Charter Cities

A charter city is a new type of special reform zone. It extends the concept of a special economic zone by increasing its size and expanding the scope of its reforms. It must be large enough to accommodate a city with millions of workers and residents. Its reforms must extend to all the rules needed to support exchange in a modern market economy and structure interactions in a well-run city.

The concept also allows for cross-national government partnerships that facilitate the transfer of working systems of rules to new locations. By adhering strictly to two key principles — that the new rules apply only to people who choose to live under them and that they apply equally to all residents — rules can be copied from elsewhere and still achieve a high degree of local legitimacy.

The Role for Rules

In too many places, weak or outdated rules hold people back. Some rules limit the firms that can sell power, so electricity is expensive. Others fail to adequately contain crime. Others make it unusually difficult to start a business or open a plant. Because of this, firms build new factories not in places where the need for work is highest, but in places where electricity is inexpensive, property and people are safe, and doing business is relatively easy. The few workers who manage to migrate from places with inefficient rules to places with better rules end up earning wages that are many times higher than what they can earn in the places they leave behind.

Though better rules should be easy to replicate, experience shows that existing social systems at all scales, from firms to cities to nations, have great difficulty achieving the consensus that is required to force change on all members. In this setting, competition between different social organizations—organizations that attract new members by implementing better rules—can be a powerful source of progress.

Migrating to Better Rules

The world’s poor know that better rules prevail elsewhere. Gallup reports that 630 million people would like to move permanently to another country. If they could, even more would surely follow, but they cannot because voters in the countries where they want to go, the countries with the best rules, will not let them in.

The world needn’t choose between the extremes of forcing migration on countries that do not want it and shutting out those who want to escape inefficient rules. Charter cities offer a third
option. By copying rules that work, new cities can quickly give millions of people the chance to move to places that start with better rules.

Rules that are known to work well can be transferred to a new charter city in part through the assistance of a partner country. As a result, the formal rules in a charter city, and the norms that these rules encourage, can differ markedly from the ones that prevail nearby. These rules can nevertheless be legitimate in the eyes of the migrants to the zone, just as the rules in a more developed country can be legitimate in the eyes of the migrants who would like to move there. Experience shows that this legitimacy comes from the combination of a decision by a new resident to opt-in to new rules and the social inclusion that follows from equal application of the rules to all residents.

Historically, a new charter that achieves legitimacy through opt-in has been an important source of social innovation. For example, William Penn's charter for Pennsylvania was a critical step in the development of rules that enforce a separation between church and state. His legal guarantee of freedom of conscience had instant legitimacy. People from all over Europe moved to Pennsylvania to live under them. It applied to all residents.

**Structure of a Charter City**

The concept is very flexible, but all charter cities should share these four elements:

1. A vacant piece of land, large enough for an entire city.
2. A charter that specifies in advance the broad rules that will apply there.
3. A commitment to choice, backed by both voluntary entry and free exit for all its residents.
4. A commitment to the equal application of all rules to all residents.

The broad commitment to choice means that only a country that wants to create a new charter city will contribute the land to build one. If there are any partner countries, they will help establish the new rules only if they choose to do so. Only firms that seek out these rules will invest in the city or hire workers there. Only people who make an affirmative decision to move to the new city will live under its rules. They will stay only if its rules are as good as those offered by competing cities.

A charter should outline general principles and describe the process whereby the detailed rules and regulations will be established and enforced in a city. It should provide a foundation for a legal system that will let the city grow and prosper. This legal system, possibly backed by the credibility of a partner country, will be particularly important in the early years of the city’s development, when private investors finance most of the required urban infrastructure.

Of course, a charter should not contain or spawn the rules of a central economic plan that specifies what workers and firms will do. Nor should it contain or spawn the rules of a detailed spatial plan that specifies what people can do in every specific location. The rules that will encourage both the market opportunities and the vibrant city life that will attract new residents will almost surely be ones that leave broad scope for experiments and let competition and choice determine which experiments persist. Moreover, in a city where population and income
per capita will both grow rapidly, the rules should allow much more flexibility and change than would be required in a less dynamic environment.

Possible Structures

There are three distinct roles for participating nations: host, source, and guarantor. The host country provides the land. A source country supplies the people who move to the new city. A guarantor country ensures that the charter will be respected and enforced for decades into the future.

Because these roles can be played by a single nation or by several countries working together as partners, there are many potential charter city arrangements. The hypothetical cases listed below help make the many possibilities concrete and clear. (They do not reflect ongoing conversations or prospective projects.)

- One country could assume all three roles, much as China did in establishing the special economic zone where the new city of Shenzhen emerged. India is considering such a path, using innovative governance structures and public-private partnerships to create new cities on greenfield sites.

- One country could serve as both the host and the guarantor. Another could be the primary source. For example, Brazil might create within its borders an open city with a special legal structure. It might then invite Haitians to be residents of this zone but not of Brazil as a whole. This kind of arrangement could arise from Brazil’s lead role in the UN’s MINUSTAH mission to Haiti. If conditions in Haiti do not improve or if local hostility to the mission continues to grow, Brazil may need an exit. A new charter city in Brazil would give Haitians who want to live under Brazilian rules and policing a chance to do so without forcing this arrangement on those who do not. Because this zone would be within its borders and would attract only the Haitians who want this arrangement, the cost to the Brazilian treasury would be much lower than the cost of an indefinite military occupation in Haiti.

- One country could serve as both the host and the primary source, but a coalition of partners could act as guarantors. For example, Mauritania could host a charter city in which most of the residents are Mauritanians. New Zealand, Norway, and Britain could act as guarantors. By cooperating with these partners, Mauritania may be able to induce higher levels of investment and employment than it could achieve on its own. In the early years of in the life of the new city, three representatives, one appointed by each of Mauritania, New Zealand, and Norway could decide by a simple majority who they appoint as the head of the executive branch in this new city. In this way, the city could have both a strong executive who is personally responsible for such crucial activities as policing. Yet even before a local democracy is well established in the zone, strong executive powers can be combined with full democratic accountability that is enforced by making the executive answer to the existing democracies in New Zealand and Norway. In parallel, Britain could join as a guarantor for the judicial branch by agreeing to make the Privy Council the court of final appeal for the judicial system in the new city. From the very beginning, the new city can have democratic accountability for its executive and an independent judicial check that insures that the executive adheres to the charter.
Completing the Urbanization Project

For 10,000 years, humans have been collecting in dense urban areas. Now, roughly half of the world’s 6.5 billion people live in cities. By the end of this century, total population will probably stabilize at 9 billion or more, and most societies will converge to an urbanization rate of greater than or equal to 70%. This means that over the lifetimes of our young children, more people are likely to move into cities than in all of history to date. It also means that in the lifetimes of our children, the urbanization project will be competed. We will have built the system of cities that their descendants will live with forever.

The question is not whether billions of people will soon move to cities, but where and under what conditions. With policy-as-usual, people will flock to megacities that do not want additional residents. Many will end up as second-class citizens in informal settlements that by definition offer none of the protection that formal rules can provide. For those new arrivals who do get access to formal rules and enforcement, the protections and opportunities will be far worse than those offered by the rules the places where they would rather live.

People will move to cities with no rules or inefficient rules if that is their only option for escaping from the isolation and poverty of rural life. Then, because it is so hard to change the rules in any existing social system, in the cities where most poor people will live, these two features will be locked-in: unequal access to rules that are far below demonstrated best practice.

There is another option. The world has locations where hundreds of newly chartered cities could be built. The benefits that these cities could generate are so large that they could be self-financing. In effect, new cities could be large-scale real estate development projects with benefits that are shared between residents and investors in infrastructure. In a growing city, new arrivals and the existing residents can both share in the gains that come successful urbanization at larger scales.

As it grows, a new city will have to attract new residents. If there are enough new cities, each will be able to compete only if it offers best-practice rules and gives everyone access through a commitment to equal treatment under the law.

This suggests a very different way to think about the intermediate target that could guide policy toward development. Perhaps we should focus on one overarching goal: Every family should have the chance to move between several different cities that compete to attract new residents.