Episode 371 – Private Cities?
Guest: Alex Tabarrok
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WOODS: I would like to talk about a paper of yours that you co-authored that has to do with, well, first, the general subject of private cities, although you're focusing on a particular one, and then at the end, you talk about other examples, but first of all, tell me about this private city in India. I frankly am not sure how to pronounce it.

TABARROK: So there is a private city, which is Gurgaon, India. It's just outside Delhi, and what is interesting about it is that it's been very, very difficult to build anything in India. Converting land from agricultural to non-agricultural uses is incredibly complicated and bureaucratized, and a big pain, and the state in which Gurgaon is located, it lifted some of these restrictions and sort of centralized them and made it easier to get through these restrictions, and since that time around the 1990s, Gurgaon has grown tremendously from basically a village of 100,000 or fewer people; it's now over 2 million people. It's a city. It's filled with skyscrapers. It's got one of the largest malls in the world, the Mall of India. It's got golf courses. It's the home to Fortune 500 companies. It has just exploded in growth. And it's been almost entirely privately driven, because while the state government lifted some of these restrictions, they did nothing else to help this city along. It's scrubland. There's been no city government. There's been almost no involvement from the state government or the national government, and it's all grown privately. It's fantastic in many ways, as I am sure we'll get to shortly. It has also got some problems.

WOODS: Well, how exactly does something like that get started, given that the state wants to be involved in everything? Was it just a matter of they didn't have the resources, and so people just went ahead without the state? How can we account for this? What interest would the state have in allowing something like this to go on?

TABARROK: We have to be careful when talking about the state, especially in India. It's more like there's like five or six or seven or eight states. There are all these different bureaucracies, and they compete with one another in many ways—state and local bureaucracies and different divisions, and what happened in Haryana was that it was more of a sort of centralization. The central minister's office in the State of Haryana got control over this process, and nobody much

cared because this was sort of waste scrubland, so instead of having a dozen different bureaucracies that you had to go through, you only had to go through the state minister's office, so it wasn't like *laissez faire* in that sense. It was more like, okay, now we just know who we have to bribe. And we've just got to bribe this one guy, and he'll give us license to this big tract of land. There's nobody on this land. There's no other local governments, so once we have this piece of land, we can do what we want with it. So that was the story. It was just a smoothing of the process rather than sort of pure *laissez faire*.

WOODS: Well, in a way it kind of reminds me of the formation of cities in medieval Europe during the feudal days when you would have people who wanted to start a city, and they would have a kind of negotiation with whoever was ruling the area that we will pay you x-dollars in taxes, but we expect self-government and various liberties and commercial freedom and so on and on, and they were able to carve out what turned out to be eventually the most vibrant part of European society at that time. Do you see any analogy with this?

TABARROK: Absolutely, I think that's a very good analogy. It was a carving out an island of freedom amid this bureaucratic chaos elsewhere.

WOODS: All right, let's go through what the scorecard shows, so to speak, in terms of the pros and the cons. As you say, you have here what looks on the surface to be a thriving city. You have people who want to be there, including Fortune 500 companies perfectly happy being there, and yet it is not like any other city you have ever seen. So it does seem on the surface to have quite a few successes, but then there are difficulties. I want to know how infrastructure fits into this. Has that been a success or a difficulty?

TABARROK: That's where the biggest difficulty is. You had these developers, and they got these tracts of land. Within the tract of land, everything is great. So the actual building of the structures—the mall, the golf courses, whatever it happens to be—everything is great, but between the tracts of land, it's a complete disaster. To give you an example, you have these wonderful skyscrapers. But the sewage—it doesn't actually go to a central sewage treatment plant. Instead, quite often what happens is the sewage will go to a truck, and then the truck takes it out and dumps it somewhere, perhaps into the river, perhaps into some unoccupied land, some state land. So it's a very primitive system. The surface is gleaming and beautiful, but underneath is this primitiveness of picking up the sewage and trucking it out and dumping it. Much the same thing is true about the electricity system. So the central system—what little of it exists—is you have outages all the time. It doesn't work very well. You can't relatively on it at all. So private firms have built private systems, which again, they were great for these Fortune 500 companies. They need reliable electricity. They are doing a lot of information technology; transferred telephone calls and so forth. And they get reliable electricity, but it's generated by diesel. That's okay, but it's inefficient compared to having a central plant, so you get more pollution. It's higher cost, and overall, it's not efficient. The same kind of thing is true with water, not just the sewage system, but the water system—completely unreliable.

Often these developments are not connected to a central system. Instead, water is trucked in and delivered out of tanks. So you have much higher costs. Your average costs are much higher when you're delivering water by tank than if you can add a central system, you have increasing returns of scale. You push those average costs down. So what has really happened is that the government completely failed in what at least a neoclassical economist would think of as its standard task of producing some of these goods which have, you know, really large economies of scale. It completely failed in delivering sewage and delivering electricity and delivering water. Private suppliers have taken up the task, but at considerably higher cost and less efficiency.

Now, when looking at this, I must say, I actually thought that I would see over time the private firms coming together to produce more of this infrastructure. As I said, the infrastructure is great on these private property parcels, but the firms haven't got together. They haven't been able to connect these parcels with one another. So you have these islands of private, efficient planning, but you haven't got the large infrastructure, which is really helpful to making a vibrant city.

WOODS: Well, before we try and hash out how these difficulties might be overcome, let's see the other side of the ledger. What can compensate for these difficulties? You may have seen a piece in Salon several weeks ago that was claiming that Honduras, of all places, was in the process of becoming a libertarian paradise—which of course means it's terrible for everybody. It's unfit for human habitation now because they are beginning to develop so-called free cities, not exactly what you are describing here, but not a million miles remote from it, either. So if you were to describe the idea of a private city to somebody at Salon, they would go completely berserk, so what are the pros that you can say in its favor?

TABARROK: So there is a few things. Again, looking at Gurgaon, there have been various market successes. I have already mentioned the skyscrapers and the malls and so forth, but in addition, private security has worked very, very well, so there are far more private security officers in Gurgaon than there are police officers. There are something like 30,000 or 40,000 private security officers. So malls have their own security. Most housing developments have their own security. Even houses will contract to have their own private security forces, and that has worked very well. It's a safe city. Fire provision—also provided almost entirely private—much better than the public system. The public system is completely unreliable. It doesn't even have the capability. Their fire trucks don't reach the top of the skyscrapers, so the private developers had to produce their own fire systems because otherwise their property was under threat. So Gurgaon has the only, or perhaps only one of two private fire departments in all of India, and it was one of the best provided departments—it has one of the best equipments in all of India.

And there is one other point which I need to make, Tom, and that is even though Gurgaon has all of these failings, which I have pointed to in sewage and electricity, in water, it's actually not bad compared to the rest of India. Let's remember it was only a few years ago when India had the world's biggest blackout. I don't know if you remember, but you know, 600, 700 million people were without power for weeks on end. Almost the entire continent had a gigantic

blackout. Most Indian cities don't have central sewage systems. Most Indian cities don't have a reliable electricity system. So if we compare Gurgaon to the average in India, it's actually still pretty good. It's just worse than it would have been either with a benevolent dictator or an optimal social planner or an optimum government, and it's worse perhaps than it could be with a different private structure, as we may get to.

WOODS: This reminds me of a point that Ben Powell and maybe even Pete Leeson has made about Somalia. They have run right in and talked about Somalia instead of running away from it. They've said that the correct benchmark of comparison is not to compare Somalia with the United States in the same way that we don't want to unfairly compare, Gurgaon to, let's say, Boston. The relevant comparison would be a comparable Indian city and the level that it's reached in terms of infrastructure.

But yes, because you do toward the end of the paper try to tick off a few possible ways that these difficulties might be overcome, tell me what you've come up with.

TABARROK: Yeah, so just before I get to that, let me just add to that one point in which you just last said is that some of the smartest, best people in India are actually flocking to Gurgaon. That's one of the reasons why it's been successful, these high-tech workers, so you can also see that compared to other Indian cities, people want to be there despite these problems.

WOODS: Right.

TABARROK: Now, what can we do to address these problems? The issue, as I've mentioned, has been within these private parcels, the private developers, they build infrastructure. Within the private parcels, there's roads. There is some sewage treatment. There is pipes and so forth. It's just that the transactions costs of making deals across these different parcels and building the large scale didn't happen. So one thing we can do is think, well, let's just make the parcels bigger. Let's just extend the property lines. Since infrastructure was built within the property line, let's make the property line bigger. And there's a few models here, one from the United States and from India. The one from the United States I think everyone is familiar with: Disneyworld. Disneyworld is a private city built in the middle of these Florida swamplands. The Disney Corporation essentially provides its own security. It has its own police force. It has its own fantastic sewage and garbage collection system. When you put things in the garbage in Disneyworld, it is vacuum sucked through these pipes underneath Disneyworld, and it's all incredibly efficiently high technology taken and recycled and distributed and so forth.

It, of course, has hotels, which are just like apartments. They are just occupied for shorter periods of time. It has its own transportation network. It's got the monorail, but it's also got parking and networks for cars. So it really is a city which is large enough to have, in the economic speak, internalized the externalities. It's large enough to be able to have built the infrastructure at low cost. It's got its own power plant and so forth. So I think we could do something similar in other parts of the world. And let's keep in mind that the developing world is urbanizing incredibly rapidly. We're not going to see too many new cities in the United States,

but in India, in China, Vietnam, other places in the developing world, we're going to see many, many more large cities over the next several decades. So if we can establish today a better model for building these cities, that's going to have an influence hundreds of years into the future.

WOODS: What would be the reason that an average person would want to live in a private city? And when we say a private city, by the way, how exactly is it run? Maybe I should ask you that. It's not like ABC Corporation runs the city. What do we really mean when we say *private city* in terms of governance?

TABARROK: Right, so my ideal kind of system—there's a few different types of ways of looking at this. An ideal kind of system would have, I think, five to seven of these large-scale or reasonably large-scale private developments all within the same area. So you could fit five to seven Disneylands in Gurgaon, for example, and you need five to seven. That's going to keep costs down. That's going to keep competition between these cities that's going to keep some efficiencies, some room for experimentation, innovation, and so forth. Then the way the city would be run, at least at the beginning, is sort of like a hotel. A hotel is a like a mini-city. People live there. It has some common areas. It has some places where you get food and restaurants and so forth. It's sort of like a hotel. And so at the beginning, at least, these cities would rent out perhaps long-term leases, but would rent out land, and the virtue of that system where this land is rented is that the more the city invests in infrastructure, and in planning, and building a beautiful city, building a city which works efficiently, the higher the land rents are going to be. So you can actually run the entire city on land rents, and the more efficient the city gets, the more it can charge for the land, and so you get an optimal balancing of benefits and costs. The city says, well, should we install underground pipes? Should we put our electricity underground so that we don't—when there's a storm, we don't lose power, and it says, well, yeah, that's going to make our land worth so much more. The firms are going to be willing to pay more. So yes, let's do that. So unlike in a conventional city, where you have to rely on voting, which is not a very efficient method of figuring out what people want, in a voluntary, a private city, you can rely on the market process to a much greater extent.

WOODS: What is exciting to me is just the prospect of competition that people can see for themselves. Here's a city that you might want to live in, and here's a different city that you might want to live in that's structured according to a completely different model, and we can let them compete against each other and see which one wins in terms of who wants to live there, which one seems like a model for the type of lifestyle you'd like to have. I think it's a great way to show the world what we're talking about in books and papers. They can see it for themselves. I have on my shelf, by the way, a book that you co-edited—I mentioned it to you before we went on—some years ago called *The Voluntary City*, and it's got a series of contributions by a number of scholars. So you've been thinking about issues like this for some time, but I am sorry to say I have not gotten to that, but I have always wanted to. What are some interesting ideas in there that might be tied into this general theme?

TABARROK: So if I don't say—thanks, Tom, that's a great book. You should definitely take a look at it. What that does is collects a number of historical examples of privatized services around the world. There is some great material in there, for example, by the historian Stephen Davies on private policing. Before 1830, 1840 or so, Britain had no public police, and indeed, when the public police came to Britain, nobody really wanted them. The public didn't want them because they knew that the reason for the public police was actually to suppress the Chartists and the Suffragettes and people who had wanted change, so the public police were not a very welcome presence. So how did they handle policing in Great Britain before the public police? And essentially what people did—it's a very interesting system. There are some vestiges of it still left. You joined an insurance company: just as you have fire insurance, you would have theft insurance, except not only would the theft insurance cover what you lost, it would cover funds to pay for a prosecutor, to pay for detectives to go after the people who had done the theft. So you would have private security, but also private detectives. And of course, insurance firms for very large, you know, when you insure a diamond or something very large like that, they still do have private detectives, so there's, like I say, there's vestiges of this old system, which still remains.

WOODS: I am going to link to that book and a couple of your other titles on the show notes page. This is episode 371, so that will be tomwoods.com/371. I will also link to the paper that we've been discussing. I will link to Marginal Revolution and more information about you. So tomwoods.com/371 is the clearinghouse for this episode to get the most out of what we've been talking about. Alex, thanks for your time. Very interesting stuff. I don't know very many people working on stuff like this, and I was glad to have a chance to talk to you about it.

TABARROK: Been great talking with you, Tom.