

BEYOND GNP: ECONOMIC FREEDOM AS A DETERMINANT
OF BASIC HUMAN NEEDS

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Research concerning basic needs in the human rights literature has consistently found a positive and significant relationship between measures of wealth and basic needs provision. This study utilizes a relatively new measure of economic freedom to test hypotheses regarding general macro-economic policy decisions and basic needs outcomes. A pooled dataset of 138 countries over four years is examined using ordinary least squares panel regression, controlling for both 'year' and 'country,' in a standard basic needs model. Consistent and systematic differences between members of the Organization of Economic Co-Operation and Development (OECD) and non-OECD nations are revealed. The Index of Economic Freedom¹ has both theoretical and empirical advantages over previous measures of wealth and economic freedom, allowing human rights scholars to test specific economic policy decisions as they affect basic needs outcomes.

¹ The Index of Economic Freedom, © The Heritage Foundation, Washington, DC, <http://www.heritage.org/index/2002>.

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TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS	ii
LIST OF TABLES	iv
Chapter	
1. INTRODUCTION	1
2. DATA AND METHODS.....	7
3. RESULTS AND ANALYSIS	26
4. CONCLUSIONS	37
APPENDICES	40
REFERENCE LIST.....	42

LIST OF TABLES

Table	Page
1. Summary Statistics	20
2. Variables and Hypothesized Relationships with Basic Human Needs	22
3. Relationships Between Measures	25
4. Explaining Basic Human Needs 1994-1997	28
5. Explaining Basic Human Needs: Split Sample.....	31
6. Explaining PQLI: Controlling for 'Country'	33
7. Explaining GNP per Capita.....	34
8. Explaining PQLI Using GNP Residuals.....	36

CHAPTER 1

INTRODUCTION

The cover story of the August 2001 issue of *The Economist* addresses the growing concern among many economists that human rights advocates are gearing up for a major assault on countries that refuse to acknowledge the legitimacy of economic and social rights. The article is striking in its placement on the cover of a magazine not known for its human rights concerns; it symbolizes the new phase the human rights debate has entered. Spawned by Amnesty International's (AI) internal debate on whether to include economic and social rights in their fight against rights abuse, the article weighs the costs and benefits of accepting economic rights arguments.

In the end, the author rejects economic rights arguments on the grounds that claims stemming from these rights would be counterproductive to any meaningful gains in development; the costs of guaranteeing health and education would be too high (2001, 19-21). More specifically, the author advises Amnesty International not to include economic and social rights in their mandate, claiming it would erode their political capital in the international community.

A week after *The Economist* cover story was published, Amnesty International did in fact change its mandate to encompass both physical and mental integrity. They explicitly state the purpose for this change: "It enables us to tackle some abuses of economic, social and cultural rights, and to focus more effectively on the main human rights concerns in different countries, unconstrained by the limits of the previous mandate" (*The Wire* 2001). With this single change, one of the most powerful human

rights groups in the world signaled a new commitment to the universal nature of rights to education, health care, and other social goods. Depending on whom you listen to, this move could begin the final push for recognition of all parts of the Universal Declaration of Human Rights, or it could be the beginning of the end for AI's international legitimacy. In this paper I examine where some synthesis might occur between many economists and the human rights community on realizing human rights goals.

The globalization movement of the last century, with its characteristic transfers of information, culture, raw materials, philosophy, and wealth to new populations of the world, has created a unique set of problems and opportunities for human rights scholars to address. Some of the current problems that distinguish the field include (but are not limited to) finding the legal and moral foundations for international human rights norms, expanding the liberal-democratic idea of rights to *all* humans regardless of their culture, and lastly, delivering what Jack Donnelly calls the “objects” of rights claims (1989, 11). This third difficulty, how to best ‘deliver the goods,’ is the subject of this study. By addressing this problem I hope to reveal an array of opportunities for human rights scholars.

This paper has two goals, one theoretical and one empirical. The theoretical goal is to open up the black box of wealth and try to discover what macro-economic policy choices lead to better basic needs outcomes. Theoretically, gross national product (GNP) per capita and other traditional wealth measures yield very little in the way of economic policy prescriptions. In sum, they advise countries to simply ‘get rich’ in order to attain better subsistence outcomes. There are many ways to get rich however: discover oil,

mine for diamonds or gold, take out international loans, or possibly reduce government restrictions on the economy. I will introduce a measure of economic freedom that allows us to test this last hypothesis. In doing so, I hope that human rights scholars will have more to say about macro-economic policy choices.

The second goal of this paper is to ‘test-drive’ this new theoretical tool. Empirically, does the measure test what we want it to test? Is it a good measure of macro-economic policy choices, and (more importantly) does it perform as well or better than typical wealth measures used to explain basic needs outcomes. I am not arguing for replacing controls for wealth in human rights research. Rather, I am offering a new way to test theories about subsistence performance, and also a measure that will allow us to say more about when open markets might help and when they might hurt. Knowing the possible harmful effects of market failures, inequities, and economic discrimination that can occur in free markets, we might also use this measure to discover when open economies produce good outcomes and when they do not.

Macro-Economic Policy and Basic Human Needs

The modern human rights movement began in earnest after World War II, with the Universal Declaration of Human Rights (UDHR) treaty, adopted in 1948 (United Nations General Assembly [UN GA] 1948). Along with the International Covenant on Economic, Social, and Cultural Rights (ICESPR), and the International Covenant on Civil and Political Rights (ICCPR), the UDHR forms the legal basis of the international

human rights movement. Governments voluntarily¹ sign agreements to protect a certain list of specific rights. Some of the more common rights listed among these documents and many other regional agreements include: the right to life, liberty and the security of person (UDHR, UN GA 1948), the right to self-determination (ICESCR and the ICCPR) (UN GA 1966), and the right to be free from torture and cruel and degrading punishment (ICCPR). Subsistence rights are spelled out in the ICESPR and provide the policy goals central to this study.

Articles 12 and 13 of the ICESPR describe the nature and range of subsistence needs. These needs are considered basic in the sense that the outcomes described are fundamental to an individual's survival and dignity (UN GA 1966). For this analysis, I assume that both human rights scholars and policy makers value the outcomes of these rights. Regardless of the acceptance or non-acceptance of these rights as guarantees, both sides agree that people should have access to basic health care, basic education, and basic food and shelter (in a sense, it is an argument over means, not ends). Jack Donnelley explains that the rights argument focuses on whether regimes should be held accountable for failed policy (not providing these goods at all costs), or conversely, whether these goods can be provided without being guaranteed by law. This paper seeks to test the notion that aside from claims of justice, "To what degree are *outcomes* provided by different macro-economic policy choices" (Donnelley 1989, 38-39)?

¹ The amount of truly voluntary action in the international arena is getting harder to distinguish. Most countries are coerced into certain behaviors in the pursuit of investment and capital, as well as political legitimacy.

The impetus for this study is a paper by Milner, Poe and Leblang (1999), in which they analyze the interaction of political rights, security rights, subsistence needs, and economic rights. One of the measures they utilize for their analysis is the Fraser Institute's Economic Freedom Index.² They show that over the past fifteen years, economic freedom, measured as the amount of government intervention in the economy, has grown internationally. More importantly, they planted the seed for the present analysis by stating, "If the argument holds from the previous section that increased levels of GNP result in higher physical quality of life, then economic freedom could, at least indirectly, have an affect on basic human needs" (416). However, the authors could not directly test this hypothesis with the Fraser Institute's measure because it is only constructed in five-year intervals. I hope the present analysis provides this test. Instead of the Fraser scale I will utilize a similar measure created by the Heritage Foundation, which has been generated for every year since 1995.

Research on basic needs attainment has shown repeatedly that increased levels of wealth, or financial growth, lead to increased basic needs provision (Dixon and Moon 1987, Milner et al. 1999, Moon and Dixon 1985, 1992, Park 1987, Poe et al. 2000, Shue 1980) Wealth measures appear to stand up empirically no matter what political concept is being tested. The interaction between economic freedom and wealth then provides the link between economic freedom and basic needs attainment. By getting at what is

² Economic Freedom Network Index Copyright The Fraser Institute, Vancouver, BC, <http://www.freetheworld.com/download.html>.

driving increased levels of GNP per capita measures, we are supplied with a tool that is both theoretically and empirically more valuable than those previously available.

Liberal/capitalist theorists argue that free markets and property rights protections increase investment (Gwartney et al. 2000), spur research and innovation, and create wealth (Berger 1986, Friedman 1988, Leblang 1996, Olson 1996, Scully 1992). The substantive theory behind free market growth is that individuals release latent labor and social capital when they are given incentives to do so. This will be discussed further in the section concerning the Heritage measure of economic freedom, but for now it is important to highlight that there is a large amount of theory that points to a connection between increases in economic freedom, growth (wealth), and basic needs attainment. I hope that the data and methods used here will provide some empirical evidence for that link.

CHAPTER 2

DATA AND METHODS

To test the hypotheses concerning economic freedom and basic human needs I analyze a cross-section of 138 nations over a four-year time period. The sample is limited for a number of reasons. First, the Heritage Foundation has only recently begun to assess nations using their Index of Economic Freedom³. Thus, the information using this measure is only available for the years 1994 through 2001. This ‘floor’ limits any analysis to 1994 onward.

The Fraser Institute’s Economic Freedom Index⁴ is available for the years 1975 through 1999. This measure may be superior to the Heritage Index in both depth and breadth (see Milner, Poe and Leblang 1999), but it is currently calculated at five-year intervals, leaving analysts with fewer time points (5 points; 1975-1995) and little theoretical substance for explaining economic changes over five-year periods. Also, the two scales are significantly correlated (using 1995 numbers), which allows for confidence in using the Heritage Index instead.

As the Heritage Index limits the back end of this analysis, so too do the World Bank data limit the front end. The World Bank’s 2001 World Development Indicators⁵ has consistent data to 1999 only. Furthermore, the data on military expenditures ends at 1997, cutting the sample size to its current scope of 138 countries and four years. The

³ The Index of Economic Freedom, Copyright The Heritage Foundation, Washington, DC, <http://www.heritage.org/index/2002>.

⁴ Economic Freedom Network Index Copyright The Fraser Institute, Vancouver, BC, <http://www.freetheworld.com/download.html>.

⁵ World Development Indicators, Copyright The World Bank Group, Washington, DC, <http://www.worldbank.org/>.

methodological problems involved with using such a shallow pool will be addressed later, but the leverage gained by using a panel sample relative to a cross-section analysis are large enough to merit the technique.

Dependent Variable: The Physical Quality of Life Index

In the July 1996 issue of *Scientific American*, two maps highlight a short article showing the world in 1960 and in 1990. The maps are color-coded to show a change in the level of world development measured with three indicators: infant mortality, life expectancy at age one, and literacy at age 15 (1996, 28). The maps dramatically illustrate the apparent change for the better the world had gone through in this thirty-year period.

The Physical Quality of Life Index (PQLI), developed by Morris David Morris for the Overseas Development Council, has been a topic of debate ever since its public debut in 1979 (Morris 1979). Its use in this study follows the human rights literature, which has generally accepted this measure as the best available indicator of basic needs provision (Moon 1991, Hicks and Streeten 1979, Larson and Wilford 1979). The literacy rate specifies the distribution of basic education in a country. The infant mortality rate and life expectancy at age one indicate the level of health care and the amount of available food and potable water available. The literature is ripe with debates over this measurement, but it is adequately accepted, in the words of Henry Shue, as “one relatively straightforward way to quantify the extent to which a number of subsistence needs are being fulfilled (Shue 1996, 6).⁶

⁶ For a comprehensive discussion of the PQLI and its problems see also: Dixon and Moon (1986) Milner, Poe, and Leblang (1999), Morris David Morris (1979), Moon and Dixon (1992), Moon and Dixon (1985), Moon (1991), Poe, Tan, and Miller (2000), Rosh (1986). See Appendix A for an in-depth explanation of the scale construction.

The PQLI has a history very similar to the one being traced out in this paper for the Heritage Index of Economic Freedom. Amazingly, it also took the place of Gross National Product (GNP) and Gross Domestic Product (GDP) per capita measures as a gauge of “social development.” As Hicks and Streeten chronicle in their article “Indicators of Development: The Search for a Basic Needs Yardstick,” development scholars in the seventies were looking for a better theoretical indicator of human welfare (1979). They write, “The heavy emphasis on GNP, GNP per head, and their growth rates, as the principle performance test (not normally as the ‘objective’) of development was based on doubtful assumptions” (567). They go on to note that GNP and GDP per capita measures are aggregate measures that do not capture the distributive tendencies within a nation. These qualities led them to examine four alternative measures of development, one of them being the PQLI. Hicks and Streeten conclude that while PQLI has its drawbacks, it is a step in the right direction to supplementing GNP per capita measures, most importantly because it is theoretically more substantive.

Explanatory Variable: The Index of Economic Freedom

As described above, the main purpose of this study is to open the black box of GNP per capita measures (and its various cousins: GDP per capita, Gross National Income (GNI) per capita etc.). Through some process, states are turning wealth into basic human needs. But the question of “How?” still remains. Do governments take the profits from oil or diamonds or poppy seeds and mail each citizen a check for \$300.00? Or, do wealthy property owners go around to the needy parts of the nation and open free

hospitals and schools in the altruistic hope that they will produce healthier citizens?

Probably not.

The Heritage Foundation is a conservative/libertarian think tank that analyzes policy and releases studies asserting the virtues of the free market. Their motive for constructing the index is clear; they don't like government intervention in the economic arena.⁷ However, this should not preclude scholarly use of the measure, as long as they are up front about their methods and use 'objective' as opposed to subjective judgments to make their scale. In short, we may disagree with the manner in which the scale is constructed (that is open for debate), but if the results are replicable using available data and the index tests what we wish to test, then the fact that the data emanate from a biased source should not be a problem. It is important then to see how the index is constructed.

The Heritage Foundation provides a detailed account of the methods used to construct the Index of Economic Freedom.⁸ Generally, fifty economic variables are broken up into 10 categories of government separation from the economy. They are: Trade Policy, Fiscal Burden of Government, Government Intervention in the Economy, Monetary Policy, Capital Flows and Foreign Investment, Banking and Finance, Wages and Prices, Property Rights, Regulation, and Black Market Activity. Each category is averaged on a scale from 1 to 5, where a 5 corresponds to the environment least conducive to economic freedom, and a 1 corresponds to the most conducive environment

⁷ This is not that different from the normative reasoning behind constructing scales of democracy. Scholars do not like authoritarian regimes and have found a way to measure the oppressiveness of a regime based on democratic values.

⁸ For a look at the entire measurement process, please see <http://www.heritage.org/index/2002/chapters/chap5.html>

for economic freedom. All ten categories are then averaged (un-weighted) producing an Economic Freedom score that ranges from 1 to 5 for each country (O’Driscoll et al. 2002).

This is not the place to analyze the measure in-depth, but it is important to note that the Heritage Foundation does not use any wealth measure in this index. The inclusion of a GNP or GDP measure in the index would obviously bias the present analysis in favor of the economic freedom variable. The exclusion of wealth in the index is theoretically important as well. It says that regardless of the economic status of a country, the government can make policy choices to restrict economic activity or let the markets function in a freer environment. I will discuss one portion of the index to highlight the theory behind its hypothesized effects on basic human needs attainment.

Factor #8 in the Index of Economic Freedom is “Property Rights.” The right to own and labor on your own property is one of the fundamental tenets of liberalism. From Adam Smith to John Locke, private property is considered to be the most important foundation upon which to build a free society (Locke 1997, Hanke and Walters 1997, Berger 1986). The Heritage Foundation explains this concept more succinctly:

The ability to accumulate private property is the main motivating force in a market economy, and the rule of law is vital to a fully functioning free-market economy. Secure property rights give citizens the confidence to undertake commercial activities, save their income, and make long-term plans because they know that their income is safe from expropriation (O’Driscoll et al. 2002, Chapter 5).

The link to increased levels of investment and market activity due to strong property laws is found throughout the literature (Gastil 1984, Hanke and Walters 1997,

Leblang 1996). The Heritage Foundation measures the degree to which a regime protects private property using the following factors:

- 1) Freedom from government influence over the judicial system
- 2) Commercial code defining contracts
- 3) Sanctioning of foreign arbitration of contract disputes
- 4) Government expropriation of property
- 5) Corruption within the judiciary
- 6) Delays in receiving judicial decisions
- 7) Legally granted and protected private property

Countries are rated on a scale of one to five based on how well they perform these functions.

How does more strict property protection translate into better health care and better education? This is the black box within the black box. The easy answer is of course is that “the invisible hand” of capitalism stimulates investors to provide needed goods to consumers who demand it. This is hard to disentangle however, and the problem highlights one of the shortcomings of this analysis. There is no real, hard evidence that more economic freedom will directly lead to better (and wider) health care provision, subsistence food and shelter, and education. Anecdotal evidence and intuition provide strong support for this connection however.

For states that are on the low end of the PQLI scale, we would expect that even small amounts of economic policy shifts (towards more open economies) would increase

investment and stimulate growth. This investment and growth in turn increases the need for a better-educated workforce and consumer base. Secondly, we can postulate that the profit motive *combined* with the inherent altruistic motives of education and health care providers allows for the distribution of higher amounts of basic needs to more people. Perhaps the energy and motivation for providing subsistence needs is latent in under-developed countries, and economic freedom (beginning with property rights protection) is the vehicle through which they are unleashed. Again this theory is difficult to disentangle from democratic and development theory, but it makes intuitive sense. This is in fact why the Heritage Index is so valuable, perhaps it can assist in getting rid of the “magic pony” explanation for basic needs provision through increases in wealth.

Lastly, we need to consider the critics of economic freedom. Perhaps, as is argued by many liberals and Neo-Marxists, economic freedom simply leads to economic discrimination and exploitation. This is just as plausible as the capitalist explanation. We do not even need to look outside the United States to find that free markets can have deleterious effects on those who have been unfortunate enough to be born into poor families. In what is considered one of the most free and advanced countries of the world, we have yet to deal with systematic political and economic discrimination against minorities and the poor in a sufficient manner. The Heritage Foundation argues that we need to open U.S. markets further to address these problems (Utt 2001). By controlling for wealthy industrialized countries, we can test these hypotheses using their own measure. I will discuss this later in the paper.

Democracy

I control for political institutional arrangements with the Freedom House measure of political rights.⁹ This democracy measure is a very good indicator of the level of political rights enjoyed by a country's citizens. In a real sense this is the political version of the economic freedom measure in that it taps into the extent of self-rule enjoyed by citizens. There are two important reasons why democracy should be positively associated with basic human needs attainment. First, democratic governments *must* be responsive to voters to some degree. Democratic regimes that do not bring about increased subsistence levels run the risk of getting thrown out of power. It is much easier for authoritarian regimes to continue to deprive their people of basic needs when there is no democratic challenge for control of the state.

Secondly, democracy mobilizes groups to petition for change. Individual citizens become motivated to act for political solutions to problems when they are given political control. Social problems like low education levels, bad health care, and food and water shortages become more tractable when groups are activated to propose and work towards solutions. In short, regimes become more aware of long-term solutions to problems when they are held accountable during periodic elections, and individuals become problem-solvers when they feel they have the power to make a difference. These democratic shifts have a strong impact on social goods like basic human needs (Leblang 1996; Moon and

⁹ Copyright Freedom House, Washington, DC, <http://www.freedomhouse.org/>. For a list of the factors used to construct the Freedom House scale, please see Appendix B.

Dixon 1985; Moon 1991; Huntington 1991; Jagers and Gurr 1995; Rueschemeyer et al. 1992; Rosh 1986).

While many measures of democracy are available, Jagers and Gurr note that despite the different measurements, all democracy scales are highly correlated (1995, 470). The Polity IV dataset¹⁰ developed by Jagers and Gurr is the other scale used in the field, but the Freedom House measure was available for more countries so I chose it for my analysis. Initial tests involving the Polity IV scale do not appear to affect the results reported here.

Lastly, the Freedom House scale measures both political rights and civil liberties using two indices that range from 1 (most democratic) to 7 (least democratic). I use only the political rights scale for this analysis because the civil liberties scale includes a measure of 'property rights,' which is one of the factors addressed in the Index of Economic Freedom. Including both measures would increase the already high degree of collinearity in the model.

Military Expenditures

Studies looking at the impact of military expenditures and military personnel in the human rights field have produced mixed results. Dixon and Moon (1987) find that military expenditures divided by GNP per capita are significant negative determinants of basic needs provision (PQLI). Conversely, they conclude that military manpower

¹⁰Copyright Polity IV Project. 2000. Polity IV Dataset. [Computer file; version p4v2000] College Park, MD: Center for International Development and Conflict Management, University of Maryland. <http://www.bsos.umd.edu/cidcm/inscr/polity/index.htm>

(measured as military participation divided by population) has a positive impact on basic needs provision. These differing results, and the two competing theories concerning the effects of the military on its citizens are the reason that the hypothesis for this variable is non-directional. I will briefly explain why.¹¹

Military training is seen to have a welfare effect on the poor and middle classes, as they are the ones who generally benefit from the discipline, ideology, and skills learned there (Dixon and Moon 1987, 662-664). The higher the percent of the population in the military, it is hypothesized, the greater the number of families that are benefiting from the military lifestyle. Secondly, as military expenditures rise, the economy becomes stimulated by a mobilization of resources.

Conversely, the more a government spends on the military, the less it spends on social welfare programs to provide basic needs. As Dixon and Moon note however, there is strong interdependence between 'spending' and 'manpower' both theoretically and methodologically (1987, 662-667). In order to tap into government policy choices, I have chosen to use military spending as a percentage of the government budget. Theoretically, this measure is richer because it is a direct indicator of both military involvement *and* government preference for a military regime. Fluctuations in the economy and other shocks could mask dynamics present in military spending if military expenditures are taken as a proportion of GNP. However, when taken as a percentage of the government's budget, military expenditures become real policy choices in the tradeoff between welfare

¹¹ For a detailed explanation of these theories, please see Dixon and Moon (1987), Rosh (1986), Poe and Tate (1994) and Poe, Tate, and Keith (1999).

and defense. The problem with this variable (discussed previously) is that it is not available for many country-years, thus reducing the sample size by a third.

Population

I hypothesize that as a state's population grows, it becomes harder for governments to provide needed education, health care, food, and water to its people. Larger populations present a tractability problem in that countries like India and China may have a harder logistical battle to fight than smaller countries with better economies of scale. I am unsure about the direction for this variable, but past human rights research leads me to expect a negative relationship.

GNP per capita and OECD Membership

Lastly, I control for the amount of development that has already occurred in a state. Obviously any development analysis performed in the twenty-first century must take into account the differing levels of economic development already present in the world. Traditionally, this has been the reason for including wealth measures in studies of basic human needs. This inclusion takes on further significance in the present study because I want to *compare* wealth measures to economic freedom.

Up to this point I have not argued that wealth measures should be replaced by economic freedom measures. Rather, I have argued that we need to open up the black box of wealth, and test whether economic freedom has independent effects on the attainment of subsistence needs. In order to do so, the model must contain both measures

to see how they perform in the presence of one another. This will certainly force us to be cautious with issues of collinearity, but these issues will be dealt with in the analysis section.

The Organization of Economic Co-operation and Development is a group of (currently) 30 states that share policy information for the express purpose of creating more democratic and capitalist societies. Membership in this exclusive group is a good indicator that a country has ‘made it’ in the area of development. The inclusion of this dummy variable is important for two reasons. First, more than GNP per capita, it controls for the amount of both political and economic wealth a country enjoys.

Secondly, the variable allows us to separate the countries of the world into two broad but distinct groups, industrialized democracies and non-industrialized systems. It is tenable that these two groups will perform differently in all aspects of development, and that they should be analyzed separately. In fact, a look at Table 1 shows that the means and standard deviations (not to mention the minimum and maximum values) of all variables are different for OECD and non-OECD countries. A difference of means test for these groups confirms this expectation. The means are significantly different for all variables (save population) at a 99 percent confidence level. Of course there are some non-OECD countries that could be included in the “industrialized democracies” category, but this control is more than sufficient for this analysis.

There are reasons to expect that OECD countries would not be affected by changes in democracy or economic freedom as much as non-OECD countries. Theoretically, these nations are already ‘developed’ in all sense of the term. Neo-

Marxists might argue that it is precisely in these countries that economic discrimination will accompany more open markets. If Sweden and Germany were to open their health care professions to free market mechanisms, it is plausible that they would experience a decrease in basic needs provision. The same is possibly true for the United States and its education system. Again, these are testable hypotheses and the OECD dummy allows us to tap into these differences.

Statistically, we would also expect lower levels of change due to economic freedom in OECD countries. These countries have reached the top of both the democracy and economic freedom scales (almost to the top of the Heritage Index). Between the thirty OECD nations there is little variation in both democratic provisions and market freedoms (see Table 1). This is also true of the PQLI measure for these states. Explaining a relative constant is statistically difficult, so to the extent that we see any impacts of small changes in the independent variables on the dependent variable in these nations, the strength of the relationship must be high.

TABLE 1: Summary Statistics

Variable	N	Mean	Median	Std. Dev.	Min.	Max.
<i>All Countries</i>						
PQLI	870	73.22	80.71	18.07	23.07	95.43
Econ. Freedom	854	2.88	2.9	.76	1	4.7
Democracy	942	4.37	5	2.22	1	7
GNP pp (in 1000s)	883	6.49	1.57	10.36	.097	50.73
Military Exp.	599	11.17	8	9.56	0	53.8
<i>OECD Countries</i>						
PQLI	125	91.41	92.79	3.69	77.37	95.43
Econ. Freedom	153	3.73	3.8	.354	2.7	4.3
Democracy	163	6.77	7	.782	3	7
GNP pp (in 1000s)	163	23.36	25.27	12.16	2.67	50.73
Military Exp.	105	6.19	5.8	3.95	0	18.8
<i>Non-OECD Countries</i>						
PQLI	745	70.17	77.63	17.72	23.07	93.06
Econ. Freedom	701	2.70	2.7	.70	1	4.7
Democracy	779	3.86	4	2.09	1	7
GNP pp (in 1000s)	720	2.67	1.10	4.40	.0978	28.49
Military Exp.	494	12.22	9.15	10.06	0	53.80

All mean differences between OECD and Non-OECD countries are statistically significant at the .01 level. The author calculated all of the information in the table using data from The World Bank, The Heritage Foundation, and Freedom House.

Operationalized Data and Hypotheses

Table 2 summarizes the explanatory variables and their hypothesized relationships with basic human needs. The following are some brief notes on the scales for each measure:

- 1) PQLI is measured on a scale of 0 to 100, where 100 is the highest level of basic needs attainment and 0 is the lowest. See Appendix A for further details.
- 2) The Heritage Index of Economic Freedom is scaled from 1 (highest degree of economic freedom) to 5 (lowest degree). I re-scaled this measure for ease of interpretation (5 = most free, 1 = least free).
- 3) The Freedom House measure of “political rights” has also been re-scaled for interpretive reasons. 1 = least democratic and 7 = most democratic. See Appendix B for further details.
- 4) GNP per capita is measured in the thousands (ex. 4 = 4,000).
- 5) Military expenditures are shown as a percentage of the government budget.
- 6) Population is measured in the millions (ex. 4 = 4 million).
- 7) OECD membership is marked with a “0” for non-member states and a “1” for members.
- 8) I include interactions of each independent variable with OECD membership in the initial models to test for differences between the two groups.

TABLE 2: Variables and Hypothesized Relationships with Basic Human Needs

Variable	Hypothesized Rel.	Operationalization	Source
Basic Needs Attainment	N/A	Physical Quality of Life Index (PQLI) *	World Bank
Economic Freedom	Positive	Index of Economic Freedom	Heritage Foundation
Democracy	Positive	“Political Rights” Measure	Freedom House
Wealth	Positive	GNP per capita	World Bank
Military Commitment	No hypothesized direction	Military Expenditures as a % of Gov. Exp.	World Bank
Population	Negative	Raw Population #	World Bank
OECD	Positive	“1”= Member, “0”=No **	OECD

* I used data from the World Bank to construct the PQLI scale. I interpolated any missing values in the components of the scale by taking the average of the previous and following years' values. I am confident in this method because PQLI change across time was very small (PQLI lagged one period explains 99% of the variance in PQLI). The formula for constructing this scale was provided by Wes Milner through Rhonda Callaway, however any errors in the PQLI index are my own. Please see Appendix A for a detailed account of the scale construction (Callaway 2001).

** Countries that became members during the time period of study were coded “0” for years before membership and “1” after becoming official members.

Table 3 reports the pair-wise coefficients for the main explanatory variables. One of the problems with the basic needs models involves probable multi-collinearity issues using so many interacting political and economic factors. Collinearity could bias the standard error measures leading to problems with interpreting the coefficients confidently. These concerns are realized in the significant relationships shown in Table 2 between wealth, democracy, and economic freedom measures. On the positive side, this biases estimation in favor of Type II error (accepting a false null), which forces significant relationships to show up in a more conservative test. In short, any significant relationships that show up in the results will have passed tougher “significance” requirements because of the collinearity between the independent variables. There is another possible way to further differentiate the independent variable effects on PQLI. I will discuss this process in the results.

One more issue concerning model specification is that the proposed set of variables do not cover the entire range of possible ‘causes’ of basic human needs provision. There are both purposeful and uncontrollable reasons for this. First, I consciously avoid over-specifying the model because the Heritage Foundation’s measure incorporates so much economic policy. The current model is trying to measure macro-differences across nations, and to an extent across time, using macro-level causal variables. Because this analysis is the ‘first cut’ at testing the effects of these macro-processes, I am not inclined to include other economic and political controls. However, this is certainly the path I encourage future scholarship in this area to take. It would be

very prudent for further analysts to test a fully specified model of basic needs provision (including religiosity and regime change).

Contrary to my preference, the model is also under-specified for the simple reason of ignorance. As a new scholar to this field, I have certainly missed many of the intricate workings of the process of basic needs provision (this is partly a function of the macro-level approach as well). This is not an empty qualification, as this under-specification is a serious problem. Presently, I will account for my ignorance in the research design. I will begin the next section with a brief description of this procedure and how it affects the results.

TABLE 3: Relationships Between Measures

	PQLI	Econ. Freedom	Democracy	GNP pp
All Countries				
PQLI	1.000			
Econ. Freedom	.5162***	1.000		
Democracy	.4635***	.6193***	1.000	
GNP per capita	.5214***	.6804***	.4799***	1.000
OECD				
PQLI	1.000			
Econ. Freedom	.5860***	1.000		
Democracy	.8608***	.4913***	1.000	
GNP per capita	.6570***	.6086***	.4340***	1.000
Non-OECD				
PQLI	1.000			
Econ. Freedom	.4028***	1.000		
Democracy	.3323***	.4822***	1.000	
GNP per capita	.4566***	.6208***	.1951***	1.000

*** Significant at the .001 level. Economic Freedom and Democracy have been recoded for ease of interpretation. The author calculated all information in the table using data from The World Bank, The Heritage Foundation, and the Freedom House with permission.

CHAPTER 3

RESULTS AND ANALYSIS

I use Ordinary Least Squares (OLS) regression with fixed effects for years to control for any variation due to time (Judge 1985). This procedure essentially uses dummy variables for each year (save one) and runs a joint F-test (Kmenta 1997, 418-419; also see Chow 1960) to test the null hypothesis that the coefficients for the year dummies are jointly '0.' If there is something specific about the effects of time on the overall model estimation then the F-statistic should be significant. It is not (the corresponding t-statistic = .130). This test covers possible movements attributed to time (there was really little concern with only four time points), but the more substantive model should also control for possible effects due to country-specific variation. I will discuss this later.

Lastly, assumptions of homoskedasticity are relaxed in these models because theoretically, it is probable that measurement error is related to the specific country being measured (Greene 2000).¹² I account for the presence of non-random error by reporting robust standard errors in all of the models.

The Basic Analysis of Subsistence Needs Attainment

Table 4 shows the first models for explaining basic needs provision. I will explore the results of this first design thoroughly in order to map out the method with which I will interpret the remaining models. These results are obtained through the OLS procedure described above. Model 1 is a modest attempt at the basic human needs model

¹² An examination of the residuals evidenced signs of high levels of heteroskedasticity.

without testing for economic freedom. In line with previous literature and theory, all of the variables show significance with Gross National Product (GNP) per capita showing the largest impact on the Physical Quality of Life Index (PQLI); one standard deviation change in GNP per capita is equal to a 20 point increase in PQLI!

However more modest effects are seen when we take into account the differences between countries in the Organization of Economic Cooperation and Development (OECD) and non-OECD members. For non-OECD countries, the standard deviation change is approximately \$4,000 as opposed to \$10,000, leaving the impact of wealth on PQLI at a smaller level of about 8 points (this is still large!). For OECD countries, the impact of GNP per capita appears to cancel out the overall impacts of wealth relative to non-OECD countries. The negative coefficient is significant and is almost equal to the positive coefficient for the model. This trend continues throughout the analysis. It appears that the differences between OECD and non-OECD countries are significant and large. Secondly, the results for these three models show that democratic and economic benefits are much smaller in developed nations than they are in under-developed ones.

Models 2 and 3 allow for a comparison of the GNP per capita variable and the economic freedom variable. In model 2 the Heritage measure's coefficient is large, significant, and in the right direction. A single standard deviation change in economic freedom has an impact on PQLI of 7 points. This is modest compared to the impacts of wealth, but still substantial relative to other variables in the models.

TABLE 4: Explaining Basic Human Needs 1994-1997¹³

Dependent Variable PQLI	Model 1	Model 2	Model 3
Economic Freedom	-----	9.47*** (1.35)	4.14** (1.61)
GNP per capita (In Thousands)	2.09*** (.206)	-----	1.62** (.242)
Democracy	1.66*** (.414)	2.03*** (.473)	1.69*** (.470)
Military Exp	-.347*** (.095)	-.038 (.077)	-.271** (.101)
Population (In millions)	.012*** (.004)	.008* (.004)	.011** (.004)
OECD Mem	19.26*** (1.74)	37.01*** (5.58)	28.25*** (5.59)
OECD*Econ Frdm	-----	-7.65*** (1.53)	-3.79* (1.72)
OECD*GNP PP	-2.01*** (.207)	-----	-1.53*** (.242)
OECD*Dem	-1.16** (.474)	-.825 (.557)	-1.01* (.547)
OECD*Mil Exp	.233* (.109)	-.168 (.103)	.140 (.121)
OECD*Pop	-.007 (.005)	-.001 (.006)	-.007 (.005)
CONSTANT	61.35*** (2.38)	36.33*** (4.31)	50.73*** (4.93)
N	564	504	488
Adjusted R ²	.45	.39	.46

¹³ All models were estimated using OLS regression. I report the estimated parameter coefficients with robust standard errors in parentheses. Two-tailed significance tests = * .05 sig. ** .01 sig. *** .001 sig.

Model 3 is the better test of independent effects of economic freedom and wealth. The full model controls for the impacts of each factor and estimates coefficients independent of one another. The results are consistent with the previous models: Democracy is a positive and significant indicator of basic human needs attainment (one std. dev. change \simeq 3 point increase in PQLI), Military expenditures as a proportion of the government budget are negatively related to PQLI (1 std. dev. change \simeq 2 point *decrease* in PQLI), and OECD membership is a strong and positive indicator of PQLI, however these benefits come with a price (discussed below). The only variable that does not fit the previous theory and literature is population. It shows a positive relationship with PQLI, but its impacts are tiny (one std. dev change \simeq 1 point increase in PQLI).

More importantly, this ‘first cut’ at the data shows significant differences across models between OECD and non-OECD nations.¹⁴ This empirical evidence is consistent with the theoretical reasoning outlined earlier. Namely, that basic needs provision in developed and under-developed nations occurs at different rates and for different reasons. I carry out a split-sample analysis in the next section to examine these differences more carefully.

OECD and non-OECD Split Sample Analysis

Table 5 shows the results of the separate analyses of OECD and non-OECD nations. The evidence is striking. In developed countries, economic freedom does not significantly affect the provision of basic human needs. The strong relationship seen in

¹⁴ A joint F-test on the interaction variables showed further evidence of the need for a split sample. I rejected the null of no joint relationship between these variables and PQLI (F statistic= 16.28, significant at the .001 level).

the earlier results is clearly coming from the under-developed countries, as the Heritage index¹⁵ retains its strong association with PQLI. In these nations one standard deviation change in economic freedom results in approximately three points of increased basic needs provision. This relationship is similar to the strong wealth effects seen for non-OECD nations; one standard deviation change in wealth is associated with a four-point increase in PQLI.

Secondly, the amount of explained variance in OECD basic needs provision is approximately eighty percent, while the non-OECD model explains only thirty percent of the variation. We should not get too carried away with this particular comparison as the sample size is much different for both models, but it does correspond well with the previous full sample analysis. Specifically, OECD nations are relatively invariant in their provision of subsistence needs, and that any observed movement is being driven by democratic gains. Wealth *does* have a significant effect on OECD needs provision, but the magnitude of these effects are small compared with democracy. Military expenditures and population size retain their directions from the previous model, providing evidence that their effects are consistent in both samples.

As noted previously, there are reasons to think that my model suffers from under-specification and multi-collinearity problems. If this is the case, then it is prudent to try and address these issues as much as possible. For the purposes of this analysis, I am only concerned with these problems as they affect economic freedom, therefore I would like to

¹⁵ The Index of Economic Freedom, Copyright The Heritage Foundation, Washington, DC, <http://www.heritage.org/index/2002>.

construct more conservative tests for this variable to see if it retains its significant relationship with basic needs attainment. I will address the under-specification problem

TABLE 5: Explaining Basic Human Needs: Split Sample ¹⁶

Dependent Variable PQLI	OECD Countries	Non-OECD
Economic Freedom	.316 (.592)	4.13** (1.61)
GNP per capita (In Thousands)	.088*** (.018)	1.62*** (.241)
Democracy	2.74*** (.281)	1.69*** (.470)
Military Exp	-.116* (.060)	-.270** (.101)
Population (In millions)	.004 (.004)	.011** (.004)
Constant	70.65*** (2.07)	50.75*** (4.91)
N	95	395
Adjusted R ²	.81	.30

¹⁶ All models were estimated using OLS regression. I report the estimated parameter coefficients with robust standard errors in parentheses. Two-tailed significance tests = * .05 sig. ** .01 sig. *** .001 sig.

first, as the multi-collinearity problem biases the previous tests *against* my hypotheses; these are tests that the variable has already passed.

To test for a relationship between economic freedom and subsistence needs, I constructed a model of ignorance; the results of which are shown in Table 6. This model includes dummies for every single country in the sample and controls for their independent effects on PQLI. Statistically, this model represents the most conservative test for independent economic, wealth, and democratic effects. It filters out all of the variation due to the uniqueness of each country, leaving little room for other independent variables to show their effects. As Table 5 highlights, most of the explanatory variables in the model drop out. The signs and magnitudes of the coefficients in this model are unreliable, but despite all of the endogenous control, the economic freedom and wealth measures remain consistently significant.

Also of note, is that the results are consistent with all of the previous models. Economic freedom is not significantly associated with PQLI in OECD nations, but *is* a strong indicator in under-developed countries. These results are clear evidence that the Heritage measure is rich with information regarding the effects of economic policy choices on basic needs outcomes. It is possible however, that the majority of its impacts on PQLI are masked by its close relationship with GNP per capita. Table 7 presents the results of a procedure that may enlighten us as to what this relationship is.

As noted earlier, liberal theorists argue that free markets stimulate investment and growth, which indicates that economic freedom may in fact cause changes in GNP per capita. By including both of these variables in the full models described above, the wealth

TABLE 6: Explaining PQLI: Controlling for 'Country'¹⁷

Dependent Variable PQLI	OECD Countries	Non-OECD
Economic Freedom	1.14 (.839)	.63** (.252)
GNP per capita (In Thousands)	.23* (.098)	.33** (.11)
Democracy	-.049 (.355)	.079 (.08)
Military Exp	.007 (.066)	-.008 (.025)
Population (In millions)	.063 (.053)	.053*** (.013)
Constant	79.90*** (4.69)	65.64*** (.909)
N	95	393
Adjusted R ²	.98	.99

¹⁷ All models were estimated using OLS regression. I report the estimated parameter coefficients with robust standard errors in parentheses. Country dummies are not reported. Two-tailed significance tests = * .05 sig. ** .01 sig. *** .001 sig.

measure may be taking away ('explaining') some of the relationship between PQLI and economic freedom, thus decreasing the estimated coefficients for economic freedom in all of the models. I test this hypothesis (H_0 = there is no causal relationship between GNP per capita and economic freedom) by regressing GNP per capita on the Heritage rating of each observation. Statistically, the variations not explained by the economic freedom measure (the residuals of this regression) are no longer collinear with the Heritage Index (by definition). Using the residuals of this regression in the full models should thus purge them of their multi-collinearity properties (at least for these two variables).

TABLE 7: Explaining GNP per Capita¹⁸

Dependent Variable GNP per Capita	OECD Countries	Non-OECD
Economic Freedom	20.97*** (2.02)	4.39*** (.411)
Constant	-55.39*** (7.23)	-9.43*** (1.05)
N	153	644
Adjusted R ²	.35	.38

¹⁸ Two-tailed significance tests = * .05 sig. ** .01 sig. *** .001 sig

The results are in line with the theory in the development field. Economic freedom is associated with significant increases in wealth in both OECD and non-OECD countries. In OECD countries, one standard deviation change in economic freedom will increase GNP per capita by about \$15,000. This is an extremely large level of change, and may highlight the limits of this approach; nevertheless the effects in non-OECD countries are just as large. A one standard deviation change in economic freedom will result in a GNP per capita change of nearly one standard deviation (about \$3,000). The next step is to use the residuals from this regression in our full models discussed earlier.

I must note that this procedure has many detractors. Because of this, I only provide the results as a general picture of what the economic freedom variable is capable of. *I do not support the use of these results in any capacity other than to highlight future study in this area; in the end, I do not know the effects of the behavior of these residuals, and thus my findings may be flawed.* With this in mind, Table 8 shows that when the collinearity between economic freedom and GNP per capita are ‘purged,’ the estimated economic freedom coefficient explodes. In both samples, the variable is significant and large (perhaps too large). I am not comfortable enough with the methods behind this approach to continue this line of inquiry further, but the results shown here are very suggestive.

TABLE 8: Explaining PQLI Using GNP Residuals¹⁹

Dependent Variable PQLI	OECD Countries	Non-OECD
Economic Freedom	2.16** (.674)	38.08*** (4.58)
GNP per capita (Residuals)	.088*** (.018)	.1.62*** (.24)
Democracy	2.74*** (.28)	1.69*** (.47)
Military Exp	-.116* (.06)	-.27** (.1)
Population (In millions)	.004 (.004)	.012** (.004)
Constant	65.79*** (2.03)	-38.90*** (11.45)
N	95	393
Adjusted R ²	.81	.30

¹⁹ Two-tailed significance tests = * .05 sig. ** .01 sig. *** .001 sig

CHAPTER 4

CONCLUSION

I have covered a lot of ground in this study and do not want to prolong the inevitable end of this paper. I will summarize my intentions and results succinctly. First, I wanted to test whether or not economic policy choices had any affect on basic needs outcomes. The more a government regulates the economy (to an extent), the less likely investment in human capital will take place. The market needs educated and healthy producers, workers, and consumers. These demand goods should find suppliers as long as the government does not block their provision by limiting investment.

Foremost, as the title suggests, I wanted to take the human rights literature beyond simple Gross National Product (GNP)/Gross Domestic Product (GDP) wealth measures. I do not take past scholars to task for including GNP per capita controls in their models. Every model of basic needs provision should include this variable. Instead I argue for the inclusion of a general measure for economic freedom. Bits and pieces of this argument are found in the literature, but no scholarly study that I am aware of uses a general index of economic freedom to measure the outcomes of subsistence needs. I argue that it is a valuable tool that needs to be explored within the framework of the field.

It appears as though the Heritage Index of Economic Freedom²⁰ is a good measure of government control over the marketplace. It is highly correlated with both democracy and wealth, and is a solid predictor of basic needs provision. When property

²⁰ The Index of Economic Freedom, Copyright The Heritage Foundation, Washington, DC, <http://www.heritage.org/index/2002>.

rights are protected, when contracts are enforced, and when governments generally protect economic freedoms, investment seems to release latent capacity for nations to provide subsistence level needs for themselves. This paper did not address this theoretical link satisfactorily, but in opening the black box of wealth, I appear to have uncovered the black box of economic freedom. Perhaps measures like the Heritage Index can be used to test ideas about how this provision occurs.

More importantly, it is possible that these measures can be used to test *when* basic needs attainment occurs and conversely, when economic freedom transforms into economic discrimination and oppression. Undercurrents of this idea are found in this analysis. Developed countries appear to have outgrown their need for more open markets (contrary to Libertarian think-tanks like the Heritage Foundation). I repeatedly found no relationship between economic freedom and basic human needs provision when controlling for member nations of the Organization for Economic Cooperation and Development (OECD). Neo-Marxists might argue (and rightly so) that these results indicate that developed countries are getting healthier and richer because of increased wealth and democracy, not open markets. Further analysis using the Heritage measure may prove fruitful in this area.

In under-developed countries, the results are clear; more economic freedom is associated with more basic needs provision. It is more than likely that other mechanisms are at work in this relationship, but liberal theory and the results presented here show that open markets *can* have positive impacts in even the poorest countries. The Heritage Foundation offers their measure in a disaggregate form (broken up into ten categories),

and this is where I think the most progress can be made in future scholarship using this measure. Are 'property right protections' driving the aggregate index, or is it foreign investment? Does central bank control hurt or help a new economy? Do tariff controls protect or damage new markets? These questions can all be addressed using a single, consistent measure like the Index of Economic Freedom. For human rights scholars who are interested in outcomes rather than outputs, this is indeed a valuable new tool.

Appendix A: Measuring the PQLI²¹

Morris' (1979) original computation of the index included the early 1970s, as well as, indices for males and females for the years 1950, 1964, and 1970 (Morris 1979). This index was updated by Morris in 1996 and included the years 1960, 1981, 1985, and 1990. The *World Development Indicator* database was used to gather the initial data for the measures of life expectancy, illiteracy rate, and infant mortality. This source provided a comprehensive amount of data, particularly the rates of illiteracy.

I computed the PQLI scores for the years of this study using the formula provided by Wes Milner through Rhonda Callaway. These data were compared to the Milner (1998) dataset and the Callaway dataset (provided by author). Upon gathering as much missing data as possible, the three separate measures were converted to a scale of 0 to 100, with 0 representing the worst performance and 100 representing the best performance. The three indexed measures are then combined into the Physical Quality of Life Index (PQLI) using the formula created by Morris (1979, 1996).

The computation of PQLI includes a measure for infant mortality per thousand live births (IMR). According to Morris (1996, 3), "improvements in the infant mortality component reflect social improvements inside the home, particularly the well-being of women." This infant mortality rate uses 250 per 1,000 live births as the worst possible performance with 0 per thousand reflecting the best performance. Each country's performance is converted using the following formula:

$$250-IMR/2.50.$$

The measure for life expectancy at age one (LE1) assumes that 38 years is the worst performance and 85 years is the best performance. The resulting index for each country is derived from the formula

$$LE1 -38/0.47.$$

However, the data available discloses infant mortality at birth (LE0). Thus, the conversion formula to obtain the measure for life expectancy at age one (LE1) is as follows:

$$LE1 = LE0 - 1 + Q0(1-K0)/1-Q0$$

Where Q0 is the infant mortality rate per 1,000 live births; K0 is the average survival period during the first year. This survival period is assumed to be .03 year; LE0 is life expectancy at birth; and LE1 is life expectancy at age one.

The original raw data on literacy rates was actually given as illiteracy rates. Thus, the data had to be converted simply by subtracting the raw data from 100. After each individual measure is converted to a scale from 0 to 100, the composite index is calculated by simply averaging the sum of the three components. Each component is thus weighted equally.

²¹ Thanks to Rhonda Callaway for this appendix. I have changed minor parts of this description, but for the large part it remains intact from Callaway's work (Callaway 2001).

Appendix B: The Freedom House Measure of Political Rights²²

Political Rights Checklist

1. Is the head of state and/or head of government or other chief authority elected through free and fair elections?
2. Are the legislative representatives elected through free and fair elections?
3. Are there fair electoral laws, equal campaigning opportunities, fair polling, and honest tabulation of ballots?
4. Are the voters able to endow their freely elected representatives with real power?
5. Do the people have the right to organize in different political parties or other competitive political groupings of their choice, and is the system open to the rise and fall of these competing parties or groupings?
6. Is there a significant opposition vote, de facto opposition power, and a realistic possibility for the opposition to increase its support or gain power through elections?
7. Are the people free from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies, or any other powerful group?
8. Do cultural, ethnic, religious, and other minority groups have reasonable self-determination, self-government, autonomy, or participation through informal consensus in the decision-making process?

Additional discretionary

Political Rights questions:

- A. For traditional monarchies that have no parties or electoral process, does the system provide for consultation with the people, encourage discussion of policy, and allow the right to petition the ruler?
- B. Is the government or occupying power deliberately changing the ethnic composition of a country or territory so as to destroy a culture or tip the political balance in favor of another group?

²² Copyright Freedom House, Washington, DC, <http://www.freedomhouse.org/>. For more on the Freedom House measure of Political Rights, please see: <http://www.freedomhouse.org/research/freeworld/2000/methodology2.htm>

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