



**WOODS:** Let's talk about startup societies. I know you're going to have a sympathetic audience here with my listeners, because I'm sure practically everybody is frustrated with some level of government at least somewhere. Whether it's the town they live in or the state or whatever, there's a lot of reason for frustration and in some cases, even, frankly, despair. So start off by telling us what exactly is meant by the term startup society because obviously all the examples have something in common, but there can be a wide variety of them.

**MCKINNEY:** Exactly. So a startup society, simply defined, is any form of small innovative jurisdiction. So this can involve a lot of different things. This could include this very libertarian project. It could also include something a little bit more moderate and very common, which is a special economic zone, which is an area within the host nation that has different laws regarding taxation, regulations, and legal systems. There's also eco villages, new city projects, even more egalitarian-type projects like communes or kibbutzes. And the point of creating that term is to have that wide variety of projects that are simply experiments, because I come from a libertarian tradition originally, in a classical liberal tradition, but there's this widespread distrust of existing forms of traditional governance that's not limited just to libertarians. In fact, even before COVID-19 was putting even more distrust in our institutions, this election has illustrated only the inability of our existing institutions to address common-day problems. So what our hope is, is that instead of trying to change the entire system either by doing a communist utopia or even Nozick's concept of a minarchist state or Rothbard's example of anarchocapitalism on a wide scale, it's best to try to start small and then scale from there and attract people who come there voluntarily.

**WOODS:** I think this is very smart, and I bet a lot of the people who are involved in all these different kinds of models don't really think of themselves as being part of a larger movement. They think about their particular case. And what I think you've done is helped to identify that all these different types of experiments, if you might call them that, really do belong to a common — there is a commonality among them. They are part of something, whether the individual participants realize it or not.

And that's something that, for example, at the Tenth Amendment Center, Michael Boldin has done, because there would be people across the ideological spectrum around America who did not at all think of themselves as having anything in common with each other or working on the same sort of thing, but he would come across people who wanted to grow hemp, and there were regulations that wouldn't let them do that. Or people who wanted to take some lifesaving drug, but the FDA wouldn't let them do that. Or they wanted medical marijuana, and they couldn't do that. Or they were concerned about gun regulations, and they felt like that was out of their hands. And what he identified was, what they're all upset about is that a central authority is making major decisions for them that impact their lives, and they'd like to have that decision-making power in their hands.

And so what he said was, there actually is something in common with all these people. It's a movement toward decentralization. So he identified it, and now works with it. And sometimes they have events where these people get to meet each other, and they have nothing else in common apart from this one thing, and they think, *But you know what? That's pretty good. We're all fighting for something that makes the systems we live under be somewhat more responsive to our desires.*

And so I see that in common with what you're doing. You're in effect creating something, you're identifying commonalities across these disparate examples. Now, can you give me a couple of examples of real-life startup societies and particularly if they happen to be quite different from one another?

MCKINNEY: Sure. And I just want to iterate before I do just that I completely agree with your thought pattern. Yeah, there's a wide variety of different organizations. They all have different missions and values. But at the same time, they have the same methodology. And it's important for an organization like the Startup Society Foundation to share best practices and to share a network, so people understand that they can work together and not repeat the same mistakes.

But yeah, there's a whole wide variety. There's things like ReGen Villages, which is an eco village project that's being tried out in the Netherlands, led by James Ehrlich of UCLA. And that's very much focused on having self-sustainability and having governance through local politics and infrastructure that's renewable. But then you have projects that are done by the Free Private Cities Organization, run by Titus Gebel. And that's focused on hyper realization of private property rights and free markets and very much focused on libertarianism.

And then you have sort of this mixture of this free market/private-public partnership model called the special economic zone. And there's 5,400 of these things in the world, and they're radically liberalizing the economy and creating enclaves of free markets, but they have strong partnerships with local governments. And big examples include Shenzhen, which was a series of fishing villages in the 1980s. But because it was designated a status that would allow foreign direct investment and free markets, it grew to one of the largest cities in the world within 30 years. It now has the same gross domestic progress as Portugal, Vietnam, or Ireland.

Another example that's very radical is the idea of a charter city or a free private city. And one example approximately is something called the Dubai International Financial Center, and that is an economic zone within Dubai. And despite it only being 300 acres, it accounts for 4% of the GDP of Dubai, which we found in our research, and .8% of its annual GDP growth. And you're wondering how can this tiny patch of land account for such a large economy? And the reason is it has the most streamlined regulatory code in the world. It has some of the best taxes in the world. And most interestingly, it uses best-practice legal codes. It basically treats a legal system as a product, very similar to what Rothbard talks about or what David Friedman talks about. It imports best-practice legal codes from Wales and England and even hires retired Welsh and English judges to adjudicate cases in Dubai.

And we can create cases like that around the world. We can import or take best-practice legal systems from private and non-state sources and use that to create these enclaves or freedom or experimentation in economic development around the world.

**WOODS:** Those numbers are, indeed, quite striking and arresting. And yet, they remind me of the figures coming out of the late Soviet Union, where 5% of the agricultural land was privately owned, but it was responsible for one-third of the agricultural output. It just goes to show what can happen when you have even a sliver of freedom available to people. How does a special economic zone come about?

MCKINNEY: So this is actually something that we talk about in our book. So the Startup Societies Foundation, we just released a book called *Founding Startup Societies: A Step-by-Step Guide*, and we go from the initial planning phases all the way to managing and developing the zone. But the point where the rubber really hits the road is when you have a team, and hopefully some seed investment, that works with a host government and secures a concession agreement, and that concession agreement is premised on us certain policies that would make that zone attractive. And in the case of a lot of these projects, if it's an entrepreneur, also the ability to manage that zone privately as a company. And so what you do is you work you work with those governments, you create pre-feasibility studies, you

create draft legislation or modify existing legislation, and then you negotiate with them to secure those policy reforms, and then also secure a land grant.

But one way that we have found through our book and best practices to really hasten it is to create a competition to do that. Because a lot of these projects, I think you've seen and if anyone's been paying attention to this space, is that it's really hard to get governmental partners. I mean, this is true with most things. When you start working with them, they finagle the deal, they push it back and make it last long, and then it just dies or it isn't very exciting at the end. But what we recommend is, instead of pushing on to string, we pull it, and we create a competition among multiple jurisdictions in the world to vie for the opportunity to host the startup society. So when an entrepreneur goes to a government, they say, "Well, this deal isn't really effective for us. We would prefer to go to this different country that's offering us a better deal." And using that process to make it a lot easier to secure a good jurisdiction.

**WOODS:** Okay, but let's say I'm some entrepreneur, and I've read your book — which, it really is a step-by-step guide. Just look at the table of contents, for heaven's sake — and I've gone through the steps. I've got an excellent proposal. What am I bringing to the table? Obviously, I'm bringing a tax base to them. I mean, obviously, they're going to want to tax this. And by the way, that reminds me of the model of the medieval cities. I mean, the medieval cities would have their own liberties, but still there were benefits to the higher rungs of government to having them around. How do they know that this isn't going to be a flop? I mean, am I really also bringing the entire population with me? Is the idea that it's going to be so economically robust that people are going to want to flock there? Am I taking an existing population and introducing new opportunities to them?

**MCKINNEY:** So an ideal scenario is you introduce it to a greenfield site, and a greenfield site is defined as an area that doesn't have an existing infrastructure or population. That's the ideal, because it's really not a good idea to introduce a new system on a population that did not agree on — and in fact, throughout the book, we repeatedly and entirely throughout say we cannot have a project come in and impose its worldview. It has to be entirely opt-in.

And in terms of making sure that the state, but most importantly to community, benefit is that we structure the special economic zone or the startup society according to a couple of principles. For one, obviously it's been very well demonstrated that special economic zones generate economic growth, which leads to jobs and what have you. So they have very clearly shown spillover effects, indirect economic effects that impact the population in a positive way.

But we want to go a step further, especially since a lot of these projects, a lot of the criticism is that they don't help the local population a lot or they don't help the states that they're in. So what we recommend in our book is a certain share of the revenue of the startup society is allocated to local communities in what we call an endowment zone. So revenue of the land lease revenues of the special economic zone — so like if companies are leasing space or developers are leasing space to develop, then they further lease out, those revenues go to the startup society. But what we recommend in the book is a certain percentage of that goes to an endowment fund that then funds community initiatives that help empower the country and the local population, and very importantly, to make sure that people know that this isn't just someone taking them for a ride. They are directly benefiting from it.

And also, there's the idea that some of that would go to the state itself, a famous example of which is Singapore. So Singapore actually has what they call a flexi-wage system. They get a bonus every time that Singapore performs well economically. And that system can be easily replicated to civil servants of the host nation if the special economic zone performs well. If the SEZ does well, they get a bonus, so they have an even stronger incentive to maintain the startup society and make sure that it thrives.

**WOODS:** I like having a guy like you on, because the issue of strategy among people who listen to my show is one that interests all of us and it excites a lot of debate, because there are all different proposed strategies, and we all feel like they're all kind of equally hopeless or whatever [laughing]. But there is an electoral strategy. That's one. You run for office or you work within the Republican Party or you join the Libertarian Party, something like that. There's a purely educational approach, where you just make resources available, and you hope that the general public latches on. There's what the Free State Project is doing in New Hampshire. You try something. You just get a bunch of people together, and you see what you can accomplish together. So there are a bunch of ways of approaching this. Also there's kind of a techie way, the thought that between Bitcoin and a number of other technological advances, we will be able to get out from under the boot of the state in that way.

And so your approach is yet another possibility that people can consider. But I wonder, how much has it been tried and how much has it succeeded? I mean, is it a fool's errand, is what I think a lot of people might want to know.

**MCKINNEY:** No, not at all. There is nothing older than a startup society in terms of human civilizations. Every single civilization first started as a startup society. Ancient Sumerian cities started as experiments in urbanization and agriculture. Greek city-states were examples of direct democracy and different forms of organizing the polis. There were even in the Middle Ages, there was a series of city-states that were organized around a free federation called the Hanseatic League. They've existed countless times throughout history.

And in recent history, special economic zones have risen from a dozen to 5,400 now, and 500 during the last year alone. They exist all over the world. In fact, they were vital to the liberalization of the Chinese economy and account for 1% of all global trade.

And the motivations that are leading to these things have only grown. There has been progressively declining trust in our global institutions. People are sick of them. They don't see any way of achieving their values. There's too many people over too large of political entities for them to actually make an impact. And as your listeners know through public choice theory, it's near impossible to actually make a change, because there are these entrenched interests that are stopping them.

So what we need to do is we need to take the example of startup entrepreneurs and tech entrepreneurs and then start small, create in the example that people are attracted to. And this is sort of why I don't call myself a libertarian, because it's not that I don't love the ideas of liberty or think that free markets don't work. It's the idea that if you want to treat your citizens as customers or people that you're providing a service to, you have to put an emphasis not so much on ideological frames, but their ability to opt in or to exit politics. And that's all we want to do. We want to create the ability for people to choose their own politics, and be active, and to leave if it doesn't work. And that's what the United States was founded on. It was the idea that 13 startup societies would be formed that would have their own form of governance. And if people didn't like the Carolinas, they could go to Massachusetts, or they could go to different ports.

And with these elections, it became progressively even more polarized, people became more disenfranchised that things would actually happen. The idea that you have this radical social democrat or you have this mainstream individual that's been in politics for countless decades, and this individual that is extremely polarizing that's been in power since 2016, people are just close to throwing up their hands.

And this was even before one of the most radical things that has happened in politics in the last hundred years: a pandemic that has caused people from around the world to have one single enemy. And what people are finding when facing this one single enemy is that their institutions that were designed to protect them do not work. They do not have a say in how these things are run.

So what we need to do in order to recreate institutions that can actually fight back against problems like COVID is we need to create these special zones or these new micro experiments to create new institutions. And that will not be done through electoral politics and working through the status quo. It won't be done through negotiating with existing states, but by creating these enclaves that help build things up.

**WOODS:** Okay, now granting that each one of these will be different from another, what are some basic features that they tend to have in common? In other words, what's my life like specifically if I live in one of these zones?

**MCKINNEY:** It depends on the severity of the zone, because a lot of special economic zones can be incredibly boring. It could just be an export processing zone. You don't even live in them. But if you have these other more extreme zones, you might have a special visa that applies to it. You might even have a citizenship, so to speak. And in order to be part of the zone, there's a bunch of different arrangements. There should be some form of payment. For some, it's if you have a company, you have to give a certain amount of equity, but you don't have any cash payment. Some is a flat cash payment. Some even have something similar to an income-based model. And for even more egalitarian models, you might even have something like you commit your labor and you get equal share of everyone else. The point being is that there has to be some sort of financial contribution to make.

**WOODS:** Okay, but then what are the benefits? That's my main question. What are the key benefits?

**MCKINNEY:** Well, so obviously, they diverge depending on the specific ideology that you're working on. But let's say we're doing a more libertarian theme for your audience. What the benefit would be is that you get to operate in a truly free market. For the first time in your life, you can operate in a completely streamlined legal environment or regulatory environment. You could do all of your government paperwork in minutes completely online and be able to pay very minimal taxes almost instantaneously. Imagine being able to commit a business and not have to do a whole barrage of paperwork where you have to go there in person. But with this system, you don't have to do it at all. They basically treat government as a service.

And if you've used any companies online in the past, I don't know, ten years, they work constantly to make it easier for you. Like with Amazon one-click policy, you don't even have to put your card information in. It makes it so easy to buy things – which can lead to some negative externalities. But why don't you have something similar with government, where it makes it incredibly easy to set up a business, to run a business, to pay taxes, and the result is you have a lot more entrepreneurs, you have a lot more startups, and then more economic value? And the result is a city that seems to grow out of the ground, like Shenzhen, like Dubai. You have people from all around the world investing money, starting companies, leading to unimaginable prosperity, something that could maybe harken back to the original ethos of the United States. And we think we can make that happen again.

**WOODS:** I'm going to take a wild guess, not knowing the particulars, but I would guess that developing countries would maybe be particularly interested in this, because they might think: we could just use the economic activity, the revenue, more than maybe an entrenched Western country might. That's just a guess. Am I close?

**MCKINNEY:** So, yes and no. So definitely, they are more open to those ideas, because they're really looking for foreign investment. But we also have to be careful, because there's a potential to be predatory with these type of initiatives. You need to make sure that, like sort of what I said earlier in the show, you have a value-sharing agreement with the local economy, because there is a potential, and some zones have demonstrated this, that companies move there and there isn't indirect spillover effects which help the rest of the economy. And then you have this new legal system that is involuntarily imposed upon a new population that's developing and is not well off, and that's not good at all. But yes, in the

sense they do really need an upgrade in governance and they do need an upgrade economically, they would benefit from it.

But it's not limited only to the developing countries. In the United States, there are plenty of pockets of the United States that need help. Detroit for the longest time was one of the biggest examples. There's a lot of Native American tribes that have economically depressed areas, and by the way, the ability to set up their own legal system and special economic zones and regulatory system. So that's something that our foundation has explored before in the past. And unfortunately, with the rise of COVID, it seems that the possibility of an economically depressed United States or Western Europe or around the world is a distinct possibility. A lot of developing countries aren't being hit as hard, but the developed world has. So that might create the possibility that the developed world, while it's still entrenched, is economically depressed. This might give a motivation to many of these countries to create new special economic zones to start from scratch, because things aren't going well economically. And historically, as you know as a libertarian, one of the best ways forward is free markets, enterprise, and investment.

**WOODS:** You guys are putting on an online event, which of course, under the circumstances seems like the wisest course anyway. But I'd like you to have an opportunity to tell people about it.

**MCKINNEY:** Yeah, absolutely. So we realized a couple weeks ago that a lot of events are closing and that people are becoming progressively more scared of what's happening in the world, and it became very defeatist and pessimistic. But we also know people that are working in special economic zones and startup societies, that they have the power to govern better. So dealing with things like pandemics. Because places like Singapore and Taiwan and Hong Kong, which are startup societies, are dealing with a pandemic better. They are flattening the curves, so to speak, much better than large nation states, which have to deal with a lot of other people. Also, these special economic zones and startup societies, they have the ability to increase economic growth even in the depth of a recession.

So we decided to form this conference, which would be digital in order to avoid people spreading the disease, as a way to bring together investors, startup society entrepreneurs, academics, policymakers, people that work with pandemics, all in one place to show how SEZs and startup societies can help address the pandemic and how they can help the world regrow economically afterwards. Because we're tired of institutions that are failing. They aren't properly oriented for the 21st century. And hopefully, in the depth of the pandemic and at the beginnings of a recession, we can have a meeting together that will draw people together to have solutions, because people are panicking. They aren't creating solutions.

So part of this event, we've changed our model from "Don't argue. Build," to "Don't panic. Build." There's nothing helpful about thinking the world is going to collapse into the apocalypse. Now is the time act, to improve, and to better the world, not simply despair about it. And hopefully, we can provide a venue for it on May 1st, and we'll have more information at the Startup Societies Foundation website at [StartupSocieties.org](http://StartupSocieties.org) on Monday.

**WOODS:** Okay, good. That's when people will be hearing this. So will there be a way I can link people directly to sign up for the event?

**MCKINNEY:** I will be sending that to you tomorrow.

**WOODS:** Okay, all right, so when people go to the show notes page, which for today will be [TomWoods.com/1617](http://TomWoods.com/1617), they'll find your website, and then they'll specifically find the page with the details about the event, which sounds very interesting, and I hope people will in fact attend it. Well, Joe, thanks for your really unique work. It's very interesting, and I like having people on who surprise me. And this stuff surprises me. I don't talk about or read about this much, and I'm glad to know there are things going on in the world where people are trying things, and I don't know about them. What I mean by that is that I think back to what it was

like being a libertarian, let's say, in the 1960s, the way Walter Block tells it, that everybody knew every other libertarian in the world. And the fact that I don't know all of them and that I don't know everything that's going on is a sign that things are improving. So thank you for being one of those signs.

MCKINNEY: Absolutely, no problem at all. It is a growing movement, and we should be hopeful. And thanks for having me on your show.