The Council on Czech Competitiveness

The Prosperity Index

a tool for measuring the outcomes of economic policy and shaping decisions on the future

We debate the economy all the time. Politicians claim what they want to do will make the economy strong, and what their rivals propose will destroy it. Businesses demand changes that will make the economy grow, and warn that changes that could harm their business will also incur widespread weakness throughout the econosystem.

But how do we know? How can a government measure the success of its economic decisions, and how can a company claim with any certainty that what it proposes benefits the wider economy? More selfishly for us, how can the American Chamber of Commerce in the Czech Republic determine which of the multitude of individual policy suggestions made by its members will have the broadest economic benefit for all its members, and, more importantly, the citizens of the country?

We need a framework for making decisions, a light at the end of tunnel for which to aim. In other words, we need to define what the goal of an economy should be in some measurable way, and then assess how individual policies contribute to reaching that goal. That is the reason we created the Prosperity Index: as that measure to gauge progress, and to debate what should be done in the future.

Prosperity, we believe, is a goal that everyone, right or left, rich or poor, owner or employee, can agree should be the ultimate goal of every government decision to reshape the economy through regulation or investment. Government decisions, we believe, should create as much prosperity today as possible, while preparing the conditions for future prosperity and ensuring that whatever prosperity is created reaches as much of the population as possible.

That is why our Index has three categories: current prosperity, future prosperity, and distribution of prosperity. The index is not meant to be a ranking, but it does compare results between EU countries to determine competitive advantage. It also is not intended to be an exhaustive calculation on how prosperous a country has become. It only includes a handful of key indicators that we believe can guide policy, but not dictate specific actions. It can be misleading to use it in the wrong way: Estonia, for instance, has a very low government debt, which does mean it has investment capacity that other countries do not, but that indicates only opportunity, not money-in-the-pocket prosperity.

Indicators of The Prosperity Index

Current Prosperity

GNI per capita, PPS

Net Earnings per capita, PPS

Net savings as % GDP

Fixed Capital Formation as % GDP

Future Prosperity

Workforce Participation

Population under age 15

Labor Productivity per hour worked

EU patent applications per million active population

Total Liabilities as % GDP

General Government Debt as % GDP

Distribution of Prosperity

Ratio of Income of the Top 20% to Bottom 20%

% of population at risk of poverty

37.04 current prosperity rating	**80%** % EU avg.

GNP per capita, PPS, 2013

19,200 GNI per capita, pps	**390** Change since 2003
75% % EU avg.	**-1,200** Comparison of change to EU Avg.

Net Earnings per capita , PPS, 2015

14,126 Net earnings per capita, pps	**4,526** Change since 2005
73% % EU avg.	**-15** Comparison of change to EU Avg.

Net Savings Rate as % GDP, 2013

1.5 Net savings as % GDP	**-4.5** Change since 2005
38.5% % EU avg.	**-2** Comparison of change to EU Avg.

Fixed Capital Formation as % GDP, 2016

25.0 Fixed Capital as % GDP	**-3** Change since 2006
126.3% % EU avg.	**-0.9** Comparison of change to EU Avg.

Indicators of Current Prosperity

The four indicators that assess current prosperity provide a thumbnail sketch of the country's productive capacity, individual's average income, how much is saved from income, and the amount of investment into fixed capital.

GNI per capita, PPS, 2013

The Czech Republic (25%) belonged in the middle tier of GNI per capita growth within the EU for the 2003-2013 period. It was significantly above the lowest grouping of EU countries (Greece, Ireland and the UK), and generally in the same growth group as France, Austria, the Netherlands, Finland and Sweden. The country trailed Germany (38%).

Due to the lower base, the country's pace was not fast enough to raise the nominal increase to the level of the EU average increase (the country increase was 1200 PPS lower than the average.

Net Earnings per capita, PPS, 2015

In the period 2005-2015, Net Earnings per capita increased at a faster rate in the Czech Republic (47%) than in the major economies of the EU (Germany– 32%, France – 27%, Netherlands– 27%, and United Kingdom- -2%). Even with the faster pace, the country's nominal increase kept essentially the same pace as the EU average (-15 PPS below for the period).

The differential between GNI and Net Earnings per capita declined in the 2003-2013 period.

Net Savings as % GDP, 2013

The Czech savings rate declined dramatically in 2009 and has not rebounded. In 2008, the savings rate was a full percentage point above the EU average; now it is 1.5 percentage points below the EU average, which nearly halved in the same period.

Fixed Capital Formation as % GDP, 2016

The competitive strength of the Czech Republic in terms of its current prosperity is the continued higher investment into fixed capital as a % of GDP. The country has a 25% higher rate of such investment than the EU average, although the rate of investment is decreasing at a faster pace than the EU average.

Future Prosperity

- Workforce Participation
- Population under age 15
- Labor Productivity per hour worked
- EU patent applications per million active population
- Total Liabilities as % GDP
- General Government Debt as % GDP

46.00 Future Prosperity rating	**92%** % EU avg.

Indicators of Future Prosperity

The six indicators that assess future prosperity provide a thumbnail sketch of how active the population is economically, how it will maintain the size of workforce in the foreseeable future, the creativity of that workforce, and the how much past spending could limit future investment both in the private and public sector.

Active People, % Age 15-64, 2016

The Czech Republic (75%) has one of the highest rates of economically active people in the EU, and that level rose at double the EU rate since 2003. It now lags behind only the Nordic countries, the Netherlands and Germany.

Under Age 15, % Total Population, 2016

The country now has nearly caught up to the EU average in youth population. Its one percentage point rise since 2003 contradicted the EU's slight overall decline.

Labor Productivity per hour worked, as % EU average, 2016

Labor productivity still trails the EU average significantly, and the change since 2007 trailed that in the EU by .7 percentage points. In the past three years, however, the country has had the 3rd highest rate of productivity growth in the EU.

EU patent applications, per million active population, 2014

The country lags far behind the EU average in this indicator. The good news is that its growth is in the top half of Europe both in rate and nominal increase.

Total Liabilities, % GDP, 2015

The country has significant fewer liabilities than the EU average and its increase, as a % GDP, has been almost half that of Europe since 2005.

Consolidated General Government debt, % GDP, 2016

Again, the country has done much better in Europe since 1997 in keeping its debt low. Growth was almost one-third the EU average.

Active People, % Age 15-64, 2016

75% Active people, %, Age 15-64, 2016	**5.1%** Change since 2003
103% % EU avg.	**2.5%** Comparison of change to EU Avg.

Under Age 15, % Total Pop., 2016

15.4% Under Age 15, % Tot. Pop., 2016	**1.0** Change since 2003
99% % EU avg.	**1.3** Comparison of change to EU Avg.

Labor productivity, % EU Avg, 2016

74% Labor Productivity per hour, % EU Avg, 2016	**1.7** Change since 2007
3.1 change since 2013	**3rd** rank of change in EU since 2013

EU Patent Application, per million, 2014

51 EU patent applications, per million, 2014	**29** Change since 2004
22% % EU avg.	**36** Comparison of change to EU Avg.

Total Liabilities, % GDP, 2015

371% Total Liabilities, % GDP, 2015	**65.3** Change since 2005
148% % EU avg.	**59** Comparison of change to EU Avg.

Government Debt, % GDP, 2016

37% Government Debt, % GDP, 2016	**9.4** Change since 2007
224% % EU avg.	**17** Comparison of change to EU Avg.

15.71 distribution of prosperity rating	**145%** % EU avg.

Ratio 20 Top 20 Lowest Income, 2015

3.5 ratio of income of 20% high:20% low, 2015	**-0.2** Change since 2005
149% % EU avg.	**1** Ranking among EU members, 2015

At risk poverty, % Total Pop., 2015

14.0% At risk of poverty/ exclusion, % population, 2015	**-1.8** Change since 2007
170% % EU avg.	**1** Ranking among EU members, 2015

Indicators of Distribution of Prosperity

The two indicators that monitor how created prosperity has spread throughout the entire population measure the gap between top and low incomes, as well as the percentage of the population at risk of poverty.

Ratio of the income of the top 20% to bottom 20%, 2015
The Czech Republic has the lowest income gap for this measure in Europe and is one of the nine EU countries that has decreased that gap since 2005.

At risk of poverty and social exclusion, % Total Population, 2015
The country again ranks as the top country in the EU, and performs even better against the EU average. The percentage at risk has dropped by 1.8 percentage points since 2007, which makes the country one of 11 EU countries to reduce the percentage of at-risk people during the period.

37.04 current prosperity	46.00 future prosperity	15.71 distribution of prosperity
20 ranking in EU	16 ranking in EU	1 ranking in EU

Putting it all together

The country is moving toward the middle of the pack in creation of prosperity. A significant portion of its below-average performance in creating current prosperity can be blamed on the low base caused by four decades of Soviet occupation. The country's policymakers, however, should pay attention to the declining savings rate and diminishment of fixed capital.

As for its future prosperity, the industriousness of the nation is not in doubt, but the policies which create higher productivity and creativity may need to be improved. Getting more out of public research funding may be the key priority of the next government.

Finally, the country should be applauded for performance in spreading the prosperity among a wide sector of the population. Balancing this level of inclusion while turbocharging productivity will also be a key challenge for the next government.