

What's going on up North?: Scandinavia Dominates Global Prosperity Index

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Free Markets the key to Nordic nations' strong performances

The four major Nordic countries of Norway, Denmark, Finland and Sweden are among the most prosperous in the world, according to Legatum Institute's comprehensive 2010 Prosperity Index, published today.

Now in its fourth year, the Index, which is a measure of both economic wealth and citizens' happiness, ranks Norway as top in the world, Denmark second, occupying the same position as last year. Finland and Sweden sit at third and sixth place respectively.

Norway ranks first for overall prosperity because of its high performance across each of the eight individual measures of prosperity, ranking in the top five for economy (1st), education (4th), health (4th), safety & security (2nd), personal freedom (2nd) and social capital (1st).

Norway only ranks outside of the top-10 on measures of Governance for which it ranks 12th while the only measure on which Denmark ranks outside the top 10 is Health, for which it ranks 17th. Finland also ranks outside the top-10 on only one measure Personal Freedom, for which it ranks 12th.

However, the Legatum Prosperity Index finds that the reasons for the Scandinavians' success are more complex than the usual argument focusing on the region's large welfare states. Recent research has shown that far from being highly regulated and dominated by the public sector, the Nordic economies were among the most aggressive reformers in the 1980s and 1990s.

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.

At the same time, the Nordic states have high tax rates, and large welfare states. The Index finds that Denmark, Finland, and Sweden have the highest rates of social trust in the world, evident in the strong social bond between citizens and which allows the fair provision of high unemployment benefits partnered with a liberal, flexible labour market with a low level of job protection.

Although the Nordic economies feature large public sectors, the four countries scored highly in the Entrepreneurship and Opportunity sub-index because an overwhelming majority of citizens in each country have confidence that they can climb life's ladder regardless of socio-economic status.

High taxation does not stifle growth in these because citizens believe that individuals can set up their own businesses and succeed in the market. The Nordic countries top the Index on public perceptions that working hard will get them ahead financially, irrespective of their social background.

The Legatum Prosperity Index is the world's only global assessment of wealth and wellbeing. It uses a holistic definition of prosperity, which includes factors ranging from economic growth to health and education, to personal freedom and governance, said Dr. Ashley Lenihan, Senior Fellow at the Legatum Institute.

Dr. Lenihan continued, The 2010 Prosperity Index, shows that a high level of public spiritedness allows states such as Norway, Denmark and Sweden, to foster high levels of economic and social wellbeing.

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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