



## IT'S BEEN DONE BEFORE

### How Prosperity Districts Deliver Policies That Work

■ **By Sam Batkins, JD, and Dean Clancy, MA**

In recent decades, special economic zones have been created around the world, designed to enhance prosperity, usually through some combination of low taxes, light regulation, strong protections for private property, fair and speedy dispute resolution, and an open and welcoming approach to imports and foreign direct investment. Many of these “prosperity zone” experiments have shown great success in generating higher economic growth and employment, compared to neighboring, more-regulated jurisdictions.

Inspired by these successes, a coalition of U.S.-based liberty activists has proposed an interstate agreement, the Prosperity States Compact, to enable participating U.S. states to unleash the benefits of pro-growth prosperity zones within their borders without federal approval or involvement. The proposed interstate compact marks a radical departure from previous, unsuccessful U.S. “enterprise zone” experiments. Among other aspects, the proposal features a unique, bottom-up approach to zone formation, a sweeping elimination of most existing laws and regulations within zones, and an unprecedented interstate governance structure designed to give “Prosperity Districts” outstanding durability and thus attractiveness to investors.

In this paper, we seek to determine whether the proposed Prosperity District model has really been tried before. Is it a novel, unproved concept? Or has it been done before? To answer these questions, we examine several real-world “prosperity states,” including Singapore, Hong Kong, Estonia, Monaco, Honduras, and the United Arab Emirates. On the domestic front, we examine two colorful examples of home-grown “prosperity zones:” the California Gold Rush and Disney World.

We conclude that the Prosperity District model is not new. It has been done before. And with a good deal of success.

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## Introduction

What would happen if a group of individuals sought to create a “special economic zone” within the United States? That is, a state, or a part of a state, where most existing taxes, laws, and regulations, state as well as federal, could be set aside and local residents could govern themselves? And what if people living and working in that zone had the freedom to use their private property more or less however they pleased, provided they didn’t injure their neighbors? And what if, within the zone, individuals and businesses would be freed from regulatory red tape, in favor of governance by private contract, provided they didn’t create problems for others? Would such “zones of prosperity” be more prosperous than surrounding areas? Is a special economic zone even possible in the United States?

The answer, as this policy brief will show, is yes. Special economic zones are not only possible, they already exist, or have existed, in one form or another, in countries around the world, including the United States. It has been done before.

And as this paper shows, it can be done again. We look closely at an innovative new proposal to facilitate the establishment of legally recognized Prosperity Districts throughout the United States, and find that their potential for accelerating freedom, growth, and prosperity in the United States can hardly be overstated.

In this paper, we describe the proposed Prosperity District model policy for the United States and look at examples of existing zone experiments, both domestic and international, in order to gauge the likelihood that the proposed special economic zones would be beneficial. We find that, based on the experience of successful models from around the world, it is not only reasonable but probable that the proposed Prosperity Districts would see rates of economic growth and job creation measurably higher than in competing jurisdictions. The adoption of the Prosperity District concept would also move the United States from the middle of the pack to the forefront of the global special economic zones movement.

## Prosperity Districts Described

Prosperity Districts, as proposed, would combine and improve on all of the tax and regulatory best practices found in other countries with a unique new bottom-up method of zone creation and expansion and an innovative reliance on an interstate agreement (“compact”) to pro-

vide additional stability and durability. The zones would be created, not by governments, but by local property owners on a purely voluntary, unanimous-consent basis. Zone creation would be authorized under the protective sponsorship of a state statute, which is currently in the form of model legislation, but when adopted by the first state, would immediately trump all other laws within that state except for federal law and the state’s own constitution. When a second state adopts the same statute, the legislation is automatically upgraded into the form of an interstate compact (known as the “Prosperity States Compact”), which renders the rights and privileges of zone inhabitants even more durable. If Congress also assents to the Prosperity States Compact, then most federal taxes and regulations are replaced with best practices within the zones.

Each Prosperity District would function as a largely autonomous special economic zone, similar to the Reedy Creek Improvement District that sustains Disney World in Florida. Even with a large measure of autonomy, certain rules would still apply: the federal and state constitutions, basic criminal law, the common law of property and contracts, and the organic legislation itself, which could be tailored by each state to preserve certain state- and county-specific regulatory policies within zones. If states are the laboratories of democracy, Prosperity Districts would be the laboratories for free markets and economic growth.

Critics might claim such a system would be subject to cronyism, corruption, and exploitation of workers.<sup>1</sup> However, the overwhelming lesson from around the world is that corruption is less of a problem in well-designed special economic zones than in traditional jurisdictions, and especially in those zones with the lowest and most predictable tax burdens, where the economic rules are the most liberal and stable, and where public officials have the least discretion to manipulate markets.<sup>2</sup> In places that maximize economic freedom and the rule of law, and minimize arbitrariness in government decision making, corruption tends to be minimal, because the temptations to influence public policy for private ends are minimal.

As envisioned, a Prosperity District will be a model of government transparency. Any corrupting influences will need to overcome a litany of sunlight provisions, specifically: 1) a district’s charter and bylaws must be adopted in public hearings; 2) except for executive sessions, all of the board’s proceedings must be conducted in public; 3)

all governing instruments, records, and accounts must be made public and open for inspection by any person; 4) all information requests must be answered in a timely and responsive manner; 5) districts must undergo a full independent audit once every two years; 6) service contracts must undergo a performance audit once each year; and 7) all audits must be made public.

As mentioned, this concept has been “done before,” albeit in differing forms and to different extents.

From the prosperous and relatively peaceful mining towns of the California Gold Rush to modern economic powerhouses like Singapore and Hong Kong, wherever government has been properly limited, free markets, peace, and prosperity have naturally followed. The current Prosperity States Compact proposal builds on these past and present successes by offering a vision of government without power to tax, regulate, or confiscate, but which instead relies on voluntary private agreements and com-

nia during the gold rush, but despite their isolation from a sovereign, these areas operated as ancestral Prosperity Districts. Property rights and contracts acted as organic regulation, both protecting new wealth and the health and safety of the miners. During this era, “Ownership remained the salient concept. There was indeed a whole set of vesting rights, and imposing obligations that was not limited to a command ... from the ‘sovereign’ backed by threats of force.”<sup>6</sup> Contrary to modern perceptions, the lack of government did not generate a lawless land filled with criminals.

The gold fields established order through mining camps, trial-by-jury, and majoritarian rule.<sup>7</sup> Like the Prosperity District concept, these early zones of freedom started essentially tabula rasa; outside government control was largely non-existent and there was no formal tax or regulatory regime. California didn’t become a state until 1850, two years after Mexico ceded the territory to the United

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mon law to protect the life and liberty of everyone in the community.

### **Special Economic Zones in the U.S.**

#### *The 1849 California Gold Rush*

There is a definite conception in the public consciousness that the “Old West” was a lawless land filled with thieves, murderers, and crooks. However, the absence of government does not necessarily mean the absence of regulation. To the contrary, markets can sometimes heavily regulate themselves and their outliers. Today, for example, private regulators exist to determine “kosher standards.”<sup>3</sup> During the California Gold Rush, mining camps created majoritarian rule, contract and property rights, and even sick leave requirements without federal or state involvement.<sup>4</sup>

As a contemporary observer recalled, “There was no constitutional authority in the country, and neither judge nor officer within five hundred miles.”<sup>5</sup> This describes many of the mining towns scattered throughout Califor-

States.<sup>8</sup> During the interim, most of the area functioned like a nascent Prosperity District.

Beyond threshold government institutions like juries and majoritarian rule, mining camps often imposed modern regulation, such as leave and sick policies for workers. As commentators have noted, “[T]he custom of providing for an injured miner is regarded as a low-cost method of purchasing insurance against illness or injury.”<sup>9</sup> Caring for or protecting the claim of one injured miner could be of benefit if you were subject to illness later. This sick leave policy extended to caring for family members who were ill. According to a provision of the Siskiyou County mining district, a northern California county, “No person’s claim shall be jumpable on Little Humbug while he is sick or in any other way disabled from labor, or while he is absent from his claim attending upon sick friends.”<sup>10</sup> Obviously, this policy was hardly in the vein of crude, “survival of the fittest” anarcho-capitalism. To the contrary, the miners perceived it as fair, and it became part of the culture organically.



Protection of property and contract, and of course an abundance of gold, helped to shape the early civilizations in California, largely without outside government control. As historian W. Eugene Holland notes, “[T]he Western frontier was a far more civilized, more peaceful, and a safer place than American society is today.”<sup>11</sup> This changed somewhat with statehood, as new, more discriminatory regulations took hold. In 1850, the state of California passed taxes and restrictions on foreign miners, largely directed at Hispanics and Chinese.<sup>12</sup> This included a \$20 tax per non-citizen working in the mines. Indeed, as more formal and outside influences came to the mining towns, regulation and control increased. One Californian remarked, “We needed no law until the lawyers came.”<sup>13</sup>

These early mining towns didn’t organize themselves formally as special economic zones, but they largely operated like them, free from onerous regulation or taxes. Yet, despite this extreme form of limited government, miners managed to organize basic laws and preserve order. Government was minimal, but there were still protections for the minority and a sense of fairness. These early prosperity zones were fleeting, but they serve an example of the benefits of freedom without the burden of too much government.

### *Jack Kemp’s Enterprise Zones*

After the mid-nineteenth century, the idea that certain specially designated areas or districts should enjoy the economic benefits of a low tax and regulatory environment was not prominent in American public policy debates, although, as we shall see, it was not forgotten. In the 1970s, Congressman Jack Kemp popularized the idea of “Enterprise Zones” (EZs) for the United States and thus inspired a generation of American urban-renewal activists. Enterprise Zones were tried in a half-hearted way in the 1990s and early 2000s. The experiments did not prove a success, in large part because the original concept was significantly watered down. Not as free as the proposed Prosperity Districts, U.S. enterprise zone experiments to date have imposed more regulations on entrants than they’ve removed. And yet the essence of the idea—reduced government involvement in defined geographic areas—remains popular.

Over the past century, the EZ concept has been tried in one form or another at the state, county, and federal levels. Some of the first recorded enterprise zones, or areas

**Jack Kemp’s Enterprise Zones have not really failed, they have never been tried. The Prosperity States Compact gives us a chance to realize Kemp’s vision even more powerfully.**

of reduced taxation and regulation, occurred in the Deep South during the 1920s. Seeking to rebuild their manufacturing base, local governments offered tax and regulatory incentives to mills or textile factories. In 1925, South Carolina offered tax incentives to manufacturing facilities with less than \$100,000 in capital (\$1.3 million in today’s dollars). All facilities within the zone were “exempt from all county taxes, except for school purposes, for the five (5) years from the time of their establishment.”<sup>14</sup> Other states in the south followed this path, including Alabama,<sup>15</sup> Arkansas (which amended its constitution),<sup>16</sup> and Georgia,<sup>17</sup> providing large tax exemptions for cotton mills and other manufacturing facilities. There is limited evidence these concepts yielded significant economic benefits.

By contrast, the proposed Prosperity District concept would not target politically preferred facilities, but all economic activity; and the tax and regulatory relief would be nearly complete, as opposed to simple marginal reductions.

By the 1960s, the zone concept had taken the national stage, as an anti-poverty strategy, under the patronage of U.S. Senator Robert Kennedy of New York. In 1967, Kennedy introduced the Urban Employment Opportunities Development Act. During its introduction, he noted, “[T]he specific purpose of the bill is to stimulate investment—the creation of new jobs and income—in poverty areas.”<sup>18</sup> However, the legislation was littered with special carve-outs. For example, the definition of a qualified business was exceptionally narrow. To qualify, a business had to be an “industrial or commercial enterprise” and employ at least 50 people on a full-time basis.<sup>19</sup> Retail stores were not included in the definition, nor were businesses relocating from other jurisdictions. Despite bipartisan support, the measure did not become law.

One of the key flaws of Kennedy’s bill was its preference for large, established businesses over small enterprises and



startups. In effect, the bill would have tilted the playing field against new entrants and healthy economic competition. Recognizing this problem, Congressman Kemp in 1980 introduced a bill establishing his own version of an “Enterprise Zone,”<sup>20</sup> which, like a Prosperity District, would leave the economic playing field level and wide open.

The first step in the creation of an Enterprise Zone would be an agreement with a local government.

Unfortunately, because this local application would then have to be submitted to the Secretary of Commerce of the United States, Kemp’s approach invited an initial federal involvement, with the attendant risk of top-down conditions and restrictions—problems the Prosperity District concept seeks to avoid.<sup>21</sup> To be approved, an Enterprise Zone had to meet certain criteria: 1) at least 4,000 residents, 2) a contiguous boundary, and 3) a threshold amount of high unemployment.<sup>22</sup> The third requirement contained several caveats. An area could not qualify unless at least 30 percent of families lived below poverty or

employees reside in the zone.<sup>25</sup> These specific rules, even for a “liberty-minded” bill, as Kemp’s clearly was, stand in stark contrast to the deep federalism and sweeping free-enterprise aspects of the proposed Prosperity Districts.

Kemp’s bill never made it into law, although President Clinton and Democrats in Congress adopted a version of it, with far more special interest carve-outs. For example, instead of one kind of zone with a uniform set of rules, the Clinton version included empowerment zones, enterprise communities, and renewal communities.<sup>26</sup> It also included a byzantine litany of special tax, regulatory, and eligibility rules that did a great deal to mute the ultimate impact of the legislation. Clintonian EZs have not unfairly been described as a “weak imitation” of the original Kempian vision.<sup>27</sup>

Enterprise Zones have never really failed in the United States, because they have not really been tried. Given the limited rollout from the 1993 legislation, the Government Accountability Office (GAO) observed that “data

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recent unemployment was at least three times the national average.<sup>23</sup> These standards limited the scope of Enterprise Zones to only the most economically disadvantaged areas.

If approved, the locality would then have to provide some degree of regulatory and tax relief, namely a permanent 20 percent reduction in the effective property tax rate. Since the bill provided federal incentives to reduce social security payroll taxes (including a 90 percent reduction for workers under 21 and a 50 percent cut for older workers) for employers and employees, Congressman Kemp wanted to ensure lower local taxes as well.<sup>24</sup> In addition to lower payroll taxes, the bill provided for lower capital gains and corporate taxes, but there were specific conditions. For a business to qualify for the reduction, it 1) had to be actively engaged in a trade or business, 2) had to employ 50 percent of “eligible” employees (workers performing most of their work with the employer), and 3) had to have 50 percent of its

limitations” make it difficult to discern the economic effects of the areas.<sup>28</sup> Although the spirit is the same, Prosperity Districts offer a clean slate for areas seeking tax and regulatory freedom—the vision of Congressman Kemp without the federal involvement and top-down micromanagement.

#### *The Magic Kingdom District*

Disney World offers another real-world example of a Prosperity District in action. When Walt Disney was looking for possible locations for an East Coast version of the company’s theme park, he scouted out several locations, but it was the tax and regulatory incentives offered by Orlando, and two counties, that cinched the deal and thereby helped to generate thousands of jobs and millions of dollars in annual economic benefits for the area.<sup>29</sup>

To make the proposed Disney World theme park possible, state and county officials created a special district, not unlike what is envisioned in the Prosperity States Com-



Location	Autonomy	Regulation	Fiscal Policy	Overall
UK Enterprise Zones	3	2	1	2
UAE	1	1	1	1
Singapore	1	2	1	1.3
Hong Kong	2	1	1	1.3
Estonia	1	1	1	1
Monaco	1	2	1	1.3
Honduran ZEDEs	2	2	2	2
Disney World	3	3	3	3

Generally, individuals and corporations pay no direct tax in Monaco. However, companies that have more than one-quarter of their “turnover” outside of the city must pay a tax of 33.3 percent on profits. French residents in the city are subject to French tax rates. For more information, see: Tax system: Monaco Monte-Carlo. Retrieved September 09, 2016, from <http://www.monte-carlo.mc/en/business-congress/tax-system/>.

pact model, named the Reedy Creek Improvement District.<sup>30</sup> The degree of freedom and local control ceded to the company was unprecedented. Reedy Creek was largely an autonomous political district, immune from many land use, fire, and waste treatment regulations.<sup>31</sup> Local government also offered tax incentives, mainly through a 40 percent sales tax reduction.<sup>32</sup>

The Reedy Creek Improvement District did not devolve into anarchy. Just the opposite. Disney World was extremely well governed from the start, and today draws more than 20 million visitors annually, generating hundreds of millions of dollars in economic benefits, without significant negative impacts on neighboring jurisdictions.<sup>33</sup> It remains Orange County’s largest taxpayer.<sup>34</sup> When the district was created, it was exempted from many local regulations, but was hardly without law and order. For example, “It created its own building code that included features, such as smoke monitors, alarms, and fire sprinklers, that were lacking in most municipal codes.”<sup>35</sup> In several other instances, Disney World went above and beyond what was required locally. In short, the district governed itself.

Contrary to popular opinion, government is not the sole arbiter of regulation. Markets self-regulate and often go beyond what is required by federal and state law. For example, in response to the 2009 crash of an Air France A330, Delta Airlines went beyond federal training requirement and flight simulators to prepare pilots for mid-air stalls.<sup>36</sup>

Despite Disney World’s governance structure and immunity from many state laws, the park operates as a safe and prosperous economic zone, benefiting tourists and the surrounding jurisdictions. There have certainly been critics of the tax and regulatory benefits offered to Disney and some of externalities that did result (such as unexpected traffic congestion), but would state and local officials have declined to offer these incentives if the park located somewhere else on the East Coast? The success of Disney World, creating an autonomous and immensely prosperous city within existing jurisdictions, offers real-world proof that the Prosperity States Compact can work.

### *Regulatory Moratoria*

Frequently, incoming governors and presidential administrations will choose to impose a moratorium on new regulations. The length and scope of these moratoria vary, but they tend to act as quasi-prosperity districts. Legacy regulations remain, and there are attempts at reform, but new measures are stayed. At first blush, a temporary delay might not appear to be enough to stimulate economic growth, but recent research reveals states that enact moratoria generate significant benefits.

Even President Obama, no fan of deregulation, imposed an effective stop on new regulations for almost a month, at the start of his term in 2009. His then-Chief of Staff Rahm Emanuel requested all agencies to refrain from publishing new regulations until the administration’s new appointees had an opportunity to review them.<sup>37</sup> Emanuel also asked



agencies to pull back any regulations that had been submitted for formal publication and consider extending the effective date of rules that had been published. The result of this soft moratorium was that the new administration didn't approve a major regulation for almost two months. It then proceeded to pass five significant regulations during the next twenty days.

State governments have implemented more expansive moratoria in the past, generating positive results. Research from the American Action Forum found ten states implementing moratoria in the past ten years. These stops on new rules varied in length, but the longer the moratoria, the greater the economic benefits. The average state implementing a moratorium gained more than 15,600 jobs and created 2,800 new small businesses.<sup>38</sup> In addition, these policies increased total wages by more than \$129 million per quarter.<sup>39</sup>

sand dollars of income as a standard or personal deduction. An example of a federal-level tax exemption is the Internet Tax Freedom Act, which prohibits federal, state, and local governments from imposing an internet-only tax, internet-access tax, bit tax, bandwidth tax, or email tax.<sup>40</sup>

At the state and local levels in the United States, tax breaks are sometimes defined in terms of time rather than space. For example, some U.S. states sponsor special or annual sales tax holidays, which are usually limited to such popular necessities as clothing and school supplies.<sup>41</sup> While tax holidays mostly affect the timing of sales, rather than the volume, governments tend to view them, rightly or wrongly, as tax cuts that stimulate the local economy.

Some state and local governments temporarily relax tax collections during economic downturns, when taxpayers face cash-flow challenges. Typically, the legislature will re-

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Regulatory moratoria have operated successfully from an economic perspective, but consider the scope. They were limited to new regulations, allowing the regulatory accumulation from decades of old rules to persist. A Prosperity District, by contrast, will start with the absolute minimum level of regulation, the law of common law contract and property, with strict standards for adding new rules. If the benefits of limited regulatory moratoria sound promising, Prosperity Districts should deliver even greater levels of economic growth.

### *Tax Moratoria*

In the United States, tax exemptions based on non-geographic factors are common at all levels. Most governments in the United States completely exempt certain items or activities from taxation. For example, state and local sales taxes almost invariably exempt certain items of food and medicine from tax. Likewise, federal and virtually all state income tax systems exempt the first few thou-

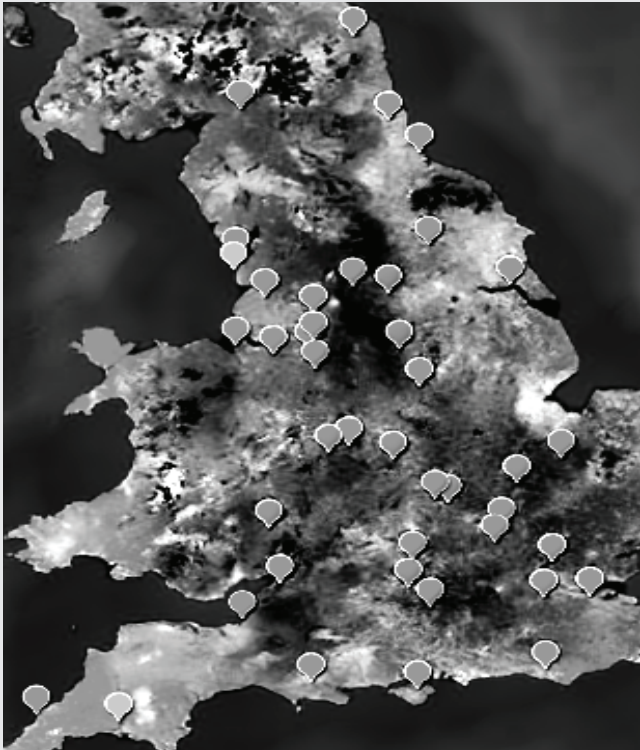
duce interest and penalties for late payment, permit payment in easy installments, and temporarily suspend tax liens. But economic benefits are minimal, because taxes are postponed rather than forgiven.

Among mainstream economists, permanent tax exemptions, and especially permanent tax rate reductions, are generally regarded as more effective than temporary holidays or tax-collection moratoria. In Prosperity Districts, tax rates will be permanently minimal.

### **Special Economic Zones Abroad**

The following chart is an overview of Special Economic Zones and Zone-like smaller countries internationally, including the domestic example of Disney World. It ranks these jurisdictions on a scale of 1 to 3. In the autonomy column, a score of 1 is nation-level autonomy—the highest possible degree of policy autonomy. In the regulation column, a score of 1 is the most pro-growth, economic liberty respecting regulatory policy. And in the fiscal col-





**U.K. Enterprise Zones secured £2 billion in new investment between 1981 and 1984 and had job and business growth of 11 percent between 2012 and 2015.**

umn, a score of 1 is the most pro-growth, least distortive fiscal policy. It should be observed that very little substantive regulatory policy defines the baseline framework of the Reedy Creek Improvement District (Disney World) and the Honduran ZEDEs; in both legal frameworks, the governing body of the zone decides much of applicable substantive policy. Given its level of autonomy, in the right hands, Honduran ZEDEs could score as high as Estonia on regulatory policy.

### *U.K. Enterprise Zones*

Great Britain began to experiment with an enterprise-zones like concept in the 1970s.<sup>42</sup> The architect of the concept, Peter Hall, believed “fairly shameless free enterprise” could aid underdeveloped or abandoned neighborhoods.<sup>43</sup> Then Chancellor of the Exchequer Geoffrey Howe, who oversaw the program, aimed to remove as many government controls as necessary: wage

and price controls, property taxes, zoning, and rental controls.<sup>44</sup> This enterprise zone was to be an area nearly untouched by burdensome government regulation and taxation.

In addition to property tax relief, early British enterprise zones were exempt from corporate income taxes.<sup>45</sup> They were scheduled to operate for ten years, subject to renewal. In a testament to the British model, Enterprise Zones continue today, albeit with more government involvement.<sup>46</sup> Based on the latest data, there are 45 operating zones in Great Britain.<sup>47</sup>

Unsurprisingly, there are significant economic benefits from these areas. From April of 2012 to December of 2015, job growth increased by 11 percent; the number of businesses grew by 11 percent and private sector investment grew by £226 million.<sup>48</sup> Finally, in a survey of the earliest Enterprise Zones, a report found 58,000 new jobs were created between 1981 and 1984 and more than £2 billion was invested.<sup>49</sup>

If critics had doubts about Congressman Kemp’s Enterprise Zones and thought the Clinton-era iteration was uninspiring, there is a wealth of data from Great Britain that supports the Prosperity District concept in the United States. The success of Great Britain can be replicated here.

### *Singapore*

After World War II, Singapore could generously be described as poor nation, far from the status as a developing country. In 1960, Singapore had a per capita Gross Domestic Product (GDP) of just \$2,500 (2005 dollars).<sup>50</sup> Thanks to a series of economic, political, and regulatory reforms, it now boasts a GDP per capita of roughly \$55,000 and is considered a “high income” country by the World Bank.<sup>51</sup>

How did a nation generate an almost exponential increase in living standards in a just a few generations? The government largely left the economic development of the country to markets. According to the World Bank, Singapore has the highest “Doing Business” rank in 2016, unchanged from its title in 2015.<sup>52</sup> It ranks number one in “Dealing with Construction Permits,” “Protecting Investors,” and “Enforcing Contracts.”<sup>53</sup> With few capital requirements, starting a business in the country takes as little as three days; there is no minimum wage and the effective tariff rate is zero percent.<sup>54</sup> For example, here’s how the World Bank demonstrates the ease of starting a business: 1) register online to file the incorporate and tax



## Hong Kong's GDP per capita increased from \$4,700 in 1960 to \$40,000 today in constant dollars.

number, 2) make a company seal, and 3) sign up for “Employee Compensation Insurance.”<sup>55</sup> This process typically costs less than \$300.<sup>56</sup>

The tax environment is even more promising from a growth and prosperity perspective. The top individual tax rate is just 22 percent and the corporate rate rises to only 17 percent.<sup>57</sup> Contrast this to the U.S. top corporate rate, 35 percent, which is among the world’s highest.<sup>58</sup> In Singapore, lower fiscal and regulatory pressures have created almost unparalleled prosperity. During the past five years, its unemployment rate has never eclipsed 2.1 percent.<sup>59</sup>

By today’s standard of government influence, Singapore is a modern “Prosperity City,” but it is still only an exemplar for the possibilities of Prosperity Districts in the U.S. There are still state-owned monopolies in the country, large government ownership of land, forms of wage and price controls, and notable levels of taxation. However, the dramatic economic success of Singapore, with its relatively low tax and regulatory environments, provides yet another real-world example of the promise of the Prosperity District model.

### *Hong Kong*

Widely regarded as the freest economy in the world, Hong Kong functions like a countrywide special economic zone, one that is especially favorable to foreign investment. As the Heritage Foundation, which ranks the Chinese province as the number one country on its index of economic freedom, reports: Hong Kong has a 0 percent average tariff rate. The country remains one of the most open economies in the world for international trade and investment. There is no general screening of foreign investment, and in most cases, foreign investors can maintain 100 percent ownership.<sup>60</sup>

A recent analysis reports: Hong Kong’s government has long supported the predominance of the private sector and has virtually no restrictions on capital, labor or enterprise. There are no official restrictions on foreign ownership, and a company can be started by almost anyone in a matter of days by paying a small registration fee to the Company Registry. There are also no specific incentives like tax concessions to attract foreign investors and the government

does not own or subsidize any industries.<sup>61</sup>

Like Singapore, Hong Kong has benefitted from a tax and regulatory structure that eschews heavy government involvement. Both states generate a large portion of their revenue through land value taxes, that is, taxes on the value of land without regard to the value of any buildings or other improvements thereon. In fact, the government of Hong Kong owns all of the land in the city and is able to generate revenue by effectively leasing out this land. This is perhaps not the hallmark of a limited government, but it’s hard to argue with the results. Fundamental economic reforms have helped to transform an area with a GDP of \$4,700 per capita in 1960 to one with \$40,000 today.<sup>62</sup>

The city’s explosion in prosperity was brought about in part through friendly regulatory and tax policies. For example, Hong Kong is consistently ranked as a top country for ease of doing business and for economic freedom.<sup>63</sup> It currently ranks first in the latter index and boasts a low income tax rate of 15 percent with a corporate rate of 16.5 percent.<sup>64</sup> Starting a business requires a simply choosing a company name and enrollment with “Employee’s Compensation Insurance;” the cost for this two-step process is roughly \$500.<sup>65</sup> By contrast, the U.S. process comprises six steps, that costs 50 percent more, and takes more than twice the amount of time.<sup>66</sup> In terms of economic performance, the city’s unemployment rate has not eclipsed 3.8 percent during the past five years and has not exceeded 6 percent in a decade.<sup>67</sup>

As the economy has changed over the years, the government has evolved as well, deregulating industries across the board. From the deregulation of public transportation to modernization of the telecommunication industry, the city has often opted for reduced government involvement.<sup>68</sup> For example, in the 1990s the telecommunications industry transformed from a monopoly to four competitors and when the international airport opened, two firms competed for cargo services and three for ramp handling.<sup>69</sup>

In a sense, the economic growth of both Singapore and Hong Kong is a testament to their joint commitment to free trade and market liberalization. Both established free trade regimes by linking their currency to international



### Estonia GDP Per Capita Growth (EU=100)

	1998	2000	2007	2008	2009	1998-2009
Estonian GDP Per Capita	42	45	69	67	62	+20

prices, and both made credit available internationally, although they did not subsidize it directly.<sup>70</sup> Despite some dire predictions about market liberalization, relaxed regulatory environments, and low taxation, both Asian economies have prospered, offering ample evidence to support the Prosperity District concept.

#### *Estonia*

After the fall of the Soviet Union in 1991, Estonia was largely left with a blank slate. Generally, it had to establish its own tax and regulatory regime. It began by largely casting off communist rule to create a free-market state in Eastern Europe. It established bilateral trade agreements with other nations, joined the United Nations, and the World Trade Organization.

In the wake of its bold post-communist reforms, Estonia has become what amounts to a countrywide special economic zone. Having removed most restrictions on foreign direct investment, it is now one of the leading countries in eastern and central Europe in foreign direct investment per capita. Foreign investors enjoy the same rights as domestic ones, and the investment environment is attractive and conducive to the free flow of capital.<sup>71</sup> Estonia has a territorial tax system that exempts 100 percent of foreign profits.<sup>72</sup>

As one reviewer summarizes: As with other small-scale open economies, Estonia requires a constant flow of foreign investment in order to maintain its economic expansion. ... FDI [foreign direct investment] represents nearly 80% of the country's GDP. This high level of foreign investment—facilitated by the country's very pro-business legislative framework and, more broadly, by the business-friendly attitude of Estonian society—is the expression of the country's perfect integration into the northern circuit of production, in which the Estonian subsidiaries often function as outsourcing sites for Scandinavian parent companies. The country is ... an attractive location for investment in the Baltic region (one of the fastest growing European markets in recent years), with a strong economy.<sup>73</sup>

The country largely demonstrated its commitment to limited government by establishing low tax rates: a 20 percent limit for both individuals and corporations.<sup>74</sup> Estonia ranks ninth in the world on the Wall Street Journal's Index of Economic Freedom, ahead of the United Kingdom and the United States.<sup>75</sup> According to the World Bank, Estonia ranks 16th in the world on its Ease of Doing Business rank (11th in enforcing contracts), sandwiched between Germany and Ireland.<sup>76</sup> Starting a business takes roughly three days, after registration, a \$162 fee, and ensuring compliance with the VAT and the Estonian Health Insurance Fund. One can start a business in less than half the time it takes in other high income OECD countries.<sup>77</sup>

As the Tax Foundation notes: Estonia is one of three OECD countries to correctly define their property tax base by only taxing the value of land. This is important because many countries tax both the value of land and any buildings or structures built on top of [it]. This, in effect, becomes a tax on capital; if a business builds any new structures or buildings, it will result in a higher property tax bill. Instead, Estonia's tax system is neutral between land holding and development.<sup>78</sup>

This freedom-centric approach to governing has resulted in incredible prosperity growth for the nation. The chart above depicts Estonia's rapid emergence from recovering Soviet territory to modern industrialized country in less than a generation.<sup>79</sup>

The nation experienced a bit of dip during the global recession, but it fared as well as its Baltic neighbors.<sup>80</sup> Part of this incredible growth is driven by what has been described as a "virtual absence of regulatory barriers."<sup>81</sup> Tariffs in the nation are low to non-existent, and as a testament to its regulatory apparatus, only 4 percent of businesses consider the regulatory environment to be a hindrance to competition.<sup>82</sup>

How did it achieve this degree of freedom and openness? At 1.3 million people, Estonia is not a stereotypical special economic zone, but it does share many of the characteristics of these start-up, limited government ju-



risdictions. For example, it chose to limit its regulatory growth and has a modern and effective regulatory management structure. Estonia has a “Legislative Quality Division” that provides oversight and ensures transparency thorough ex ante Regulatory Impact Analyses.<sup>83</sup> In addition, Estonia allows robust public comment on pending regulations through an online portal.<sup>84</sup> The nation also has a system in place to conduct ex post analyses of legislation and regulation, although it has been slow to implement these reviews. According to an OECD review, Estonia’s bests other comparable industrialized countries with the breadth of regulatory review.<sup>85</sup>

In sum, Estonia is a nation-state with 1.3 million people that lived under the Soviet Union for decades. When it broke free from Soviet rule, it had to craft its own economic future. By choosing a limited tax and regulatory environment, it created incredible prosperity and a framework for even more growth in the future.

### *Monaco*

In contrast to Estonia, Monaco is a city-state with just

on OECD, World Bank, or Wall Street Journal ranking profiles.

From a regulatory perspective, there are generally no restrictions on non-residents or immigrants entering the city and buying property or investing. Monaco is not a full member of the European Union, but it does share many of the regulatory customs of France.<sup>89</sup> It is not covered by the World Bank. Notably, it does appear to impose restrictions on the establishment and operation of a business in the city. Changing the terms of a business, for example, requires explicit approval.

In sum, Monaco offers several parallels to the Prosperity District model—its small size, complete absence of taxation, and generally favorable regulatory environment—but it is unclear whether it is truly comparable, due to a dearth of information on its regulatory procedure and whether it actively engages in retrospective regulatory review.

### *Honduras ZEDEs*

The preceding examples were largely all outgrowths

With a GDP per capita of just \$4,900, about 17 times less than Singapore, it is no surprise Honduras has sought innovative new approaches to reduce poverty and improve upward mobility.

37,000 people, yet its commitment to economic freedom is just as strong. For an idea of scale, Monaco is less than one square mile, the necessary size of a Prosperity District in the proposed model legislation. Although economic freedom is almost unrivaled in the world, the city is governed by a monarch, Prince Albert II, as head of state. He and the National Council wield legislative power.<sup>86</sup> Thus, it’s difficult to draw direct comparisons between Monaco and the Prosperity District model.

However, as the city boasts, there is a “total absence of direct taxation.”<sup>87</sup> That equates to zero percent corporate and individual rates. However, there are exceptions. French residents are taxed according to France’s punitively high tax rates and if a company derives 25 percent of its “turnover” from outside the city, it is subject to a 33 percent tax on profits.<sup>88</sup> Generally, comparisons to other nation-states is difficult, as the city does not appear

of a limited government model in a relatively small geographic area. Although laudable, none of these examples perfectly fit the mold of a prosperity city, despite their incredible economic performance. Honduras, however, appears to be attempting the experiment. The Central American republic has adopted “zonas de empleo y desarrollo economico” or ZEDEs (zones of employment and economic development). These areas can decide against existing regulatory and tax structures and opt for a structure very similar to the proposed (U.S.) Prosperity District model.<sup>90</sup>

With a GDP per capita of just \$4,900, about 17 times less than Singapore, it is no surprise Honduras has sought innovative new approaches to reduce poverty and improve upward mobility.<sup>91</sup>

The nation has granted its forthcoming ZEDEs a great deal of autonomy coupled with a sweeping mandate to



“adopt through their domestic legislation the international best practices suitable to attract domestic and international investment.”<sup>92</sup> Article 3 of the ZEDE organic law declares:

ZEDE enjoy operational and administrative autonomy that includes the functions, powers and duties that the Constitution and laws confer upon municipalities. They shall have autonomous and independent courts with exclusive competence in the ZEDE, which can follow legal systems or traditions from elsewhere [e.g., ‘common law or Anglo-Saxon tradition’—Article 14], and which must ensure the constitutional principles of human rights protection.<sup>93</sup>

Article 6 adds: “Any natural or legal person may, without discrimination of any kind, be part of the ZEDE”<sup>94</sup> If implemented in the liberal spirit of the organic act, the foregoing guarantees will make Honduras’s special economic zones among the world’s most favorable to foreign direct investment.

In a ZEDE, individual income taxes must not exceed 12 percent and corporate taxes are limited to 16 percent.<sup>95</sup> This is not directly analogous to the Prosperity District model, as direct taxation is prohibited in that model. But it does reflect a preference for low taxes.

Generally, ZEDEs can run their own courts and adopt their own customs, but these areas must operate as a free trade zone and allow competition. As Cato Senior Fellow Richard Rahn, who is an official advisor to these zones notes, ZEDEs will be able to create their own infrastructure, including fire, police, and medical systems<sup>96</sup> The “free cities” will also allow choice in currency and operate a free regulatory structure that is designed to attract local and foreign investment.<sup>97</sup> There are some statist, but understandable, regulations contained in the ZEDE concept. “It is prohibited to employ less than a ninety percent (90%) of Honduran workers and pay them less than eighty-five percent (85%) of the total wages earned in their respective companies.”<sup>98</sup> Recall that Senator Kennedy’s and Congressman Kemp’s Enterprise Zone legislation contained similar elements.

Like the formation of a Prosperity District, incorporating a ZEDE is a straightforward process. According to Honduran officials, there are three broad guidelines:<sup>99</sup>

- The Institute of National Statistics must designate the zone one of “low density,” any place with fewer than 35 people per square kilometer (roughly the popula-

tion density of the United States).<sup>100</sup>

- The Committee for the Adoption of Best Practices will then present a study of feasibility and proof of financial capacity.
- The final stages involve presentation of a master plan, including an appearance before a notary public and formal register. The ZEDE must then begin within one year.

The founders of ZEDEs have said that these areas will not operate as lawless zones, but rather provide structure for markets and individuals to prosper. Discrimination is illegal in “all forms;” there is a special court to address human rights issues and violations of property rights are prohibited.<sup>101</sup> Given the country’s high murder rate, the protection of property rights and general physical health of citizens is warranted.

The Honduran ZEDE model stands as one of the premier forerunners of the Prosperity States Compact movement. Free from the top-down constraints of U.S.-style Enterprise Cities, ZEDEs are organic areas of freedom that operate largely independent of other governments. While not perfect, they are a promising experiment, heralding unparalleled economic growth while protecting property rights and health.

## Best Practices Summarized

Based on the examples we’ve reviewed so far, we can begin to define the best practices of the most successful zone experiments around the world. These appear to be: 1) light, predictable taxation, 2) minimal, sensible, and consistently applied regulations, 3) strong protections for private property, 4) fair and speedy dispute resolution, and 5) an open door to foreign direct investment.

Of these five best practices, encouraging foreign direct investment is arguably the most important and certainly the most under-appreciated. Examples of best practices within this category include policies that permit 100 percent foreign ownership of an enterprise, impose no restrictions on foreign direct investment, and allow 100 percent repatriation of capital and profits. In non-rich countries, foreign investment is needed to provide the amount of capital and the level of industrial expertise and organizational prowess necessary to turn a garden-variety free trade zone into an economic powerhouse. The most successful zones eschew “buy local” and “own local” policies, and keep “hire local” quotas to

**Speculative, special interest-driven, regulatory approach won't occur in Prosperity Districts.** Regulation will be treated as a last resort, only after the government has proven there is a real, identifiable harm to life or property and the zone has employed the "least restrictive regulation for achieving its asserted purpose."

a minimum, in order to maximize capital inflows and investor flexibility. In doing this, they maximize local job creation and prosperity.

#### *United Arab Emirates*

As a final international example, we turn to a country whose special economic zones feature all of the aforementioned best practices.

The United Arab Emirates is in some ways the exemplar of the Prosperity District concept par excellence. The UAE is a world leader in attracting foreign direct investment. Its more than three dozen Free Zones enjoy special tax, customs, and imports rules and operate under their own regulatory frameworks based on common law, although UAE criminal law still applies. Notably, Free Zones permit 100 percent foreign ownership of an enterprise and 100 percent repatriation of capital and profits.<sup>102</sup> In addition to exempting Free Zone products from all import and export taxes, UAE Free Zones levy no personal income taxes and may grant corporate tax exemptions for up to 50 years.

The result? Nationally, the UAE saw strong average GDP growth of 4.76 percent from 2000 to 2015 and a respectable 3.9 percent growth in 2015.<sup>103</sup>

### **Regulatory Best Practices in Prosperity Districts**

Followers of regulatory policy today are aware of the current output of major regulation. In slightly more than seven years, President Obama was able to product 600 major rules;<sup>104</sup> in eight years, President Bush managed 496 major regulations.<sup>105</sup> Regardless of party, future presidents are likely to continue using regulation as their most powerful policy tool.

It is within this lens that states and local governments have been searching for ways to reduce their regulatory burdens. Through regulatory moratoria, discussed earlier, to formation of Enterprise Zones and Prosperity Cit-

ies, there is a recognition that regulation ought to be a means of last resort, after demonstrating a major market failure has occurred and other regulatory alternatives have been examined.

### **Prosperity Districts Implement These Lessons**

The Prosperity District concept is the confluence of the best ideas for rulemaking, in process and substance. Constraints on government allow individuals and business regulatory stability without the burdensome accumulation of new rules. However, it differs sharply with some of the examples discussed earlier. This is not merely a reform or amendment of state and local regulation. It is wholesale deregulation, to be replaced with the common law of contracts and property to ensure markets continue to operate efficiently. The Prosperity District concept isn't merely a tweak to existing local regulation, it casts off such regulation and offers in its place a best-practices procedure for any new rules.

At the outset, Prosperity Districts make explicit that there is no "power of eminent domain" within the zones.<sup>106</sup> This singular, but critical feature, should rebut claims that the zones could act as havens for special interests to produce a cronyist enclave. Whether it's Pfizer attempting to build a new factory or a sports franchise seeking a plot of land, Prosperity Districts are explicitly prohibited from taking from one party and ceding land to another or to the government itself. Business seeking to operate in a Prosperity District will have the regulatory certainty that no government act will force them to relocate. This step is hardly radical, as 43 states improved their eminent domain law in the five years after *Kelo v. City of New London*.<sup>107</sup>

Likewise, the Prosperity District model legislation explicitly rejects state-sponsored monopolies. According to the text, "[A] Prosperity District ... may not authorize by regulation or otherwise any monopoly or cartel in



the provision of any good or service within its jurisdiction.”<sup>108</sup> On the federal and state level today, such provisions are woefully lacking and government-sponsored monopolies are prolific, along with their inherent flaws and frequent failings.

One need look no further than the dysfunction with Washington, D.C.’s regional transit system to see the value in rejecting monopoly power.<sup>109</sup>

Finally, Prosperity Districts codify an important, but often overlooked common law principle that many cherish: *sic utere tuo ut alienum non laedas*. Roughly, this translates to the maxim that one should use one’s own property without injuring others. Prosperity Districts employ this adage by prohibiting any regulation that restricts adults from acting on their own accord, so long as the action does not threaten or violate anyone’s individual rights of life, liberty, or property.<sup>110</sup> Consider the implications of this basic prohibition. “Shaming” regulations like Pay Ratio Disclosure Requirements,<sup>111</sup> redundant menu labeling rules,<sup>112</sup> or Net Neutrality<sup>113</sup> would never last in a Prosperity District. Government would only act when there is justifiable harm based on real threats to health or safety, not speculative notions invented by aggressive regulators.

### Regulatory Impact Statements

Generally, when government intervenes in the market, it should at least justify its actions. This reasoning partially explains the creation of the Administrative Procedure Act of 1946, and today many federal agencies routinely employ regulatory impact analyses (RIAs) during the proposed and final stages of the rulemaking process. Unfortunately, independent agencies are largely exempt from RIAs and most states and local governments never explain regulatory action, nor conduct rigorous benefit-cost analysis.

The Prosperity District concept rejects the notion that local governments can impose regulation without adequate justification. As a “precondition” of rulemaking, the zone must conduct an RIA and publicly report:

- The nature and magnitude of the threat to individual right to life;
- How the regulation could or did produce the desired outcomes;
- Consideration of a wide variety of alternate and less restrictive or burdensome regulatory approaches;

The proposed Prosperity Districts would be created, not by governments, but by local property owners on a voluntary, unanimous-consent basis.

[and]

- The benefits and costs of a wide variety of alternative regulatory approaches or solutions ... including a showing of how much of the problem the regulation is likely to solve.<sup>114</sup>

Too often in the regulatory world, regulators act on the specter of perceived harm and fail to analyze the costs and benefits of regulatory action. Net neutrality regulation is a perfect example. After reclassifying broadband as a public utility, the Federal Communications Commission (FCC) omitted even a perfunctory analysis of costs.<sup>115</sup> It acted under the assumption that telecommunication companies could start harming consumers and other competitors through anti-competitive and discriminatory practices. FCC did not, however, prove how the telecommunication market had failed or demonstrate the quantitative consumer loss in the current market. It is telling that the word “could” appears more than 120 times in the final rule (more than once per page).<sup>116</sup>

This speculative, special interest-driven, regulatory approach won’t occur in Prosperity Districts. Regulation will be treated as a last resort, only after the government has proven there is a real, identifiable harm to life or property and the zone has employed the “least restrictive regulation for achieving its asserted purpose.”<sup>117</sup> These ideas are hardly radical. Indeed, they are supposedly standard practice at the federal level. The Office of Management and Budget’s (OMB) Circular A-4 on best regulatory practices states, “If the regulation is designed to correct a significant market failure, you should describe the failure both qualitatively and (where feasible) quantitatively.”<sup>118</sup> Despite these common sense guidelines, many federal agencies routinely fail to follow the guidance.<sup>119</sup>

Perhaps most importantly, the regulatory reforms



and RIA requirements in the Prosperity District concept are enforceable, allowing private parties to bring suit if government flouts the rulemaking procedure. Once a claim is made that the government violated regulatory procedure, it must demonstrate with “clear and convincing evidence” that it strictly complied with the requirements. This is in stark contrast to most federal regulatory reform, which explicitly prohibits individuals from challenging executive action. For example, President Obama’s Executive Order on regulatory reform, No. 13,563, rejects individual action: “This order is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States.”<sup>120</sup> Likewise, even statutory reforms like the Unfunded Mandates Reform Act deny a private right of action, even if agencies willfully flout the law.<sup>121</sup>

The unenforceable nature of regulatory reform partially explains the explosion of regulatory accumulation during the past few decades. Congress and presidents pay lip service to reform and then agencies routinely ignore these measures. As a result, the public is subject to a major new rule roughly every three days.<sup>122</sup>

To combat regulatory accumulation, the Prosperity District concept contains an “Automatic Repealer” for regulation. No longer will obsolete, redundant, or overly burdensome rules remain in effect for generations. The repealer creates a five-year sunset for all regulations promulgated by a zone.<sup>123</sup> In other words, every new regulation has a five-year expiration date. Only after a Prosperity District once again performs a RIA, subject to strict guidelines, can the government reinstitute a rule.

There are numerous benefits to this approach, both from a free-market perspective and a public health and safety view. Generally, under the current regulatory approach, there is little evidence to determine whether federal regulations are effective. Have they achieved their desired goal? What was the competitive impact? Were there unintended consequences? The Prosperity District model seeks to answer those questions *ex ante* and *ex post*. The five-year expiration will allow policymakers and members of the public to determine if the government should modify or repeal the rule.

With the five-year phase-out, businesses and consumers will doubtless incur sunk costs from the previous implementation of regulation. These will be impossible

to recoup, and it is possible some business might seek to continue some regulation because they might act as barriers to entry, thus reducing competition. Business is entitled to lobby, but the Prosperity District subjects each rule, no matter the public support or opposition, to the same rigorous analysis and prohibits special interest rulemaking. The model legislation makes clear that government cannot promulgate a rule if, “any part of its purpose is to protect any individual, entity, or group from otherwise rightful competition.”<sup>124</sup> The cronyism protections in the model legislation are solid and the five-year review provides the public a valuable opportunity to actually learn the results of new regulation.

### **Randomized Controlled Trials**

Prosperity Districts introduce a bit of the scientific process into policymaking, allowing other local and state governments to learn from mistakes and success. The randomized controlled trial (RCT) is the gold standard when evaluating the robustness of an experiment. A well-conducted observational study has value, but RCT’s often allow experts to isolate the impact of the dependent variable.

Prosperity Districts offer the ultimate example of a RCT for tax and regulatory reform. The beauty of the model is the districts’ heterogeneity. There will be some differences in how zones establish revenue sharing and their internal regulatory environment. In time, zones (and non-zone jurisdictions) will have sufficient evidence to determine which practices work and which don’t.

Often in policy the counterfactual is unproven. What would have been the economic impact if tort reform had not been enacted in a state? What if the federal stimulus bill had never passed? Prosperity Districts offer the ability to be the ultimate laboratories of democracy, demonstrating that a truly limited government can produce incredible rates of economic growth while still protecting the health and safety of its residents.

### **The Future of U.S. Prosperity Districts**

In the United States, as we have seen, local enterprise or renewal zones, which have been implemented in a top-down, political way, have not proven successful to date. A new, alternative model has been proposed that bids fair to produce far more economic growth and job



**There would be virtually no taxes or regulation within Prosperity Districts.** There would also be almost no political or regulatory involvement or interference, either at the time a zone is established or thereafter. Congress would have no role in the creation of a zone. Nor would any state government, except for a ministerial duty to register a zone's existence.

creation. The Prosperity District model policy would essentially combine all of the best tax and regulatory best practices found in other countries, together with a unique, bottom-up method of zone creation and expansion. An innovative reliance on interstate agreements would provide an added measure of stability and durability in the proposed zones, increasing their attractiveness to investors.

As we have seen, the proposed Prosperity Districts would be created, not by governments, but by local property owners on a voluntary, unanimous-consent basis. Zone creation would be authorized under the protective aegis of a state statute, which is currently in the form of model legislation, but when adopted by the first state, would immediately trump all other laws within that state, except for federal law and the state's own constitution. If a second state adopts the same statute, the legislation is then automatically upgraded into the form of an interstate compact, which, being in the nature of a treaty or solemn covenant, renders the rights and privileges of zone inhabitants even more secure and durable. If Congress assents to the compact, then most federal taxes and regulations are also eliminated in the zones.

There would be virtually no taxes or regulation within Prosperity Districts. There would also be almost no political or regulatory involvement or interference, either at the time a zone is established or thereafter. Congress would have no role in the creation of a zone. Nor would any state government, except for a ministerial duty to register a zone's existence. Nor would any local government, except for a right to exclude an existing zone from expanding into its jurisdiction. No government would have any say with respect to a zone's boundaries or size, although certain rules would still apply, namely: the federal and state constitutions, basic criminal law, the common law of property and contracts, and the organic

legislation itself, which could be tailored by each state to preserve certain state- and county-specific regulatory policies within zones.

Under the proposed legislation, a local Prosperity District could be created voluntarily wherever 100 percent of local property owners and electors in a contiguous area band together to form a zone. The zone's governing board, known as a Prosperity District, would be a political subdivision of the state in which it lies, and would be exempt from most state and local (and if Congress assents, most federal) laws and regulations. However, as we have noted, certain kinds of laws would still apply, specifically traditional common, contract, and criminal law, and the state and federal constitutions.

### **Certain Fiscal Policy Districts**

The prosperity district board would have no power to levy taxes of any kind. State and local (and, if Congress assents, federal) taxes would be eliminated within the zone, with the exception of any taxes required under the state's constitution. Instead, the district board would fund its necessary services (such as roads and utilities) by means of a unanimously-agreed revenue-sharing covenant among the zone's landowners. This covenant would take the form of a deed restriction that runs with title to the land. Owners, investors, and entrepreneurs would be blessed with a revenue obligation that is consensual, certain, and stable.

Although the specific details of each zone's revenue-sharing covenant will vary, the default model set forth in the model Prosperity District is analogous to a fixed land value tax, which is an ad valorem property tax imposed on the assessed value of land without regard to buildings or improvements. Most economists view a land value tax as the "least bad" tax, because unlike other forms of taxation, it does not distort markets or create



deadweight loss. Each district could set its own rate, but the recommended permanently fixed rate in the proposed compact legislation is 1 percent of the assessed value of all land within the zone. By any measure, such a “burden” would be extremely light and efficient.<sup>125</sup>

Under the terms of the proposed model, each state and county government, and any municipal government that consents to have a Prosperity District within its borders, must be held harmless in terms of revenue loss, compared with what that government would have received in the absence of the zone.

### **Avoiding Cronyism**

One question that may occur to the perceptive reader is: are special economic zones vulnerable to cronyism, favoritism, or special-interest capture? After all, the idea of special regions where the usual rules do not apply could certainly be viewed as inherently tending toward favoritism or laxity.

The overwhelming lesson from around the world is that corruption is less of a problem in well-designed special economic zones than in traditional jurisdictions, and even more so in those zones with the lowest and most predictable tax burdens, where the economic rules are the most liberal and stable, and where public officials have the least discretion to manipulate the value of private property.<sup>126</sup> In places that maximize economic freedom and the rule of law, and minimize arbitrariness in government decision making, corruption tends to be minimal, because the temptations, and the opportunities, to influence public policy for private ends are minimal.

What’s true of zones in general is even truer for the proposed Prosperity Districts. There, the level of cronyism would be vanishingly low, compared to traditional governments, because all of the traditional powers of government would be either absent or severely limited. District authorities would have extremely limited powers to tax, spend, borrow, or regulate, so a Prosperity District would be an exceedingly small target for corruption.

On the following page is a list of protections that would exist in every Prosperity District by the terms of its charter, as set forth in the proposed organic legislation. Considered individually, these protections are powerful. Considered as a package, they present a truly

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unique and seemingly corruption-proof structure. Given these constraints, Prosperity Districts will hardly be an easy target for cronyists and special interests seeking to manipulate government for private gain.

### **Conclusion**

If the old saying is true that “That government is best, which governs least,” Prosperity Districts will represent the best of governments. A more corruption-proof—and growth-friendly—arrangement would be hard to imagine. If this sounds like a bold, unattainable concept, look around the world and note the countries and city-states that are prospering with little government involvement. Singapore and Hong Kong have been economic powerhouses for decades, thanks to limited taxation and regulation, and an open and welcoming attitude to foreign direct investment. Similarly, Estonia, Monaco, and the United Arab Emirates offer powerful examples of enhanced prosperity through strictly limited government. More recently, Honduras has embraced a particularly promising version of the prosperity zones model to bolster economic growth. Meanwhile, here at home, the California Gold Rush and Disney World offer case studies in how free men and women, with little-to-no government oversight, can govern themselves and prosper through voluntary cooperation and private contracts.

The Prosperity District isn’t a radical new idea. It’s been done before.



Safeguard	Explanation
<b>No Taxing Authority</b>	A district may not levy any tax, impost, duty, or tariff of any kind. Although a district can, and indeed must, have a revenue-sharing covenant, that covenant can only be adopted or changed by the unanimous consent of all of the property owners of the district.
<b>No Eminent Domain Authority</b>	A district may not exercise the power of eminent domain.
<b>No Civil Forfeiture</b>	A district may not engage in property or asset forfeiture based on a violation of criminal law without securing a criminal conviction.
<b>Limited Borrowing Authority</b>	A district may only borrow by way of issuing bonds, which the Compact limits in terms of their purpose, amount, and repayment source. The bonds may only be repaid out of Funds received through its authorized revenue-sharing receipts, gifts from district residents, and contracts; and the total outstanding debt of the district (meaning all bonds plus all other liabilities) may not total more than the fair market value of all assets held in the district's name.
<b>No Delegation Authority</b>	A district may not delegate any portion of its governing authority to any other entity nor allow an outside governmental entity to exercise authority or jurisdiction within its boundaries.
<b>No Sovereign Immunity</b>	Unlike traditional governments, a prosperity district has no special immunity from liability.
<b>No Subsidies to Private Entities</b>	A district may not furnish any subsidy to private enterprise. The term "subsidy" is defined broadly in the proposed Compact as an economic benefit, direct or indirect, granted with the primary purpose or predominant effect of encouraging or maintaining particular or specific classes of ventures, in which private persons have a substantial financial or ownership interest.
<b>No Granting of Monopolies</b>	A district may not grant any monopoly or cartel in the provision of any good or service within its jurisdiction.
<b>No Receipt of Government Grants</b>	A district may not accept gifts or conditional grants from any government. Exception: A district is required to facilitate, or not impede, the receipt or use of a federal grant by the state in which the district lies.
<b>No Sole-Source Bidding</b>	A district may only furnish authorized community functions through independent contractors by a process of open competitive bidding.
<b>No Discriminatory Funding of Services</b>	A district may only fund its municipal functions through service contracts agreed to by everyone in the district or voluntary, non-discriminatory user fees.
<b>Maximum Transparency</b>	A district must conduct its business in public and keep good records available for public inspection.
<b>Minimal Political Interference</b>	A district is formed voluntarily by freely consenting neighbors rather than imposed by politicians. Outside of an existing municipal jurisdiction, no government can block a district's formation or expansion, unless the petitioners fail to meet the minimal requirements set forth in the Compact.
<b>Minimal Bureaucratic Interference</b>	As a governing unit and political subdivision of a state, a district will be largely free of control by state agencies and local governments; and, with Congressional Consent, free of federal agency overreach.

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