

LESSONS FROM PRIVATE CITIES

Private cities have the potential to teach us what the task of government is, and what can be left to the individual, writes **Darcy Allen**.

DARCY ALLEN
Research Fellow at the
Institute of Public Affairs



Cities are complex creatures in constant flux. Some cities grow and thrive, while others wither and die. A tussle between top-down regulation (by governments) and bottom-up decision-making (by individuals) makes cities difficult to plan.

City planners successfully navigate these uncertain waters by accounting for future contingencies and enabling flexibility for bottom-up innovation. A radically new type of city planning focuses specifically on working out this problem. They're called private (or proprietary) cities.

The idea behind private cities is simple: sell large areas of (often unused) land to private developers. Developers build the roads, utilities and amenities and then they lease or sell property to others.

Mark Lutter, an expert economist on private cities, has summarised the underlying principle as: 'proprietary communities [private cities] offer a way to get rich by

providing public goods.'

Private cities seem radical at first. However, for the developing world—from India to Honduras—private cities provide real relief from corrupt and inefficient governments.

While developing countries are in stark contrast with the bureaucracy of Melbourne, the underlying economics are strikingly similar. Planning has two opposing origins: the government and the individual. Any planning system must balance the individual and the government because they are inherently in tension.

As Australia grows—the population of Melbourne and Sydney are estimated to double by 2055—it is essential we do not simply replicate our current city plans. The unprecedented planning challenges of the coming decades desperately need new thinking. This innovation is unlikely to come from the dictates of a public council.

Enacting institutional change through government is notoriously difficult. Council-based reform is marginal—small changes around the edges—and piecemeal. Private cities provide a solution to this planning deadlock and hope for the liberalisation of our cities.

A recent example is Gurgaon,

India. Just south-west of Delhi, Gurgaon emerged from a loophole in planning policy—the area was so barren that the previous town did not rank at a high enough level to gain an urban planning bureaucracy. Through a liberalisation miracle, several developers purchased the land and set about creating a city. A private city.

The land on which Gurgaon now sits, which was almost barren in 1979, has amassed a population of over 1.5 million in 2015. But Gurgaon is no slum. This private city is a technology and IT hub, achieving the label of 'India's Singapore'. Now over half of the US Fortune 500 companies have offices there.

How could a private city possibly work? Economics 101 suggests that the 'public goods' of a city must be provided by government because no other producer could provide, say, street lights, because they could not recoup their costs.

Public goods are unique because they tend to raise land values. But these values could not be captured by government. They can in a private city, through rents.

Let us think about a private city on a smaller scale: a shopping mall. Why do mall owners provide heaters, footpaths, and parking? These are



■ Gurgaon cityscape, by Dinesh Pratap Singh/Wikimedia Commons

the equivalent of ‘public goods.’ They do so because they can increase the lease price to their tenants. A better mall charges higher prices. To an economist, this is the equivalent of the ‘externalities’ being internalised.

In the same way as a mall—or an apartment block, or a home—the more effective and impressive the product, the higher the lease prices. And this ties the provision of goods directly back to the bottom line of a developer. The unique thing about private cities is you now have an organised, profit-driven company advocating for change.

There are two main benefits that private cities provide. First, planning a city is complex and occurs under uncertainty. No ideal policy ever exists. Private cities help solve this ‘knowledge problem’ by decentralising decision making between competing jurisdictions. This cross-city experimentation allows potential replication elsewhere.

Second, even if governments possessed all of the possible knowledge, there is little reason to believe policies would be implemented effectively and efficiently. Government administration is too often wasteful

and inefficient—bowing down to the organised few (rent seekers) over the disorganised many (taxpayers). Anyone who has attempted a renovation in an Australian heritage-cloaked suburb is well aware of our draconian planning restrictions. This can be traced back to regulatory capture and rent-seeking (but that is a topic for a separate article).

➤ **HOWEVER, PLANNERS AND DEVELOPERS IN AUSTRALIA SHOULD KEEP A KEEN EYE ON THE DEVELOPMENT OF PRIVATE CITIES.**

Private cities remain experimental. We are still in the ‘what worked and what did not?’ phase. Many have emerged in the depths of developing nations—India, Saudi Arabia, Honduras—with a raft of deeper institutional problems of crime and poverty. Cousins of private cities—for example, the King Abdullah Economic City in Saudi Arabia—are also experimenting with new social policies by providing more rights for women.

Not all private cities are smooth sailing. Many have failed on multiple fronts. But these failures should be lessons for liberalisation, not for government. Private cities, consequently, have the potential to teach us what the task of government is, and what can be devolved to the individual.

And some lessons are being learnt. Broad planning tasks should be done by government and the other, more specific and individual issues, should arise out of civil society. Gurgaon is host to 35,000 private security guards, a 9,000 strong police force, and a fully functioning private fire department.

Let’s be clear: no one would suggest the privatisation of our cities. However, planners and developers in Australia should keep a keen eye on the development of private cities.

In 1961, the prominent urban scholar Jane Jacobs argued that ‘the pseudoscience of planning seems almost neurotic in its determination to imitate empiric failure and ignore empiric success.’ This tendency to ignore empirical evidence about planning is no less true today. Private cities provide this evidence—and planners should pay attention. **R**