts – such as those announced by the British government – depress the overall ratings of the richer countries.

For instance, the UK, which went into recession at the start of 2009, and in the same year only 36.6%* of UK citizens reported having confidence in financial institutions, the ninth lowest rate in the Index, placing the UK 101st.

In the same year only 7.6% of citizens reported being optimistic about opportunities in the job market, the 98th lowest rate in the Index, and the UK came 93rd* in terms of citizens' expectations of future economic performance. The US, France, and Ireland, to name a few, are other countries that are vulnerable to the negative effects of low expectations from citizens.

Dr Ashley Lenihan, Senior Fellow at the Legatum Institute, commented: "Despite the recession, the UK continues to perform well on a number of important economic indicators as well as on indicators measuring entrepreneurship and opportunity and social capital, but beyond the positive headlines, there are signs of weakness in some areas for the UK.

Measurements of healthcare, domestic security, and quality of education are the areas in which the UK ranks lowest, falling outside of the global top 20 on the latter two. The Index clearly shows that the UK's path to future prosperity rests in its ability to be a global leader in fostering a culture of entrepreneurship and in how well it tackles these barriers to continued growth."

Ireland has dropped two places after being hit hard by the recession but still holds onto 11th place thanks to its high scores in areas such as entrepreneurship and opportunity, safety and security and personal freedom. But given the scale of the austerity measures imposed by Dublin, it too is vulnerable to dropping down the rankings next year.

Iceland, another country battered by the banking crisis, dropped three places on its economy rating.

Country Prosperity Index Rank

Norway 1

Denmark 2

Finland 3

Australia 4

New Zealand 5

Sweden 6

Canada 7

Switzerland 8

Netherlands 9

United States 10

Ireland 11

Iceland 12

United Kingdom 13

Austria 14

Germany 15

Belgium 16

Singapore 17

Japan 18

France 19

Hong Kong 20

Slovenia 21

Taiwan 22

Spain 23

Czech Republic 24

Italy 25

Sudan 100

Zambia 101

Cameroon 102

Mozambique 103

Kenya 104

Yemen 105

Nigeria 106

Ethiopia 107

Central African Republic 108

Pakistan 109

Zimbabwe 110

Legatum Institute's Prosperity Index 2010 is a global index that starts with a comprehensive definition of prosperity that includes material wealth and quality of life. Using rigorous research and in-depth analysis the index divides prosperity up into eight equally weighted sub-indexes, issues a score for each category and produces an average which is used for a country's final Prosperity Index ranking.

The sub-categories are economy, entrepreneurship and opportunity, governance, education, health, safety and security, personal freedom and social capital.

The Key Findings are:

I. Prosperity is found in entrepreneurial democracies that have strong social fabrics.

1. Entrepreneurship and opportunity correlate more closely to a nation's overall prosperity than any other factor.

2. It pays to be a democracy.

3. Changes in the social fabric of a country can lead to big changes in national prosperity.

4. Prosperity is about balance.

II. Prosperity is a blend of wealth and happiness, but not as one might think.

5. Material wealth cannot be explained only by economic factors, and happiness cannot be explained only by subjective emotions.

6. Choice and opportunity matter more to happiness than making a lot of money quickly.

III. Global prosperity is changing in unexpected ways.

7. Two Europes are emerging.

8. Improved governance is emerging as a key driver of prosperity in Sub-Saharan Africa.
9. It's hard to be prosperous as a large country.
10. Economic growth is not enough for the BRICs.

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Notes to editors:

Legatum Institute's Prosperity Index 2010 is a global index that starts with a holistic definition of prosperity that includes material wealth and quality of life. Using rigorous research and in-depth analysis the index divides prosperity up into eight equally weighted Sub-Indexes, issues a score for each category and produces an average which is used for a country's final Prosperity Index ranking.

Breaking down the research into sub-categories enables the research team to look at each country in-depth and discover prosperity trends.

The sub-categories are:

1. Economy – Which factors in a nation's economy lead to higher levels of per capita income? Which economic conditions promote confidence and lead to higher levels of wellbeing?
2. Entrepreneurship & Opportunity What are the characteristics of a society that encourage citizens to be entrepreneurial, risk-taking, and seek opportunities that lead to higher levels of income and wellbeing?
3. Governance What are the government institutions and types of government functions that lead to growth in per capita income and higher levels of wellbeing?
4. Education Which aspects of an educational system contribute to growth in per capita income through their contribution to human capital, and which elements in a learning environment lead to higher levels of wellbeing?
5. Health What are the health-related factors in a society that are necessary for higher levels of per capita income and wellbeing?
6. Safety & Security How does the personal safety of citizens and the national security of a nation create conditions for growth in per capita income and higher levels of wellbeing?
7. Personal Freedom In what way does the guaranteed right to speak, assemble, think, and worship also promote higher levels of income and wellbeing?
8. Social Capital. What kinds of social networks, relationships, and institutions lead to higher levels of wellbeing and economic productivity?

Each of the sub-indexes provides us with two important analyses: first, an economic assessment and second, an assessment of a country's subjective wellbeing, or happiness.

Most people would intuitively agree that prosperity is not just about money but also about quality of life. The Prosperity Index is the first global index that provides an empirical basis for this belief. As well as being interested in how a country promotes economic development and growth the

Prosperity Index also seeks to find out how subjective measures, such as how citizens feel about their own lives and their prospects for the future, affect a country's economic growth. It finds that successful countries enjoy a virtuous cycle of economic liberty and growth, political freedom and good governance, and enterprising and happy citizens, which mutually reinforce each other on the path to prosperity.

Rather than replicating other measurements that rank countries by their actual levels of wealth, life satisfaction, or development, the Prosperity Index produces rankings based on the foundations of prosperity. These are the factors that help drive economic growth or produce happy citizens in a given country.

Methodology

The 2010 Prosperity Index used the Gallup World Poll Service © and Gallup World Poll Data to gather an accurate picture of public opinion of prosperity in each of the 110 countries surveyed.

The 2010 Prosperity Index also used the assistance of Oxford Analytica, an independent consultancy that has for 30 years provided authoritative analysis of geopolitical events.

The 2010 Prosperity Index utilised other helpful indexes such as the Wall Street Journal/Heritage Foundation Index of Economic Freedom, the World Economic Forum's Global Competitiveness Index, the Global Peace Index, the World Bank Governance Indicators, the Human Development Index and the Freedom House Freedom in the World Report.

The Prosperity Index identifies 89 variables that are linked to higher levels of income and wellbeing and categorises them into eight sub-indexes, each of which is considered to be a fundamental pillar of prosperity. While each country's path to prosperity is varied, decades of established theoretical and empirical research on economic growth and wellbeing have identified some common themes.

The 2009 Prosperity Index featured nine sub-indexes, two of which (essentially) measured income and wellbeing dimensions of governance. Due to limitation in data availability, the other seven sub-indexes only measured how each sub-index related to either income or wellbeing.

For the 2010 Index, due to increased data availability, Legatum Institute were able to include additional variables that enabled each sub-index to include both income and wellbeing dimensions. However, with the 2010 Prosperity Index, a comparison of the previous year's Index is included. So that there can be an apples to apples comparison, there is a chart using the 2010 methodology to reproduce rankings for 2009.

About the Legatum Institute

The Prosperity Index is the signature annual report of the Legatum Institute and is central to our ongoing inquiry into the nature of prosperity and pathways of successful countries. The Legatum Institute is a London-based global think tank that promotes political, economic, and individual liberty around the globe, with a special focus on developing and transitioning countries.

The 2010 Legatum Prosperity Index is based on statistical analysis of more than 40 years of data for more than 100 countries worldwide, produced and supervised by the Legatum Institute, with input from the research consultancy Oxford Analytica, Gallup World Poll Service © and a panel of respected academic advisors in the fields of economics, history, development, sociology, and political science.

Further information about the Legatum Institute and the 2010 Prosperity Index can be found at: www.li.com and www.prosperity.com