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Creating Libertopia

Michael Strong, November 2011

Many of us have become convinced that the coercive nation-state is itself the source of many of our problems, and that if people were allowed to make voluntary agreements amongst themselves, without a coercive nation-state interfering, then life would become rapidly better for the vast majority of the world's population. But once we have swallowed the red pill, what do we do? Live in a state of despair, frustration, and moral outrage?

We need a specific, practical strategy for releasing humanity from statism. I see the rise of Free Cities in the 21st century to be the most promising such strategy. Free Cities are autonomous or quasi-autonomous city-scale regions, that may be located within existing nation states, but which feature distinct legal systems and governance. By this definition, there is a sense in which Hong Kong and Singapore are Free Cities, and Shenzhen and Dubai might be thought of as quasi-Free Cities. In July 2011, the government of Honduras passed legislation that authorizes the creation of Special Development Regions with largely autonomous legal systems; these may give rise to a new generation of deliberately authorized Free Cities. Other governments in developing nations are considering similar proposals as a means of attracting investment.

For the most part libertarians have been focused on either argumentation or political activism. The Free Cities movement is fundamentally different in that it is essentially an entrepreneurial initiative, with tremendous upside profit opportunities. The quality of the legal system determines the prosperity of a region; the cases of North and South Korea and East and West Germany are well known. Developing nations consistently rank

lower in economic freedom indices than do developed nations; as nations increase their levels of economic freedom, both by means of deregulation as well as by means of improvements in their judicial systems, they typically attract more investment and become more prosperous. The Free Cities movement may be regarded as an entrepreneurial approach to real estate development and global poverty alleviation.

In order to understand how the Free Cities movement can become a practical strategy for creating Libertopia consider the fundamental economics of installing higher quality legal systems in regions with poor legal systems. I compare such "entrepreneurial creation of legal systems" to a change in zoning: Real estate developers often work to change the zoning of a parcel of real estate from residential or industrial to commercial. In many circumstances, such a change in zoning can increase the value of a parcel of land by 2x or 3x overnight. But successful free zones have a track record of increasing land values 50x or 100x. Both Shenzhen and Dubai were low value land thirty years ago; now both are spectacular metropolises featuring high value urban real estate (Shenzhen has grown 30% per year for thirty years, Dubai roughly 20% per year for twenty years). Hong Kong and Singapore were both as poor as some African nations in 1960, both are among the wealthiest entities on earth today. Considered as a rezoning issue, the entire developing world may be seen as poorly zoned real estate that, if rezoned with legal systems that are good for business, will result in significant land value gains.

Such rezoning will also create broad-based prosperity around the world. An unskilled Mexican laborer experiences a 10x to 20x increase in wages by crossing from Mexico into the U.S. Nations such as South Korea, Taiwan, Mauritius, and Ireland moved from lower income to middle income by means of export processing zones that jump-started commercial activity and eventually led to broader economic liberalization (a case can be made that a similar process is taking place in Mexico, India, and China as well).

Unlike development economists, who are still not sure where prosperity comes from, the leaders of more and more nations are emulating these success stories. Paul Kigame, the President of Rwanda, is explicitly

modeling Rwandan development policy on that of Singapore, and the Honduran leaders who created the legislation authorizing Special Development Regions there explicitly modeled their strategy on the examples of Hong Kong, Singapore, Shenzhen, and Dubai. As more developing world leaders realize that the World Bank development economists are clueless, but that in the real world the path to prosperity has been obvious since 1776, more leaders will experiment with free zones and Free Cities.

The early free zones were largely export processing zones. Even in protectionist, crony capitalist regimes some business and political leaders (and they were often more or less the same) realized that they could make more money in an export processing region than they could simply by means of traditional rent-seeking. By creating exemptions from various taxes and regulations for goods produced in these zones, a subset of rent-seeking elites started to create significantly more wealth than they did through rent-seeking. In some cases, other rent-seeking elites lobbied for similar freedoms so that they, too, could take advantage of the extraordinary wealth creation opportunities available in such zones. This is the dynamic that led to increased economic freedom, beginning with zones, in South Korea, Taiwan, Mauritius, Ireland, Mexico, India, and China.

But these first-generation zones were often crony capitalist arrangements that depended on personal relationships in government for temporary reductions in taxes and regulation. The newer generation entities, the best examples of which are the Dubai International Financial Centre (DIFC) and the Honduran Special Development Regions (SDR) are entirely new legal systems with significant operational autonomy. The DIFC was created in 2003 in a deliberate gambit to create a world-class financial center in Dubai. In order to attract leading financial entities, the DIFC hired a retired prestigious British commercial law judge to administer British common law within the 110 acres of the DIFC.

While criminal and family law remained Sharia law, all commercial transactions are based on British common law. The DIFC websites are designed to be customer friendly, with judicial precedents published so that

current and prospective customers (many of which are global financial entities such as Goldman Sachs, Chase, etc.) know exactly the boundary between, say, criminal law and commercial law, and how that boundary has been defined. The result: In just eight years the barren desert soil on which the DIFC was designated in 2003 has become 110 acres of densely built real estate on which stands the 16th most important financial center in the world today.

The Honduran SDR legislation is relatively recent (July 2011) and thus a real-world implementation does not yet exist. But imagine having, say, a region with default Texas law and, more importantly, the freedom to contract around that law to create private communities with entrepreneurially-created legal systems - all within a region featuring privately supplied security, infrastructure, etc. of first world quality. In essence, Honduras is allowing for the creation of regions that are more economically free than Hong Kong, in which law, security, education, health care, infrastructure, etc. may all be supplied by private entrepreneurs (subject to various qualifications).

Some libertarian observers point out that the Honduran legislation does not guarantee absolute sovereign freedom. There are provisions, for instance, that require that 95% of jobs go to Hondurans - the legislation is designed by Hondurans to benefit Hondurans, after all.

The fact is that no one knows exactly how much freedom will be allowed (I am working with a group that is designing a legal strategy to optimize the opportunities for commercial development in Honduras, details available upon request). But from the long-term perspective of moving towards Libertopia, the most important fact about the Honduran example is simply the precedent: A developing nation has democratically voted to allow for the creation of an autonomous legal system as a means for attracting investment and creating prosperity.

Statism is the deepest religion of modernity: The vast majority of people take it for granted that The State = The Legal System. Indeed, few can imagine an alternative world. Consider how disruptive the DIFC example

(initiated by the ruling family of Dubai) and the Honduran example (the first democratic example) is to that equation. Once people realize that a legal system is simply a means of achieving an end (e.g. attracting investment and creating prosperity) and NOT an essential component of The State, we've achieved a fundamental conceptual breakthrough. Why not allow entrepreneurs to create better legal systems for various purposes? Just as entrepreneurs have transformed technology by means of creative destruction, why not let entrepreneurs transform law and governance by means of creative destruction?

What is appealing about this approach is that it shifts the libertarian movement out of ideological debate and conventional political activism and towards the creation of an exciting, dynamic, highly profitable industry based on the entrepreneurial creation of legal systems around the world. Better yet, it does so while simultaneously capturing the moral and intellectual high ground (eliminating global poverty by means of real world solutions that work is both morally and intellectually superior to anything The Statists have to offer).

Developing nations are likely to take the lead in supporting the creation of such an industry simply because they face an urgent need to attract capital and talent in a globally competitive world. But once it becomes obvious (even to development economists) that The State is NOT identical to the legal system, once we have seen dozens of examples of the entrepreneurial creation of legal systems, the purpose of The State will begin to become less obvious.

Suppose, for example, that Honduras (or some other country) finds that 60%, or 90% of its economic activity takes place in Special Development Regions. And suppose that both the individuals and the organizations based in those regions understand the relationship between freedom and prosperity (a crucial feature: these entities should feature ubiquitous education campaigns to ensure that everyone understands this relationship). Then even in a democratic nation we have the foundation for a majoritarian lobby on behalf of allowing even more autonomy, and prosperity, to these regions. This is especially likely to take place if

ordinary people are given a financial stake in Free City development projects, such that they personally and directly benefit from the increases in land values. I see the strategy of distributing shares in such real estate development projects to voters as the "Georgist Libertarian End Game" that is designed to overthrow The State.

The conventional dogma is that The State is required for administering defense, law, and police, at a minimum. Once we have a growing number of examples in which the legal and security systems are administered by a choice of private providers, and that those private providers are the leading sources of prosperity in developing nations, and the leading source of innovations in quality globally, the rationale for The State as we know it becomes attenuated. With the bulk of economic activity around the world taking place in prosperous Free Cities, we may even see a shift away from the wars of aggression that characterize State-level behavior, and towards a more stable (albeit not perfect) state of Peace through Commerce. If an increasing proportion of the world's economic activity is taking place in enclaves of private law, and it becomes widely known that poor nations become prosperous quickly by means of allowing for such enclaves or private law, ordinary people will begin to question the rationale for The State.

For instance although the U.S. Post Office continues to exist, more and more people are wondering why we continue to subsidize an organization that exists primarily to shuffle around junk mail when we've got cell phones, texting, email, FedEx, UPS, DHL, etc. Or, to take a different example, although Britain still has a Royal Family, for the most part it has become harmless, decorative, and at least slightly ridiculous. It may be that by means of the path sketched above, The State may continue to exist for some time to come; the romance of The State is even deeper than is the romance of USPS ("Neither snow nor rain nor heat nor gloom of night stays these couriers from the swift completion of their appointed rounds") or Britain's Royal Family. But if we can shift to a world in which each upcoming generation regards the very existence of The State as at least slightly ridiculous ("We're spending money on what exactly?"), we are on the path to a peaceful, prosperous society for all.

There are many challenging practical steps involved in making the foregoing vision a reality. This is by no means a prediction. It is instead a blueprint for an entrepreneurial course of action, one that will involve real estate developers, marketers, public relations experts, educators, legal system entrepreneurs, infrastructure developers, and thousands of other nuts-and-bolts professionals. There will be many failures and half-baked "successes" along the way. But in order to move from fantasy to reality, we first need a vision, and then a plan. Something like the foregoing vision will allow for the creation of many thousands of plans, some of which will be executed successfully, some of which may lead to the reality described above.

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