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## The Contracting Roots of Human Rights\*

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There is a broad consensus that democracy and economic development are among the key factors that promote better human rights practices in nations, but there is little agreement on how this happens. This article reports evidence that human rights, democracy, and development may all be at least partially explained by a fourth factor: market-contracting. Studies in economic history and sociology have established that in developing countries many exchanges of goods and services occur within social networks of friends and family. New institutionalist approaches posit that daily habits give rise to corresponding values and world-views. This study integrates these two fields of study to show how economic dependency on friends and family can promote perceived interests in discriminating strangers from out-groups and abiding by the orders of leaders. Dependency on strangers on a market, in contrast, can promote more individualistic identities and perceived interests in a state that enforces law and contracts with impartiality. This may cause the governments of nations with marketplace societies to be less likely than others to imprison political opponents and act contrary to law. On a large sample of nations from 1977 to 2000, robust support is found for this view: a change from weak to high levels of market-contracting is associated with a substantial 49% to 61% reduction in risk of state repression in nations. At least some of the variance in state repression accounted for by democracy and development may be attributed to market-contracting. This article introduces a new and robust variable in the field of human rights research, with direct policy implications: to reduce state repression, a crucial task is the achievement of market-oriented economic development.

### A New Perspective on Human Rights

Most empirical studies in the human rights literature agree that democracy and economic development significantly reduce repression in nations. Economic development is highly associated with better human rights practices (Mitchell & McCormick, 1988; Poe, Tate & Keith, 1999), and the impact of democracy on human rights is 'one of the most consistent findings' in human

rights research (Cingranelli & Richards, 1999a: 513). There is less agreement, however, on explaining these findings. Some suggest that economic scarcity increases tensions and dissatisfaction in a society, giving more incentive for authorities to engage in repression (Mitchell & McCormick, 1988: 478; Henderson, 1991: 1226). Others suggest that democracy empowers individuals, and individuals have a natural inclination to oppose repression of others (Poe & Tate, 1994: 885).

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Alternatively, democracy may promote, over time, the norms and values that go against repression (Davenport, 1999: 96; Poe & Tate, 1994: 855).

This article introduces and tests an alternative explanation for varying repression across nations, one that might also account for the impacts of democracy and economic development. Drawing on research in economics and sociology, we show how individuals dependent on market-contracting for their livelihood have an interest in respecting the equal rights of strangers and resolving disputes with third-party arbitration and law. Individuals in societies with underdeveloped markets, in contrast, are more dependent on favors exchanged among in-groups of family and friends and have a comparatively stronger interest in discriminating against strangers from out-groups and abiding by the orders of group leaders. Divergent daily routines give rise to divergent mental models, or world-views (Simon, 1955; Denzau & North, 1994). In this way, individuals in marketplace societies (that is, societies where most individuals obtain their incomes, goods, and services by contracting on a market) characteristically prefer an equitable and non-arbitrary form of government that constrains leaders from imprisoning political opponents and committing acts of extrajudicial murder and disappearances. Individuals in other societies, in contrast, characteristically identify more intensely with in-groups, prefer their own groups to be privileged over others, and constrain leaders to act arbitrarily against individuals from competing in-groups. We also show how contracting routines can promote market-oriented economic growth and democratic consolidation. In this way, prior reports that democracy and development alleviate repression may be wholly or partly explained by socio-economic conditions.

We have organized this article as follows. First, we review the theory and evidence on the impacts of democracy and economic

development in the human rights literature. Next, we present new economic norms theory and identify the implications for state repression. We then review our analytic methods and report the analyses of a large number of countries from 1977 to 2000. Using two prominent indicators of repression in nations, our cross-national measure of the intensity of market-contracting offers a significant and robust account for the state of human rights in nations. Development remains an important predictor; the evidence for democracy is mixed. Further tests show that the impact of market-contracting on repression is not likely to be explained by Western culture, urbanization, economic equality, education, foreign trade, or several other variables potentially associated with repression. We conclude with the policy implications: the promotion of global market-oriented development is more than a goal for its own sake; market-oriented development may also promote better human rights practices.

### **Democracy and State Repression**

Personal integrity rights are identified in international law as the individual's entitlement to be free from arbitrary physical harm and coercion by their government. Also called 'physical' integrity rights and, inversely, 'repression', these include extrajudicial killings, torture, disappearances, and political imprisonment.

A large number of studies report a positive impact of democracy on respect for physical-integrity rights (e.g. Ziegenhagen, 1986; Henderson, 1991; Davenport, 1995; Cingranelli & Richards, 1999a; Davenport & Armstrong, 2004). We are unaware of any contrary findings. Explanations for this relationship intersect the human rights literature with the much more extensive literature on democratization, as well as the literature on democratic peace (Russett, 1993: 30–42).

Two kinds of explanations have emerged: the 'structural' and the 'cultural'.

The structural view of democracy and rights starts with the assumption that a desire for rights (and democracy) among individuals is a constant across time and space. This view has origins in the classical liberal assumption that human nature has a predilection for rights. If the structural view is right, it follows that, to the extent that institutions provide citizens 'the tools to oust potentially abusive leaders', they will do so if the leaders engage in repression (Poe & Tate, 1994: 885). Since democratic leaders are assumed to wish to remain in office, they are less willing to alienate electorates and are thus constrained from using the repressive tools of state power. In addition, coercive agents wield less power in democracies, often blocking each other in ways that make repression costly (Davenport, 1999: 96) and 'difficult to arrange' (Poe, Tate & Keith, 1999: 293).

The cultural view of democracy and human rights assumes that a desire for rights (and democracy) is not in human nature but rather learned through the democratic process. The regularized interaction among political leaders of opposing factions, turnover of incumbents, and frequent compromises are thought to induce a peaceful norm of conflict resolution and mutual respect among opposing leaders. In this way, coercive agents 'learn to prefer less coercive means', such as persuasion, over oppression (Davenport, 1999: 96), and the norms of bargaining and compromise offer 'a meaningful alternative for handling conflict' (Poe & Tate, 1994: 855).

### Economic Development and State Repression

As in the empirical work on democracy and human rights, most quantitative studies yield support for the view that economic development is associated with greater respect

for physical-integrity rights (Mitchell & McCormick, 1988; Poe & Tate, 1994). Most explanations for this outcome treat preferences exogenously and assume that, overall, individuals foremost want material wealth. Thus, economic scarcity increases tensions and dissatisfaction in a society, giving more incentive for authorities to engage in repression (Mitchell & McCormick, 1988: 478; Henderson, 1991: 1226; Poe, Tate & Keith, 1999: 294). It follows logically that, if development is held constant, increasing economic inequality in a country should be associated with greater repression, as argued by Donnelly (1999) and Arat (1991). There is some support for this view: economic equality may be associated with development (Boix & Stokes, 2003), and at least one study found development to be insignificant when inequality is considered, with inequality significantly associated with repression (Henderson, 1991).

However, a number of cases demonstrate that any impact of economic development on alleviating repression may be indirect. Many of the oil-rich states of the Persian Gulf and North Africa have per capita gross domestic product (GDP) levels that are in the range of the developed countries (in some cases, much higher). Yet, all of these countries stand out as highly repressive regimes. The communist states of Eastern Europe had high GDP per capita levels – with relatively high levels of economic equality – yet all of these states had highly repressive regimes. Even Germany under Nazi rule had a developed – and somewhat egalitarian – economy by any standard, yet its record of repression could hardly have been worse.

These cases of repression with development suggest the possibility that it is a certain *kind* of development that promotes human rights. Dahl (1998) put forward the possibility that a deciding factor may not be wealth per se but market-oriented

development, in particular. Highly decentralized economic decisionmaking in market-oriented economies, says Dahl (1998: 171), may foster independent thinking and thus a political culture that favors individual rights. This is a unique position in that it goes against standard views in the literature. On one side is the classical and neoliberal assumption that both markets and rights are not learned but rooted in human nature (Friedman, 1962/2002). On the other side is the longstanding view that markets and individual rights are inherently incompatible because markets supposedly favor economic inequality and rights are about legal equality (e.g. Barber, 1995). Dahl suggests that there may be a third way to look at markets. As we will see in the next section, one way to look at markets begins by distinguishing them as a 'way of life' from the more widespread view of markets as about private property and free-for-all capitalism.

### **A New Economic Norms Perspective**

New institutionalist approaches in economics and political science assume that individuals act because of conceptions: 'routines are followed because they are taken for granted as "the way we do these things"' (Scott, 2001: 57). It is well established that most individuals make decisions with mental short-cuts, including norms and habits (Simon, 1955) that construct mental models, or world-views (Denzau & North, 1994). What is unknown, however, is where mental models come from (North, 1997): What norms and habits give rise to what kinds of world-views?

One possible solution comes from economic norms theory (Mousseau, 2000), which links new institutionalism with research in economics that identifies two traditional modes of economic integration in history: market-contracting and reciprocity. In reciprocal exchange, individuals are in

some sort of social relationship: they exchange favors and act according to their memories of prior interactions. Reciprocal exchange often constitutes significant portions of trade and services in many developing countries, including countries in the West before the industrial age (Braudel, 1979; Duncan & Tandy, 1994). Examples of reciprocal transactions include favors exchanged among groups of friends or family members and among common members of clans, tribes, and religious groups. Because cooperating parties meet mutual needs in the form of social obligations, favors, and gifts, the terms of transactions are only implied: favors are expected to be voluntarily and, only indirectly, reciprocated. For example, when a friend asks you for help with something, it is impolite to ask for something in exchange. Instead, you do the favor and expect to be reciprocated, indirectly, at some future date.

Contractual exchange, in contrast, is explicitly *quid pro quo*, voluntary by all parties without coercion and unfettered by social obligation. Contract terms set by a market using the impersonal forces of supply and demand are equally available to all strangers. If the terms of a contract are available to all strangers equally, they cannot be determined by any social relationship of the parties. In this way, market-contracting should not be confused with the broader term of 'capitalism'. The latter is often defined by property relations and can include a variety of non-market forms of integration, including crony, monopolistic, or oligopolistic types of capitalism.

Nor should market-contracting be confused with the 'free market' – the idea of little or no government intervention in the economy. In fact, governments can intervene in the economy in a variety of ways with individuals still relatively free to choose when and with whom they contract and with prices still affected by the forces of supply

and demand. The social democratic governments of Scandinavia, for instance, have highly intervening governments but economies that are highly integrated with market-contracting. To emphasize the distinction of market-contracting as a descriptive term from the idea of the free market as a prescriptive one, we use the term 'marketplace society' to describe nations with economies highly integrated with market-contracting.

There are several ways that the divergent routines of market-contracting and reciprocity can give rise to distinctive world-views. Individuals dependent on reciprocity within an in-group will routinely look foremost to the in-group for choices and opportunities and contribute to the in-group when able to satisfy an in-group need. This is because everyone within the in-group is often committed to taking care of everyone's needs, and these commitments are credibly rooted in the way of life. The in-group thus serves as a form of social insurance. However, it is informal and depends not on the enforcement of any contract (there is no explicit contract) but on the lasting strength of the individual's relationship with the group and the fortunes of the group. The individual member thus has a strong incentive to share the values and beliefs of the group and to do whatever he or she can do to strengthen its power. Routinized over time (and, in most cases, since childhood), this in-group orientation renders the fortunes and identity of the in-group, including its values and beliefs, more important than the fortunes, identities, beliefs, and interests of individuals and members of out-groups.

The immediate family is the core unit of reciprocating groups. Depending on the degree to which a socio-economy is integrated with reciprocity, the family unit can be a part of larger in-groups. Traditional examples of larger reciprocating in-groups include extended families, feudal systems, bands, clans, and tribes; less traditional

examples include criminal gangs, mafias, and sometimes guilds, labor unions, and political movements. Within larger reciprocating networks, hierarchies emerge as some individuals have more to give, and thus more power, than others. Often these individuals are older, or have inherited the favors banked by an elder, and thus have more influence than others. In this way, reciprocating communities are organized clientelistically, and patrons, such as lords, dons, political party officials, and sheiks, receive favors from clients as expressions of loyalty in exchange for life-long protection. In short, for most individuals, support for the in-group, including the in-group's leaders and its beliefs and values, is a more rational strategy for maximizing individual utility – whatever that utility is – than loyalty to abstract state laws and institutions.

The characteristic individual in a marketplace society, in contrast, faces a quite different set of economic routines. Opportunities are normally found, not from an in-group of friends and family, but in a market of strangers. Thus, the individual is less dependent on favors exchanged within an in-group than on strangers fulfilling the terms of contracts. This reduces the importance of any in-group and imposes on the individual a direct interest in the existence of a strong state that enforces contracts impartially among individuals, regardless of rank or in-group identity. Nations with marketplace societies characteristically have strong and impartial states that are legitimized from below. Law is normally abided by because, unlike those steeped in reciprocity, individuals in marketplace societies do not make investments in in-groups and cannot rely on an in-group to protect them if they get charged by the state for violating the law. Therefore, individuals steeped in markets are more dependent on the state than those protected in in-groups and have a comparatively greater interest in maintaining a reputation before state authorities of being law-abiding citizens. Because

contracts cannot be arranged unless all parties, at least implicitly, assert their self-interest, individuals learn to tolerate individual differences. The consequence is that marketplace societies have widespread social routines based on respect for the choices of individuals, the equal rights of strangers, the formation of secular and impartial governments, and the rule of law and contracts.

An alternative view from institutional economics posits that the 'liberal-democratic' world-view may be rooted not in the mode of exchange but in state protection of private property, which may unleash the propensity to barter and allow complex trade relations to form over distances (North, 1990). From the economic norms perspective argued here, however, there is no causal relationship from property rights to the liberal-democratic mental model. The crucial distinction of marketplace societies and others with regard to private property is that, in the former, the state, accountable to a public that demands the rule of law and the impartial enforcement of contracts, enforces property titles just as equitably as it enforces all contracts. In fact, the principle of 'eminent domain' firmly establishes that property 'rights' are not inviolable in marketplace societies. What distinguishes marketplace societies from others is that property confiscations are carried out equitably and in accordance with the rule of law.

In short, from the perspective of economic norms, property rights are a subset of legal and contractual rights, and it is not property rights but state subservience to law and the cognitive routine of respecting contracts that is the foundation of trust among strangers and ultimately wealth in stocks and market-oriented economic development. As market-contracting habits spread and deepen in a society, trade over long distances becomes more feasible, allowing for more complex divisions of labor that enhance opportunities on the market, reinforcing the habits of market-contracting. This process is not

monotonic, however: a marketplace society can collapse for a variety of reasons, as did the economies, and liberal political cultures, of Classical Athens and Renaissance Italy after defeats in foreign wars. In the modern era, this feedback loop began again in Western Europe in the 15th century, deepened in North America (northern colonies) before the American Revolution in the 18th century, deepened in Japan and wider Europe after World War II, and is rapidly becoming more global since the end of the Cold War.

### *Economic Norms, Civil Society, and Democratic Consolidation*

If economic norms theory is correct, non-marketplace societies prefer authoritarian government more than others. Deeply embedded values of loyalty and obedience cause many to prefer the security of in-group domination and favor the practices of inherited leadership, often manifested in various ethnic, religious, nationalist, or ideological identities. Experiments with democracy fail because many perceive their individual interest as tied with their in-group interest and vote according to the direction of leaders. The winning coalition of in-groups wins all because there is little respect for the rule of law, and there are few common principles among in-groups unless specifically negotiated by leaders.

Civil society, too, is weak in reciprocal-integrated societies. In marketplace societies, individuals regularly engage in a wide range and level of quid pro quo arrangements with strangers. Often individuals engage with the same strangers repeatedly, such as regularized shopping in a local store, so many strangers form loose social networks from their normalized quid pro quo engagements. In reciprocal-integrated societies, by contrast, individuals are characteristically linked with just one group that sets the individual's identity, and a smaller social circle that provides most needs.

In this way, we suggest a sharp distinction between reciprocating in-groups and civil

society groups: in marketplace societies, there is greater trust in the commitments of strangers, but relatively little affection among them. In societies steeped in reciprocity, we get the reverse: there is far less trust accorded strangers, particularly if they are perceived to be from identified out-groups, but relatively more trust extended to fellow in-group members. The social capital literature (Putnam, 1993; Coleman, 1988) has not addressed this distinction, but the evidence supports our view: studies report that civil society organizations (membership in unions, civic associations, cooperatives, and professional groups) are associated with higher levels of democratic norms, whereas 'communalism *unexpectedly* associate[s] with lower rather than higher levels of democratic norms' (Booth & Richard, 1998: 790, emphasis added). From our perspective, this result is expected, as in-group organizations are rooted in authoritarian, not democratic, mental models. In short, we suggest that the impact of civil society on liberal democracy may be spurious: it is market-contracting that may explain both consolidated democracy and civil society.

### *Economic Norms and Human Rights*

If economic norms theory is correct, in marketplace societies strong majorities demand laws that protect political rights and forbid the state from imprisoning anyone for their political views. Strong majorities also reject candidates for office who appear as though they will act arbitrarily, discriminate against some, and otherwise not respect the rule of law.<sup>1</sup> This constrains governments of

marketplace nations from acting arbitrarily and engaging in extrajudicial murder and disappearances. Nations with marketplace societies can include both democratic and democratizing governments. For instance, using the measure of market-contracting discussed below, both South Korea and Taiwan experienced rapid increases in market-contracting in the 1980s, just before each democratized. When authorities attempt to violate political and physical-integrity rights, they are constrained by the mental models of subordinates, which are likely to forbid discrimination based on group membership or political views. Subordinates less constrained by such values will still fear the personal consequences of violating the rule of law.<sup>2</sup>

The reciprocal mental model, by contrast, offers little room for the idea of a government constrained by equal law or individual rights of any kind. Voters are susceptible to candidates who make 'us' versus 'them' appeals and signal that they will privilege the former and offer 'strong' leadership in silencing the opposition. In-groups not incorporated into the hierarchy that controls the state pose a threat and have to be oppressed, or the state leaders risk insurgency and civil war. Because the collective nature of reciprocity creates the world-view that *all* members of an out-group are responsible for the supposed offensive behavior committed by *any* member of it, when a group leader orders the murder of members of an out-group, the cognitive routine is not only to

<sup>1</sup> Some readers may object, given the history of discrimination in the southern USA. In our view, the US case is consistent with expectations, as the southern states were not marketplace societies before the latter half of the 20th century. In fact, historians often attribute the success of the civil rights movement to a change in the southern economy (Luders, 2003), and the traditionally distinctive modes of exchange of the northern and southern states offer a novel explanation for the divergent values of these regions through most of US history.

<sup>2</sup> Of course, domestic mental models cannot constrain a government from engaging in activities that are secret and when subordinates have less fear of the rule of law, such as when they violate human rights in other countries. We have in mind the human rights record of the United States during the early years of the Cold War and, possibly, today during the 'war on terror'. We emphasize, also, that social science is about making generalizations about categories with recognition that all cases are ultimately unique; the USA is just one of dozens of marketplace nations.



follow orders but to accept that the victims deserve their fate. In these ways, governments – democratic or not – can imprison political opponents and engage in extrajudicial murder and disappearances: leaders have a steady supply of lower-level bureaucrats and troops willing to engage in such activities, there is little fear of the rule of law, and there is a ruling coalition of in-groups that demand such oppression of their enemies.

Market-contracting may also explain why marketplace societies, such as the Western and Northern Europeans, North Americans, and Japanese, are the ones that push political and physical-integrity rights onto the global agenda. Successful political leaders in marketplace societies can sense the core constituent values of voters and understand that repression occurring anywhere in the world, when presented at home by the mass media, can cause many to demand that their government do something about it. We do not suggest that voters in marketplace societies are altruistic, however: they may want the violations of human rights to stop but are still unwilling to pay more than minimal costs to do it. Since talk is cheap, the leaders of marketplace nations consistently talk about the importance of protecting human rights. The consequence is that while there has been an emergence of a global norm against repression in the 20th century (Cingranelli, 1993), repression persists in many nations.

In these ways, a rise in market-contracting may promote the mental model of 'marketplace civilization': the values, norms, and preferences that underpin the rule of law and democracy, promote cooperation with strangers and thus economic development, and make intuitive the ideas of individual rights and limited state authority (Mousseau, 2003a). This view links markets with democracy and development in a new way that is precisely the opposite of well-known classical and neoliberal ideas of free markets. Unlike the latter, economic norms theory makes

no human nature assumption and identifies, instead, how liberal-democratic values may be *learned* in the socio-economy, with quite different implications. But we do not expect readers to be convinced on the merits of the thesis alone: universal knowledge is fundamentally based on replicable observation.

## Methodology

To examine whether market-contracting reduces repression in nations, we follow the methods of prior studies as closely as possible. To assess violations of physical-integrity rights, we rely on two indexes of repression based on incidents of political imprisonment, execution, disappearances, and torture. Both indexes rely on country reports from Amnesty International and the US State Department, with Amnesty International considered the authority when sources diverge. The five-point Political Terror Scale (PTS) was developed by Stohl, Gibney, and colleagues (Stohl & Carleton, 1985; Gibney & Dalton, 1997), using a set of standards developed by Gastil (1980). We drew on data from Poe and his colleagues (Poe & Tate, 1994; Poe, Tate & Keith, 1999) for the years 1976 to 1993, and obtained updated data from Gibney for the years 1994 to 2000. The second index we obtained from the Cingranelli–Richards (CIRI) Human Rights dataset, Version 1.0 (Cingranelli & Richards, 2005), which covers the years 1981 to 2004. The CIRI data have the advantage of confirmed unidimensionality (Cingranelli & Richards, 1999b: 408). While all analyses were performed with both indicators, we primarily report results with the CIRI index, which we reordered to match the PTS, so that higher values in both measures indicate greater repression.<sup>3</sup>

<sup>3</sup> The CIRI data are available on the CIRI Human Rights website at <http://ciri.binghamton.edu/index.asp>; the PTS data are available on Mark Gibney's website at <http://www.unca.edu/politicalscience/images/Colloquium/faculty-staff/gibney.html>.

We directly measure the intensity of contracting within nations using cross-national data on life insurance contracting (Thorsten & Webb, 2003).<sup>4</sup> In theory, we could seek to account for the intensity of contracting in other economic sectors as well, or even all sectors. But economists have made little effort to distinguish modes of exchange in nations and have not developed national indicators to gauge them. Polanyi (1944/1957) offered a reason for this: deeply steeped in classical liberal traditions that erroneously assume that all acts of cooperation are contractual, few economists in marketplace societies have sought to distinguish contractual from reciprocal forms of exchange. In our search for data on market-contracting in nations, we found life insurance contracting to offer the largest number of data points: 65 nations aggregated annually from 1977 to 2000. This sample size allows us to retain 41% of the nation-years for which data are otherwise available over this period (for Model 2 in Table I). While the sample over-represents the more developed countries, which are more apt to record economic data, the sample includes large numbers of less developed countries as classified by the World Bank, including 13 from Latin America, 11 from Asia, 7 from Europe, and 6 from Africa.

There is great variance among nations in market-contracting: in the year 2000, Algerians had average life insurance premiums per capita of only \$1.29, while the Irish had \$3,668. Because of these extreme differences, we logged the variable (after multiplying by ten to avoid logging a value less than 1) to obtain our measure of *contract-intensive economy* (CIE). *Ceteris paribus*, individuals with higher incomes will demand more life insurance coverage than others. To ensure our results are not a function of higher

incomes, we include control for development, using gross domestic product per capita data (logged) obtained from Gleditsch (version 4.1) (2002).

In standard form, we measure democracy in nations with the Polity IV data (version e) (Marshall & Jaggers, 2003). The Polity IV index is constructed from five regime characteristics, none of which are based on physical-integrity rights: degree of constraints on executive authority; competitiveness of political participation; competitiveness of executive recruitment; openness of executive recruitment; and degree of regulation of political competition. As suggested by Marshall & Jaggers (2003: 16), we use the 21-point (-10 to 10) Polity2 measure.

Standard procedure in human rights research is to observe a pooled sample of nations. While pooling allows us to test the impacts of the independent variables across time and space simultaneously, pooling does raise the specters of autocorrelation and heteroskedasticity. Our sample is cross-sectionally dominant, so autocorrelation within units is less important than contemporaneous correlation across panels (Beck & Katz, 1995: 644–645). For this kind of sample, Beck & Katz (1995) recommend combining ordinary least squares parameter estimates with panel-corrected standard errors. In our case, the ordinal nature of our dependent variables makes the maximum likelihood estimation (MLE) of ordered logit more appropriate. We thus follow prior studies of human rights and combine MLE using ordered logit with robust standard errors adjusted for clustering within panels, with a lagged dependent variable on the right-hand side (Richards, Gelleny & Sacko, 2001). Inclusion of the lagged variable means that we are estimating changes in the dependent variable over time, not levels per se, but this is consistent with theoretical expectations and necessary to reduce the threat posed by autocorrelated error terms.

<sup>4</sup> Measured with the LIFEDENS variable, which indicates life insurance premiums per capita in constant US dollars calculated in purchasing power parity.

We begin the analyses with a replication of prior research on democracy and development with control only for *population* (logged) and *repression*<sub>*t*-1</sub>. Afterwards, we consider a large number of alternative explanations for the results. To reduce the specter of reverse causation, we lagged all the independent variables by one year. Descriptive statistics for all the independent variables and their correlations with CIE are reported in Appendix A.

## Results

The first model in Table I reconfirms prior reports of the impacts of democracy and development on state repression. The coefficient for *democracy* (-0.01) is significant at usual thresholds, indicating that a change towards greater democracy from a prior year is associated with less repression; the significant coefficient for *development* (-0.79) indicates that an increase in level of development from a prior year is associated with less repression. Increases in population size (0.21) are associated with increases in repression, and repression in the prior year is significantly associated with repression in the current year (1.06).<sup>5</sup>

In Model 2, we break new ground and add control for *contract-intensive economy* (CIE). The CIE coefficient (-0.08) is negative and quite significant. This confirms that an increase in CIE from a prior year is associated with less state repression. The democracy coefficient (-0.01) is no longer significant. This is an important result: changes in democracy do not appear to reduce repression in nations, once we consider CIE. Correlations among independent variables in a multivariate regression are not credited to

either variable. Thus, it appears that democracy may not have an independent causal impact on repression. If it did, then some of the variance in democracy not associated with CIE would be associated with repression. The variance in CIE not associated with democracy, by contrast, has a negative and significant impact. This indicates that the impact of democracy on repression may be spurious: CIE may be the ultimate cause of both democracy and repression. If the causal arrow were reversed – democracy causes both CIE and repression – then it would be democracy that is negative and significant in Model 2 and not CIE (Blalock, 1979: 473–474).

The coefficient for development (-0.64) is negative and quite significant. This indicates that, unlike democracy, changes in development have an independent impact on repression, even after consideration of any variance in development that may be explained by CIE. This is consistent with the idea that a lower standard of living increases tensions and dissatisfaction in a society, causing repression (Henderson, 1991: 1226; Poe, Tate & Keith, 1999: 294).

In Model 3, we test for epistemic error in our dependent variable by drawing on the PTS data on physical integrity rights (Gibney & Dalton, 1997). As can be seen, the CIE coefficient (-0.19) is negative and significant, as is the coefficient for development (-0.52). The democracy coefficient (-0.01), too, is negative and significant. This is a change from Model 2 and suggests that democracy may have an independent impact on repression, even after controlling for CIE. The CIRI and PTS data correlate at 0.85, and the samples are not exact.

Using the CIRI data, we conducted several additional tests for robustness. First, we constructed alternative measures of development and found that CIE remains robust whether we use infant mortality rates (logged) or energy consumption per capita (logged). With the latter, however, the coefficient for

<sup>5</sup> In ordered logistic regression, the coefficients are interpreted in exactly the same way as in ordinary logistic regression, with the exception that the coefficients are constrained to be equal across all levels of the dependent variable, leaving the intercepts free to vary.

Table I. Impacts of Contract-Intensive Economy, Democracy, and Development on Repression in Nations, 1977 to 2000<sup>a</sup>

Variables	Model 1	Model 2	Model 3 <sup>b</sup>	Model 4
Democracy	-0.01(0.01)*	-0.01(0.01)	-0.01(0.01)**	- -
Development	-0.79(0.13)***	-0.64(0.13)***	-0.52(0.07)***	- -
Contract-intensive economy	- -	-0.08(0.02)***	-0.19(0.03)***	-0.23(0.04)***
Population	0.21(0.04)***	0.22(0.05)***	0.18(0.04)***	0.26(0.06)***
Repression <sub>t-1</sub>	1.06(0.08)***	1.06(0.08)***	2.49(0.21)***	1.10(0.07)***
Pseudo log-likelihood	-1,423	-1,422	-806	-1,436
N	1,043	1,043	1,066	1,044

Entries are ordered logistic maximum-likelihood coefficients with robust panel-corrected standard errors in parentheses. Statistical package: Stata, version 9. Constants are not reported.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.10$  (one-tailed tests).

<sup>a</sup>CIRI data 1982 to 2000; PTS data 1977 to 2000.

<sup>b</sup>Repression measured with PTS (Gibney & Dalton, 1997).

democracy remains negative and significant. We then turned back to using the GDP measure for development and re-estimated Model 3, using an alternative measure of democracy offered by Vanhanen (2000). Again, CIE remains negative and significant, but with Vanhanen's measure, democracy too is negative and significant. These additional tests indicate that we must be cautious in drawing conclusions regarding the impact of democracy on reducing repression in nations. Our three variables of interest, CIE, development, and democracy, correlate moderately highly (see Appendix A). Thus, while it seems clear that CIE and development are much more robust than democracy, our limited data prevent us from drawing confident conclusions regarding the independent role of changes in democracy in reducing repression.

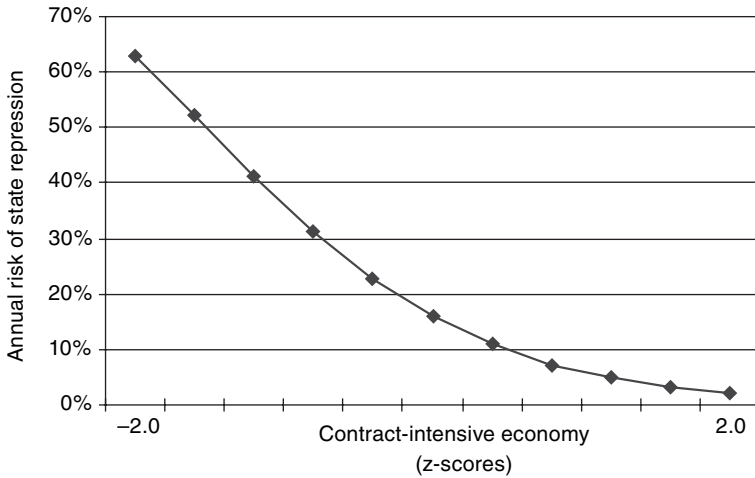
Because CIE may be a partial cause of both democracy and development, some of the impact of CIE on repression in Model 2 may be masked by the inclusion of these endogenous variables (Blalock, 1979: 468–477; King, Keohane & Verba, 1994: 173). Model 4 in Table I shows the theoretically derived estimate of the impact of CIE on repression. As can be seen, the coefficient for

CIE (-0.23) is now far stronger, indicating that a substantial portion of potential causation from CIE to repression has been masked in prior models. To get an efficient sense for the potential impact of CIE on reducing repression, we re-estimated Model 4 with a logistic function, converting the nine-point CIRI index into a binary one by identifying all values below the median (2) as '0' (less repression), and the remainder as '1' (more repression).

Figure 1 shows the impact of CIE for a nation with median values of population size and lag repression.<sup>6</sup> To depict a realistic picture, we excluded values on CIE more than two standard deviations above and below the median. It appears that a change from weak levels of market-contracting to a marketplace society is associated with a 61% reduction in risk of state repression, from 63% to 2%. This is a substantial impact: from reasonably likely to highly unlikely. However, because economic development is not considered in this theoretically derived model, it is possible that some of this impact

<sup>6</sup> The *repression<sub>t-1</sub>* variable was also made binary. The coefficients generated by the estimate, with standard errors in parentheses, are: CIE -0.51(0.08), *population* +0.37(0.14), *repression<sub>t-1</sub>* +3.01(0.21), and *intercept* -1.31.

Figure 1. Impact of Market-Contracting on Risk of State Repression



might be accounted for by development. Thus, we generated a most-conservative estimate by recalculating CIE by dividing life insurance contracting by wealth measured with per capita energy consumption, then log-transformed the resultant. This indicates a proportion of economic activity in contracting, as opposed to the absolute intensity of contracting. Even with this most conservative measure, we get an impressive 49% reduction in risk of state repression, from 55% in countries with low proportions of their economies in contracting (two z-scores below the median), to 6% for the marketplace nations (two z-scores above the median).<sup>7</sup> In short, we can draw from the data that a movement from a highly reciprocating socio-economy to a highly marketplace one appears to result in a very substantial drop in state repression.

#### *Further Tests*

Inferring causation from multivariate regressions requires 'going beyond the statistical information available and making an

assumption about the direction of [causation]' between the primary independent variable and additional variables controlled in the analysis (Blalock, 1979: 474). It makes little sense to control for potentially extraneous variables that are theorized to be at least partially caused by the primary independent variable (King, Keohane & Verba, 1994: 173). Yet, the norm in political science does not follow the logic of multivariate analyses (Ray, 2003). The structure of prior studies, combined with requests from anonymous reviewers, has resulted in a long list of potentially extraneous variables: democratic maturity, foreign trade, Western culture, urbanization, education, economic inequality, foreign conflict, civil conflict, British colonial history, and military governance.

Nine of these ten potentially extraneous factors are theorized to be at least partially caused by CIE (the exception is British colonial history). In a series of studies, marketplace society has been posited to be at least a partial cause of democratic consolidation, peace within and between nations, and trade among them (Mousseau, 2000, 2002, 2003a,b). It follows axiomatically that CIE is not likely to be associated with military governance. Prior studies have also discussed how identifications of 'Western culture' often

<sup>7</sup> The coefficients generated by the estimate, with standard errors in parentheses, are: CIE (adjusted for energy consumption)  $-0.42(0.09)$ , population  $+0.32(0.16)$ ,  $\text{repression}_{t-1} + 3.39(0.21)$ , and intercept  $-1.16$ .

follow the contractual mode of exchange (2003a: 27–28). As discussed above, the world-view associated with marketplace society may also promote economic development, which is associated with urbanization and education (2003a: 23). Marketplace society is also associated with greater economic equality, because the contractual mode of exchange cannot be present unless large portions of a society have opportunities to engage in contract. All these hypotheses are confirmed in Appendix A, where it can be seen that CIE correlates in the expected directions with all these variables. It follows that the theory cannot be tested by including these variables in a multiple regression. The only justification for including them is if we explicitly drop our assumption about the direction of causation and seek instead to discover if CIE offers excess empirical content over prior models of human rights.

To assess *regime maturity*, we obtained the duration variable from the Polity IV dataset, which gives a count for the number of years since a nation's last abrupt change of institutions. Following convention, we identified 'coherent democracies' as those scoring higher than 6 on the 21-point Polity2 index (Mansfield & Snyder, 2005: 72–80). We calculated *democratic maturity* as the product of regime maturity (logged +1) and coherent democracy.

Classical liberals believe that trading is natural. Increasing foreign trade should thus place a nation closer to the natural order of things and reduce tensions and the need for state repression. To assess *trade openness*, we obtained the TRADE variable from the World Bank (2004), which indicates total foreign trade/GDP.

There are multiple theories regarding the evolution of Western culture. Some trace its origins to Classical Greece or the division of secular and religious authority in Europe after the collapse of the Roman Empire. Weber posited the Protestant Reformation (1904–05/1958). More recently some have

suggested Christianity (Huntington, 1991). Depending on which view one takes, Western culture is limited to the post-Roman world, the Protestant world, or the Christian world. Following a reviewer's preference, we report a narrow definition by including in the *West* only the countries of Western Europe, as defined by the Correlates of War (with country codes greater than 199 and less than 361). We also conducted tests with the wider definition of West as including Northern and Eastern Europe, the Western hemisphere, and Australia and New Zealand, and we reached similar results.

Data on urbanization, education, and economic inequality were obtained from Thorsten & Webb (2003: 80). *Urbanization* is the urban population as a percentage of the total population. *Education* is the average years of schooling in the population over 25 years of age, logged. *Economic inequality* is measured with the GINI Index, where 0 represents perfect equality and 100 represents perfect inequality.

To gauge *foreign conflict*, we coded as 1 each nation-year that experienced a foreign militarized conflict, as indicated by the MZONGO variable in the Dyadic Militarized Interstate Disputes Dataset.<sup>8</sup> To gauge *civil conflict*, we drew on the four-point indicator of civil conflict (TYPE 3 and TYPE 4) available in the PRIO/Uppsala Armed Conflict Dataset, version 3.0 (Gleditsch, et al., 2002). For *military regime* and *British history*, we used the measures made available by Poe and his colleagues in an earlier study of repression (1999), updating British history to the year 2000.

The results with all of these variables are reported in Table II. Model 1 includes all the above variables except for *economic inequality*, which is left for Model 2, because it has a high number of missing observations. As can be seen, the CIE coefficient (–0.09) remains negative and significant. This demonstrates

<sup>8</sup> Version 1.1, EUGene corrected (Bennett & Stam, 2000) version dyadmid602 (Maoz, 1999).

that CIE is a very robust variable that does not seem to be explained by any of the posited alternative explanations for human rights; it also adds excess empirical content to our present knowledge. Of the alternative variables, only democratic maturity ( $-0.35$ ), education ( $-0.46$ ), and civil conflict ( $0.50$ ) are in the expected directions and significant at the 0.10 level with one-tailed tests. This cannot be the last word on the extraneous factors, however: multicollinearity among these variables may be masking evidence for causality for any of them. Specific examination of these factors requires a different study. The objective here is more limited: to examine if the combined weight of these extraneous variables can render the CIE variable insignificant. Model 1 shows that it does not.

Model 2 re-examines all of the significant variables from Model 1 after adding control for economic inequality. The latter coefficient ( $0.05$ ) is very significant and in the expected direction: inequality is associated with repression. Democratic maturity ( $-0.05$ ) is no longer significant. This is consistent with Davenport's (1999) finding that the maturity of democratic institutions does not reduce repression. Models 3 and 4 perform the same analyses using the PTS data on human rights. CIE continues to hold vigorously, and the results for the extraneous variables are similar, the primary difference being that trade openness makes it into the second, constrained model (Model 4). Additional calculations of Model 2 show that, of the three variables that survive all four models – CIE, civil conflict, and economic inequality – CIE has the far stronger impact on human rights. Overall, the results in Table II show that no potentially extraneous factor considered here is likely to account for the impact of CIE on reducing repression in nations.

### Implications and Conclusion

We started this article with recognition that most studies agree that democracy and

economic development significantly reduce repression in nations, but there is little agreement on how this occurs. We introduced an alternative explanation that draws on long-standing research in economics and sociology. Economic dependency on ties with friends and family can promote intense in-group kinds of identities and out-group xenophobia. This causes them to have a stronger interest in discriminating strangers from out-groups and abiding by the orders of group leaders. Dependency on strangers in a market, by contrast, creates an interest in a strong state that enforces contracts impartially and the rule of law equally. Since contracts cannot be arranged unless all parties, at least implicitly, assert their self-interest, in marketplace societies, individuals develop habits of respecting the choices of individuals and the equal rights of strangers. This restrains their governments from imprisoning political opponents and committing acts of extrajudicial murder and disappearances.

In this way, marketplace society offers a novel account for political and physical repression in nations, as well as democratic consolidation and market-oriented development. The empirical implication is that prior reports of democracy and development reducing repression may be partly or wholly spurious. Observation of a broad sample of nations from 1977 to 2000 suggests that marketplace society – as indicated by contract-intensive economy – is a significant factor in reducing repression in nations. Development remains a significant force too; the evidence for democracy is mixed. While development and democracy may have independent impacts on state repression, a change from weak levels of market-contracting (two *z*-scores below the median) to marketplace society (two *z*-scores above the median) is associated with a substantial 49% to 61% reduction in risk of state repression in nations.

There are three primary implications of this study. First, we have introduced a new

Table II. Impact of Contract-Intensive Economy with Consideration of Extraneous Variables, 1977 to 2000<sup>a</sup>

Variables	CIRI Data		PTS Data	
	Model 1	Model 2	Model 3	Model 4
Contract-intensive economy	-0.09(0.06)*	-0.26(0.11)**	-0.19(0.04)***	-0.25(0.18)*
Democratic maturity	-0.35(0.12)***	-0.05(0.10)	-0.23(0.05)***	-0.15(0.10)*
Trade openness	0.00(0.00)	-	-0.01(0.00)***	-0.01(0.00)***
West	-0.30(0.30)	-	-0.11(0.37)	-
Urbanization	0.01(0.00)†	-	0.00(0.01)	-
Education	-0.46(0.20)**	-0.65(0.49)*	-0.32(0.20)*	-0.72(0.62)
Foreign conflict	0.00(0.31)	-	0.10(0.12)	-
Civil conflict	0.50(0.05)***	0.21(0.16)*	0.53(0.05)***	0.60(0.13)***
Military regime	-0.35(0.13)†	-	0.01(0.30)	-
British history	0.34(0.29)	-	-0.05(0.19)	-
Economic inequality	-	0.05(0.01)***	-	0.04(0.01)***
Population	0.23(0.07)***	0.32(0.04)***	0.11(0.09)	-
Repression <sub>t-1</sub>	0.94(0.09)***	1.01(0.18)***	2.35(0.24)	2.18(0.19)***
Pseudo log-likelihood	-840	-277	-556	-171
N	629	242	751	267

Entries are ordered logistic maximum-likelihood coefficients with robust panel-corrected standard errors in parentheses. Constants are not reported.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.10$ , † significant but wrong direction (one-tailed tests).

<sup>a</sup>CIRI data 1982 to 2000; PTS data 1977 to 2000.

variable in the study of human rights. While novel for many, the theory that predicts it has been shown to offer a relatively wide scope of explanatory and predictive power (Mousseau, 2003a,b), the most important criteria of viable theory (Cashman, 1993: ch. 1). Future research might seek to overturn the results obtained here, or explore other reasons for the association of marketplace society with improved human rights. Future research may also explore the usefulness of the approach to specific cases. Prior research has shown the economic norms perspective to offer a novel and promising explanation for patterns of democracy, development, and human rights in Turkey (Mousseau, 2006a,b).

Second, this study offers a new way to look at markets that moves us beyond hoary classical liberal and opposing views of the linkages of markets and rights. Against

classical and neoliberalism, we have shown how markets and market values may not be natural but learned; against their opponents, we have shown that markets and human rights may inherently go together. As discussed herein, marketplace society should not be confused with the classical liberal notion of free markets: marketplace society is a descriptive term for a society that is primarily integrated with market-contracting; the 'free market' is a prescriptive term regarding the role of the state in society. From the economic norms perspective introduced here, an intervening state may well be necessary for the emergence and sustenance of marketplace society, as demonstrated by the social democratic models of Scandinavia.

We conclude with the policy implications. To improve human rights, the emergence of marketplace society appears to be an important



factor. To get there, impartial enforcement by the state of the rule of law and contracts, as pushed by the International Monetary Fund and World Bank in recent years, is a necessary but not sufficient condition. The sufficient condition is when most adults can find livelihoods on the market. Strategies for achieving marketplace society are beyond the scope of this article, but it is clear that states can promote it in a variety of ways, including micro-lending to promote contracting among the most impoverished, and equitable and transparent state subsidizing of local businesses. The marketplace societies can help too, by promoting exports from low contract-intensive countries whose states impartially enforce the rule of law and contracts, and by offering substantial economic aid that can subsidize enterprises and market-based employment in developing countries. If economic norms theory is right, over time, minds will change and the rule of law will prevail over the rule of in-groups, and states will lose the capacity and will to engage in oppression.

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## Appendix A. Descriptive Statistics of the Independent Variables and Their Correlations with Contract-Intensive Economy\*

Variable	N	Mean	Std dev.	Min.	Max.	Corr. with CIE
Contract-intensive economy	1,044	6.50	2.15	0.08	10.32	1.00
CIE (adjusted for energy consumption)	1,044	8.01	1.76	1.86	11.80	0.89
Democracy (Polity IV)	1,044	15.33	6.31	1.00	20.00	0.57
Democracy (Vanhanen)	1,041	21.60	13.91	0.00	47.08	0.57
Development <sub>(GDP)</sub>	1,043	9.05	0.81	6.98	10.38	0.79
Development <sub>(energy)</sub>	1,044	1.27	0.65	0.10	2.91	0.59
Development <sub>(infant mortality rates)</sub>	1,025	2.84	0.96	1.14	4.73	-0.79
Democratic maturity	1,031	2.12	1.81	0.00	5.25	0.60
Trade openness	1,003	61.25	33.17	8.96	217.57	0.22
West	1,044	0.29	0.45	0.00	1.00	0.30
Urbanization	1,025	63.61	19.43	16.90	100.00	0.47
Education	1,044	1.79	0.47	0.44	2.50	0.73
Foreign conflict	1,044	0.20	0.40	0.00	1.00	0.03
Civil conflict	1,034	0.45	0.94	0.00	3.00	-0.22
Military regime	669	0.16	0.37	0.00	1.00	-0.34
British history	1,043	0.28	0.45	0.00	1.00	0.20
Inequality	243	34.82	9.07	20.46	61.80	-0.39
Population	1,044	9.90	1.47	5.51	14.05	-0.20

\*Using the CIRI sample (Cingranelli & Richards, 2005).