

Answer to Global Recession Is Entrepreneurship & Opportunity

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The Global recession has led to lower public confidence in financial institutions and the economy. Governments should focus more on increasing entrepreneurship, not regulation, to get out of economic slumps.

Since mid-2008, the world has been hit by a major financial crisis, which quickly translated itself into a global recession. According to the IMF, the world economy shrank by 0.6% in 2009. Between 2007 and 2009, public confidence in financial institutions has decreased in 50 out of the 72 Prosperity Index countries, for which there is more than one year of data.

According to Gallup World Poll data, which we have used in the Legatum Prosperity Index, the largest decrease is in Ireland. In 2008, 69% of the population reported confidence in financial institutions. This rate dropped 43 percentage points to 25% in 2009. The United States and United Kingdom fall closely behind, both with decreases of around 25 percentage points from 2007 to 2009. The US confidence level dropped from 74%* to 46% and the UK confidence dropped from 63% to 36%, says Dr. Ashley Lenihan, senior fellow at the Legatum Institute.

Of the 110 countries in the Index, the US has the 86th lowest confidence level, while the UK are down at 101st and Ireland at 107th, added Dr. Lenihan.

The fourth annual edition of the Legatum Prosperity Index, published today, includes measures such as confidence in financial institutions to give a comprehensive insight into what fosters wealth and happiness in the world.

Much of the economic data that exists only captures the initial effects of the global recession, and it will take some time before we can turn to 2009 and 2010 data for further analysis. However, timely data on citizens' perceptions of the financial institutions, and other factors like expectations of job availability and economic conditions, provides insight into how the financial crisis has hampered public morale about the economy.

The US, UK, and Ireland, alongside France, Germany, Italy, boast some of the highest standards of living in the world. And these overall standards will remain high as long as governments don't allow for the lowered morale to turn into systemic and institutionalised fears about the economy. The Prosperity Index finds that if governments are able to respond to decreased public confidence by providing more opportunities for entrepreneurship and growth to its citizens, countries will continue to be prosperous. Not only is entrepreneurship crucial for making countries rich, an entrepreneurial culture and presence of economic opportunities actually makes people happier.

Despite the large decrease in the public's confidence in financial institutions, countries like the United States, Ireland, and the United Kingdom are able to remain at the top because they are in the top 10 countries for Entrepreneurship & Opportunity. To foster prosperity and get out of financial slumps, governments should foster entrepreneurial activity.

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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