



FINANCIAL TIMES All times are London time

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Responding to Gideon Rachman

In Gideon's [blog post](#) on last week's release of the [Legatum Prosperity Index](#), he noted that India (45th) outranks China (75th) and then made the following critique:

"You clearly would not get this result if you simply ranked countries by GDP-per-capita; but once you put measures like democratic governance into the mix - hey presto.

It's an interesting exercise, but also slightly circular. First set up a set of criteria that explicitly include liberal political values. Then come up with your "prosperity rankings" which reveal that democracies do better than authoritarian regimes."

As one of the authors of the Prosperity Index, I wanted to offer a clarification and (if I may) a correction on how it is constructed. First, since we believe that GDP is a necessary but not sufficient way of measuring a nation's progress, looking for ways to rank countries beyond just GDP is precisely the point, since there is a growing consensus (e.g. the Sarkozy Commission) that GDP-alone is insufficient. Second, if the Prosperity Index were constructed just on the basis of cherry-picking our favourite policies/values, then we would be guilty as charged on "circularity." But that's not how the Index is constructed. Rather, we built the Prosperity Index by first taking two specific outcomes, GDP growth and Subjective Well-Being (SWB) averages from the Gallup World Poll, and then statistically tested over 200 different variables to see which ones had a robust correlation with either GDP or SWB. Of all of the variables we tested, 79 ended up having a strong correlation, and it was with those 79 variables that we constructed the Index rankings (after categorizing the 79 variables into each of 9 sub-indexes). The only subjectivity involved is the assumption we make up front – and are quite transparent about – that growth in GDP and high levels of subjective well-being among citizens are intrinsically good things. But I doubt there is a single country on earth (except perhaps North Korea?!) where the citizens don't desire a growing economy and happiness. So in building our Index around those outcomes, I think it is on pretty solid ground.

From there, it is a statistical fact that "liberal political values" in the aggregate end up having the highest correlations with economic growth and happy citizens. If that privileges a particular model of political economy, then so be it – and maybe it tells us something about why Russians and Chinese are generally less happy than citizens of more free nations.

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