Title: Identifying critical pathways to prosperity: Evidence from the Legatum Prosperity Index

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Abstract

This paper explores causal relationships between sub-indices of the Legatum Prosperity Index across 142 countries and identifies the most critical driver for policy reforms. In doing so, this paper uses a novel four-stage methodology including cluster analysis, classification analysis, partial least square path modeling, and importance-performance map analysis. To construct a roadmap for reform priorities, policymakers should follow the top-down approach which involves hierarchical decisions on the most critical driver at the sub-index level and subsequently at the variable level. The results show that the pupil to teacher ratio of the education sub-index is the most critical driver of national prosperity. Given limited resources of the country, it is suggested that well-designed public policies should be targeted to the most critical driver of national prosperity.