A competitive economy as the path to future prosperity: Comparative analysis of selected European countries

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Abstract. The developed economies, beside to global economic indicators, path the complete nation’s quality of life, through competitiveness or prosperity indices. There are many evaluations which are concentrated on estimation of overall competitiveness, but there are noticeable disparities in the methodology and research results between them. Therefore, the aim of this article is to investigate the interdependence among variables of prosperity that constitute a competitive economy and present findings of comparative analysis in selected European countries with special focus on prosperity index. More clearly, aim is to compare variations of selected indices to indicate the most significant indicators which influence the final results. The most important intercorrelations between variables and indices of prosperity are presented. Comparative analysis of selected countries was employed by statistical software package SPSS 23. Recognition the differences between economic indicators and identification of weaknesses is the foundation for the successive acceptance of relevant actions to prosper the critical fields. Improvement of these areas could enhance future prosperity of the economy.

Keywords: competitive economy, future prosperity, European countries.

JEL Classification: C8, E0, O10, O57.
1. Introduction

Economic theory which reverses, explains and determines economic phenomena (i.e. economic competitiveness or prosperity) is apprehending activities of expanding labor distribution at the small and medium sized enterprises or multinational companies (national and international) are also combined with international transfer activities. Those activities, in the widest impression, are connected to dispute of economic performers at national and international markets establishing on business sophistication and partnership appearing from labor distribution. Porter (2004), Brakman (2006), Cihelkova et al. (2009), Lipkova et al. (2013) quarrel that economies, integration associations or enterprises, if they wish to compete at the international level, they should develop innovative products or services that shall stand in global comparison. These economies, enterprises and integration associations that are capable to challenge and create boosting economic activities, which are the foundation for future economic growth and development, are recognized as the competitive economies.

Thus, the phrase “competitiveness” represent the competence to prosper in competition or position in it. The word “competitiveness” consists of two concepts: competition and the competence which in this background presents – to be capable to compete at national or international level. Benes, Zalewski and Skawińska (2006) dispute that competitive, innovative products develop economic activities that influence the sectoral competitiveness or a regional competitiveness in which they functionate. These enterprises affect the competitiveness of national economy or integration associations as actors of global economics. Competitiveness of a national economy has evolve into the relevant section in global alliances as connected with international labor accumulation, which received a new magnitude in the processes of globalization.

It is expected, over time, that prosperity of the economy is the cause of better life of the population. Nevertheless research operated in the developed economies accomplished the process of economic growth and development represents a different image because of the consideration that increased well-being of the population followed the rising economic development (Huppert and Whittington 2003). Presently, the emerging idea of prosperity is “the one in which it is viable for human population to embellish, to carry out wider social cohesion, to achieve higher grade of well-being and still to decrease their tangible influence on the environment” because the dimensions of prosperity and the factors impacts the subjective well-being have been constructed coinciding to one another (Jackson, 2009, pp. 35-6).

The major aim of this article is to investigate the correlations among variables of prosperity that constitute a competitive economy and present findings of comparative analysis in selected European countries with special focus on prosperity index. This paper is classified into 4 parts. The first part deals with theoretical background of empirical literature related to new dimensions and variables of prosperity. The second part illustrates methodological access affiliated to the indicators of prosperity. The third part of the article is handling with collected data and applied research methodology. The fourth part demonstrates comparative analysis and research employed by statistical software package SPSS 23.
2. Theoretical background of empirical literature: Competitiveness and prosperity

Many economists debate that competitiveness and prosperity do not represent the growth in economic resources (Bentham, 2008; Alessina and Giavazzi, 2006; Fleurbaey and Blanchet, 2013; Alkire, Foster, Seth, Santos, Roche, and Ballón, 2015). They indicate the economic performances that consist highest grades are those which escalate the quality of life for higher number of people. Numerous economists explored different factors as an impression of economic prosperity. The issue of estimating prosperity has been officially raised by Stiglitz, Sen and Fitoussi (2009) that proposed several dimensions of population's wellbeing: a) Material living standards included income, consumption and wealth, b) Health, Education, Personal activities and work, c) Political voice and governance, d) Social connections and relationships, e) Environment includes both present and future conditions, f) Insecurity includes both economic and physical.

In an attempt to develop consciousness regarding new dimensions of prosperity, Costanza et al. (2009) examined the historical outlook that why GDP emerged as the mostly assigned indicator of prosperity in population well-being. To remove the economic imbalance and vulnerability after the financial crisis, GDP prevailed the best measure for the confirmation of various policies in developed economies. Also, GDP was accepted by IMF and World Bank as a major measure of economic wellbeing.

The most opposing dispute is that gross domestic product evaluates only ‘the capacity of economic activities on market’ either happened because of devastation or creation of demolition features immateriality of any alternation in population's wellbeing. According to Radermacher (2010) there are two hazard determinants: (1) creating the surrogate gauges in the vacancy of data restricts the possible categorization of indicators and their fairness; and (2) selecting the aggregate indicators out of different needs consensus that eventually assembles regard particular indicator (i.e. GDP). The most important deception of GDP indicator may have incorporate:

- It observes only monetary appraisal of goods and service' transactions of a particular economy.
- It involves ‘marketed performances’ regardless of the life curve of wellbeing connected over human, natural or social coagulate that provides the prosperity in countries.
- An exertion to accomplish highest GDP levels, as quickly as possible, fosters the reduction of natural resources.
- It does not identify the accelerating gap among wealth and poor parts of the population in a community.
- Gross Net Product is considered as not sufficient gauge of national income (Daly and Cobb, 1994, p. 69).
The conceivable resolutions encompass:

- Revised GDP gauge: Index of Sustainable Economic Welfare or Genuine Progress Indicator (Daly and Cobb, 1994); Green GDP (Rauch and Chi, 2010) and Genuine Savings (Everett and Wilks, 1999).
- Indices without measure of GDP: Ecological footprint (Wackernagel and Rees, 1996); subjective wellbeing (Diener and Suh, 1999) and Gross National Happiness (Frey and Stutzer, 2002; Huppert and Whittington, 2003).
- Non-indexed set of gauges: National Income Satellite Account; Quality of Life Indicators or Millennium Development Indicators (Costanza et al., 2009).

The advantage's reveal is the leading idea of Legatum Prosperity mechanism. The Prosperity indices are the solution to a growing concern in population's wellbeing and gauges of prosperity that accompany economic diversifications. But there has been limited comprehension about the influence of new indicators to evaluate prosperity in a different countries. So, the Prosperity Index pursues to inaugurate an access that integrates these new measures of biased wellbeing with economic indicators to explore which economies are achieving the best results to accelerate national prosperity.

The Prosperity Index (PI) is not created to recognize the happiest or the richest country. Alternatively, the PI categorizes countries by how good they are performing the necessary actions to increase GDP (i.e., improving country’s competitiveness) and to endorse quality or life (i.e., improving comparative liveability). The PI is an indicator of the prosperity operators preferably than an indicator of prosperity results. That does not signify, however, that the Prosperity Index is generally weakly related to real prosperity results. Actually, it corresponds very significantly with prosperity results. A country’s competitiveness and comparative liveability values on the Prosperity Index illustrate significant percentage of the difference in average GDP per capita income and average individual wellbeing, proportionately.

The two pillars of the overall prosperity index, Competitiveness of an economy and Comparative Liveability are evaluated individually and estimated equally for the global Index classification. This permits the explorers to compare the measurement of a selected country from the conventional perspective concentrating on economic growth. Likewise the human development viewpoint is focused more generally at quality of life.

The pillars of prosperity designed by Legatum Institute Foundation incorporate:

- **Social Dimensions**: health; safety and security; social capital; education; and environment.
- **Economic Dimensions**: economic quality; and business environment.
- **Institutional Dimensions**: personal freedom; infrastructure; and governance.

The well-being's macroeconomic pillars could be converted into practical model by presuming that enhancements in individual pillar give raise to the level of well-being simultaneously:

\[
\text{Well-being} = f(\text{Social dimensions, Economic dimensions, Institutional dimensions})
\]

Additional separation of the specific contents of every macroeconomic pillar into microeconomic indicator to monitor their particular correlation, can be as:

- **Social Dimensions** = \( f(\text{health, safety and security, social capital, education, environment}) \).
- **Economic Dimensions** = \( f(\text{economic quality, business environment}) \).
- **Institutional Dimensions** = \( f(\text{personal freedom, governance, infrastructure}) \).

Prosperity excelling could be mirrored over wellbeing and its specific elements, containing economic, social and institutional dimensions. Many developed economies have proposed exertions to change ‘GDP’ as an indicator for measuring quality of life with more contemplative and persuasive indicators either ‘measuring wellbeing index’ like Prosperity index, overall competitiveness index, or a set of socio-economic indicators. Therefore, redesignating the measure of prosperity is a major responsibility of developed economy’s policy selection but still an unnoticeable component in policy draft of the developing economies. However assuring the authentic awareness of prosperity is fairly challenging in selected European countries where specific economic indicators are purposely employed for gaining political advantages. Thus, this is the adequate time to create or estimate the indicators of competitiveness and prosperity, remarkably that an origin state of economic affairs can be announced and resource distribution may be amended properly.

Any method that is conducted to evaluate the level of prosperity may not really substitute the relative classification of selected economy based on GDP principle, yet new indicator may absolutely be deliberated as an confident component of prosperity moderately the transformation to examine levels of country's development. As a consequence it may assure to redistribute the resources with greater productivity by disengaging from indicated fields previously accomplished the detracting level of economic growth and development to abovementioned far afterwards comparatively, the prime beneficiaries will mainly be developing economies although developed world needs such tool to ensure effectual social and economic growth record maintenance. Literally the most valuable assignment of mentioned estimation instruments could be to accomplish equilibrium between every human component to generate coordination and allocation of resources among generation during time. Accordingly the responsibility to decrease difficulties in present generation and dispatching prosperous economy for future generations must be realized productively.
3. Research methodology

The dimensions that constitute the Prosperity Index were reorganized and evaluated based on SPSS 23 analysis, using secondary data on economic growth in selected European countries, and life satisfaction survey data. The Prosperity Index integrates key indicators and subindicators in order to classify more than 100 countries, based on the level to which the activities of their population and governments drive or obstruct the development of national prosperity.

The PI applies a compelling grading formula (i.e. the relevance of capital, trade openness or entrepreneurship activities will alternate as economies scope higher levels of national prosperity. Vn is the vector of variables need to design an index \( P_{it} \) representing the \( i^{th} \) dimension of Prosperity at a given time:

\[
P_{it} = \left[ \frac{\sum_{n=1}^{k} \alpha V_n}{k} \right]_{it}
\]

where:

- \( X \) – value of a given variable;
- \( k \) – total number of variables included in the index (\( n = 1, 2, \ldots, k \));
- \( \alpha \) – weight assigned to each variable in the index.

In Prosperity Index, the variables are built into the index are the z scores (OECD, 2008), that convert initial variables into the scores with the mean of 0 and a standard deviation of one using the following formula:

\[
I_{xc} = \frac{X_{c} - \bar{X}}{\sigma(x)},
\]

where:

- \( I_{xc} \) – is the c element of the variable;
- \( X_{c} \) – is the actual level of the initial variable;
- \( \bar{X} \) – is average of initial variable;
- \( \sigma(x) \) – standard deviation, a measure of variability of the x variable.

The Index then makes an initial assessment of the importance of the different factors relative to each other. In other words, the Index attempts to show where policymakers and citizens can make the biggest difference in enhancing national prosperity. Composition of a definite indicator of prosperity is beyond the grasp of this article. However, on PI basis, the available secondary data from the world development indicators were employed. Standardized measures have been used to design different indices correlated to various dimensions of prosperity. Primarily employed dimensions consist of social, economic and institutional variables with the goal to understand every probable measure and to diminish the complete number of mutual variables.
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However, theoretical background used to gather relevant data related to the selected variables by the World Bank requires that we could categorize the data in dissimilar groups and then employ every correlated variables to establish an index of selected group. The exertion has been done to adjust the variables in every index conforming to the allocation of variables named in the world development measures categorization despite there is extending in the categorized data but not affected in this case because of intentional variables’ drafting.

The indices in distinctive sub-dimensions were designed to involve every probable context of nation's wellbeing by incorporating important answerable variables to the opportunity of acceptable data set. The main disadvantage is the sample's intolerance regarding economic outlook because of previously involved standardization of variables and data selection operations. The potential sub-dimensions in shape of indices permit us to create a model disposing the factors accelerating prosperity in European countries. The economic prosperity may be echoed by distinctive dimensions which commonly utilize different levels of estimation. Because the numerous variables have been utilized in Legatum Prosperity Institute, building more persuasive model for economic prosperity needs a much smaller set of influential representative variables. Every probable representative variables have been employed to compose an adequate index believing that each one is valid representative of its individual components.

The 104 variables are classified into nine sub-indices, which are averaged using equal weights. The nine sub-indices are:
1) Economic Quality.
2) Business Environment.
3) Governance.
4) Education.
5) Health.
6) Safety and Security.
7) Personal Freedom.
8) Social Capital.
9) Natural Environment.

4. Comparative analysis of selected European countries: Findings from prosperity indices

Table 1 presents the economic prosperity rankings in selected European countries. The analysis was employed in 16 countries (Croatia – CRO, Czech Republic – CZE, Estonia – EST, Hungary – HUN, Latvia – LVA, Lithuania – LTU, Poland – POL, Romania – ROU, Russia – RUS, Serbia – SRB, Slovakia – SVK, Slovenia – SLO, Ukraine – UKR, Macedonia – MKD, Moldova – MLD, Montenegro – MNE), and the data for every economy are covering the period 2007-2017.

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<tbody>
<tr>
<td>CRO</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>48</td>
<td>47</td>
<td>48</td>
<td>47</td>
<td>52</td>
<td>44</td>
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<tr>
<td>CZE</td>
<td>38</td>
<td>37</td>
<td>36</td>
<td>37</td>
<td>40</td>
<td>38</td>
<td>39</td>
<td>34</td>
<td>32</td>
<td>34</td>
<td>31</td>
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</table>
Estonia has achieved the leading position in prosperity and secured a tremendous place during the observed period, in comparison with the analysed countries. Selected European countries that have also increased their prosperity: Czech Republic accomplished a higher rank from 3rd in 2007 to 2nd in 2017; and Poland scored a greater rank from 7th in 2007 to 4th in 2017. Croatia, Latvia and Lithuania have upgraded and established their rank. Slovenia has achieved very high position in 2007-2013 period, and over the 2014-2017 period it’s position varies. On the contrary, Hungary has displayed a diminishing place over the eleven years observed. Romania disaggregated its prosperity position from 10th in 2007 to 12th in 2017. Moldova established its rank to 14th position over the observed period, while Montenegro upgraded its position from 11th in 2007 to 10th in 2017. Also, Serbia achieved higher rank, 13th position in 2007 to 11th in 2017. The worst situation is determined in Russia and Ukraine. The improvement of prosperity in the selected European countries was calculated on data from 2017-2018 period.

Table 2. Rankings of selected European countries according to prosperity subindicators and GDP per capita in 2017-2018

<table>
<thead>
<tr>
<th>Economy</th>
<th>PI</th>
<th>Econ</th>
<th>Busi</th>
<th>Gove</th>
<th>Educ</th>
<th>Heal</th>
<th>Safe</th>
<th>Pers</th>
<th>Soci</th>
<th>Envi</th>
<th>GDP pc</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRO</td>
<td>43</td>
<td>36</td>
<td>101</td>
<td>54</td>
<td>34</td>
<td>55</td>
<td>28</td>
<td>42</td>
<td>122</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>CZE</td>
<td>26</td>
<td>26</td>
<td>25</td>
<td>31</td>
<td>23</td>
<td>26</td>
<td>20</td>
<td>27</td>
<td>73</td>
<td>39</td>
<td>2</td>
</tr>
<tr>
<td>EST</td>
<td>27</td>
<td>28</td>
<td>28</td>
<td>21</td>
<td>27</td>
<td>57</td>
<td>38</td>
<td>32</td>
<td>80</td>
<td>7</td>
<td>3</td>
</tr>
</tbody>
</table>

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Table 3 represents the selected European countries' classification according to prosperity index, subindices and GDP per capita in the 2017-2018 period. The prosperity subindices in selected countries are priceless indicators for every individual economy, i.e. the quality of an economy, the quality of business environment, the efficiency of government, quality of education or health, safety and security, level of personal freedom, features of social capital and natural environment. The interdependence between variables of prosperity and GDP per capita in selected European countries are priceless indicators for every individual economy, i.e. the quality index, subindices and GDP per capita in the 2017-2018 period. The prosperity subindices calculations.

<table>
<thead>
<tr>
<th>Economy</th>
<th>PI</th>
<th>Econ</th>
<th>Busi</th>
<th>Gove</th>
<th>Educ</th>
<th>Heal</th>
<th>Safe</th>
<th>Pers</th>
<th>Soci</th>
<th>Envi</th>
<th>GDP_pc</th>
</tr>
</thead>
<tbody>
<tr>
<td>HUN</td>
<td>45 (9)</td>
<td>57 (10)</td>
<td>58 (9)</td>
<td>56 (10)</td>
<td>45 (12)</td>
<td>47 (4)</td>
<td>34 (7)</td>
<td>58 (11)</td>
<td>91 (8)</td>
<td>94 (12)</td>
<td>7</td>
</tr>
<tr>
<td>LVA</td>
<td>37 (6)</td>
<td>36 (5)</td>
<td>38 (3)</td>
<td>40 (6)</td>
<td>32 (10)</td>
<td>78 (6)</td>
<td>41 (11)</td>
<td>56 (10)</td>
<td>106 (10)</td>
<td>5 (2)</td>
<td>6</td>
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<tr>
<td>LTU</td>
<td>41 (7)</td>
<td>50 (7)</td>
<td>52 (8)</td>
<td>38 (5)</td>
<td>42 (10)</td>
<td>67 (8)</td>
<td>43 (13)</td>
<td>45 (6)</td>
<td>155 (16)</td>
<td>33 (5)</td>
<td>5</td>
</tr>
<tr>
<td>POL</td>
<td>32 (4)</td>
<td>34 (4)</td>
<td>44 (4)</td>
<td>37 (4)</td>
<td>33 (7)</td>
<td>48 (5)</td>
<td>18 (1)</td>
<td>50 (7)</td>
<td>74 (5)</td>
<td>47 (6)</td>
<td>8</td>
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<tr>
<td>ROU</td>
<td>46 (10)</td>
<td>60 (9)</td>
<td>48 (8)</td>
<td>66 (12)</td>
<td>52 (15)</td>
<td>91 (12)</td>
<td>42 (1)</td>
<td>51 (8)</td>
<td>81 (6)</td>
<td>55 (9)</td>
<td>10</td>
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<tr>
<td>RUS</td>
<td>101 (15)</td>
<td>70 (11)</td>
<td>83 (14)</td>
<td>115 (15)</td>
<td>26 (3)</td>
<td>102 (14)</td>
<td>109 (15)</td>
<td>143 (16)</td>
<td>130 (10)</td>
<td>56 (10)</td>
<td>11</td>
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<tr>
<td>SRB</td>
<td>58 (12)</td>
<td>88 (14)</td>
<td>79 (12)</td>
<td>67 (11)</td>
<td>40 (9)</td>
<td>84 (11)</td>
<td>31 (6)</td>
<td>52 (9)</td>
<td>109 (11)</td>
<td>107 (13)</td>
<td>13</td>
</tr>
<tr>
<td>SVK</td>
<td>35 (5)</td>
<td>49 (6)</td>
<td>51 (7)</td>
<td>42 (7)</td>
<td>29 (5)</td>
<td>45 (3)</td>
<td>26 (4)</td>
<td>44 (5)</td>
<td>65 (3)</td>
<td>36 (9)</td>
<td>4</td>
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<tr>
<td>SLO</td>
<td>21 (1)</td>
<td>29 (3)</td>
<td>56 (9)</td>
<td>36 (3)</td>
<td>22 (1)</td>
<td>31 (2)</td>
<td>19 (2)</td>
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<td>24 (1)</td>
<td>2 (1)</td>
<td>1</td>
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<tr>
<td>UKR</td>
<td>112 (16)</td>
<td>84 (13)</td>
<td>102 (16)</td>
<td>130 (16)</td>
<td>48 (13)</td>
<td>135 (16)</td>
<td>135 (16)</td>
<td>95 (15)</td>
<td>112 (14)</td>
<td>108 (11)</td>
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<tr>
<td>MKD</td>
<td>56 (11)</td>
<td>92 (16)</td>
<td>47 (5)</td>
<td>75 (13)</td>
<td>44 (11)</td>
<td>75 (9)</td>
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<tr>
<td>MLD</td>
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<td>82 (13)</td>
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<td>105 (15)</td>
<td>66 (14)</td>
<td>88 (14)</td>
<td>126 (14)</td>
<td>140 (16)</td>
<td>16</td>
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<tr>
<td>MNE</td>
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<td>87 (12)</td>
<td>67 (11)</td>
<td>65 (10)</td>
<td>59 (16)</td>
<td>93 (13)</td>
<td>39 (10)</td>
<td>64 (12)</td>
<td>88 (7)</td>
<td>132 (15)</td>
<td>12</td>
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Particular recommendations may be underlined from the operated research in the selected European countries:

- The very forceful positive interdependence between the Prosperity Index and subindicators of Governance, Personal Freedom, and Economic quality, as presented by correlation coefficients of 0.950, 0.903 and 0.888 respectively, reveals that prosperous economy relies on quality of government performances, a higher level of personal freedoms and enhanced conditions for entrepreneurship in selected countries.
- It is revealed very significant positive intercorrelation between GDP per capita and economic quality (0.926).
- Very strong positive intercorrelation is diagnosed among GDP per capita and prosperity (0.915).
- The powerful interdependence is determined among GDP per capita and following variables of prosperity: Governance (0.894), Personal Freedom (0.838), Health and Natural Environment (0.829), respectively.
- There is a powerful positive linkage among Prosperity and Health subindex (0.882); which indicates that only healthy population may be prosperous.
- The positive relation between Prosperity and Natural Environment (0.815) demonstrates that quality of economic performances strongly lean on the natural environment and appropriate resources allocation.
- The intercorrelations determined between Prosperity and subindices: Business Environment (0.724), Safety & Security (0.759), accordingly, illustrate that achieving a higher rank of prosperity may be built on the improved conditions for business surroundings and preferred circumstances for national safety and security.
- The positive correlations between the Prosperity Index and subindices of Education (0.671) and Social capital reveal that (0.697) government and policy creators should focus to create improved conditions for nation's Education and better Social prestige.

5. Conclusions

The employed comparative analysis accordingly proposes that in order to create a competitive economy, focus must be concentrated to identification of weaknesses and applicable actions that accelerate prosperity in the selected European countries. It is required that government of the observed countries should be directed to assure the stable atmosphere in order to support the interdependence among economic, social and institutional dimensions of prosperity.

The Prosperity Index is a new, innovative indicator that necessitate a deeply perceiving to have comprehensive purchase by the theory with investigating its application through accumulating practical evidences.
The essential findings may involve:

- Prosperity Index may be affected an authentic prosperity indicator because it envelops wider dimensions of life quality than GDP per capita.
- The three central dimensions proposed by Prosperity Index are valuable for wellbeing. Still their relevance could variate, as in case of selected European countries: social dimensions promote higher elevation than economic dimensions that exceed the institutional dimensions.
- Social dimension indicates education, employment, labor force, and the ample environmental endures as fields of dominant interest where government and policy makers should concentrate to create better social prestige.

It is concluded that prosperity indices should be deliberated as an accurate origin of wellbeing estimation because it proposes dimensions that are significant for national prosperity. In a summarization, the proof has been entrenched to justify the effectiveness of Prosperity Index as the powerful instrument for the evaluation of prosperity, primarily in the selected European countries. The identical form of comparative analysis could be implemented for various economies to accumulate more supportive cases so that the effects created by the designers of PI will be identified. If positive cases get accumulated, the benefit in terms of worldwide support should be initiated. Also, in contradictory case if Property Index indicates as unsuitable for particular economies, still reveals the favorable circumstances for authentic future paths of prosperity evaluation.

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