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Journal of Special Jurisdictions
1(1) (2020)

Entry Barriers and Competitive Governance

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Abstract

Existing work on competitive governance has focused primarily on citizen mobility and the degree of decentralization. Although these are important, we argue in this exploratory paper that entry barriers are another important and underemphasized precondition for competition. Unless institutional entrepreneurs are able to create new jurisdictions, we are likely to see problems of collusion, centralization, and institutional inertia. Contemporary competitive governance proposals which push the creation of new jurisdictions are thus, according to our analysis, a promising path towards a more robustly competitive and innovative governance market. We consider three such proposals (Zone-based governance, seasteading, and non-territorial governance), showing that each is likely to reduce entry barriers and briefly considering the merits, challenges, and limitations of each.

Keywords: entry barriers, competitive governance, governance market, non-territorial governance, seasteading, zones.

Resumen

Los trabajos existentes sobre gobernanza competitiva se han centrado principalmente en la movilidad de los ciudadanos y las ciudadanas y el grado de descentralización. Aunque estos son importantes, en este artículo exploratorio argumentamos que las barreras de entrada son otra condición previa importante y usualmente poco enfatizada. A menos que los y las emprendedoras puedan crear nuevas jurisdicciones, es probable que sigamos viendo problemas de colusión, centralización e inercia institucional en la gobernanza. Las propuestas contemporáneas de gobernanza competitiva que impulsan la creación de nuevas urisdicciones son, de acuerdo con nuestro análisis, un camino prometedor hacia un mercado de gobernanza más competitivo e innovador. Aquí exploramos cómo tres de estas propuestas (gobernanza basada en zonas especiales, asentamientos en el océano y gobernanza no territorial) pueden potencialmente reducir las barreras de entrada a la industria de gobernanza y consideramos brevemente los méritos, desafíos y limitaciones de cada una.

Palabras clave: barreras de entrada, gobernanza competitiva, mercado de gobiernos, gobernanza no territorial, seasteading, zonas.

1. INTRODUCTION

Competition among governments has the potential to enhance the quality of policies and institutions by constraining government power and allowing for innovation in the art of governance. If citizens can exit underperforming jurisdictions in favor of better alternatives, governments wishing to attract and retain migrants are forced to offer rulesets which satisfy citizen preferences. Following the foundational work of Tiebout (1956), a significant academic literature has analyzed the pre-requisites for and consequences of interjurisdictional competition. At the same time, liberal policy advocates and activists have proposed various reforms aimed at increasing competition among government.

For the most part, however, these academic works and proposals for reform have focused on enhancing the ability of citizens to exit jurisdictions. Another important precondition for effective competition is the ability of institutional entrepreneurs to create new jurisdictions. In economic terms, there has been a neglect of barriers to entry in the market for governance. Our aim in this paper is to point to the importance of entry barriers and to explain how three contemporary proposals aimed at increasing competition among governments (Zone-based governance, seasteading, and non-territorial governance) are especially promising in this regard relative to more well-known proposals such as competitive federalism and devolution.

The notion of entrepreneurs starting their own jurisdictions is often considered outlandish, and this may explain the neglect of entry barriers among political economists. If we are stuck with a more-or-less fixed population of jurisdictions, any talk of the implications of low barriers to entry is hypothetical and irrelevant to any serious political discussion. Although such a stance is understandable in light of the geopolitical status quo, we maintain that it is mistaken and further speculate that it results from an excessive focus on the short term. The current geopolitical system of nation states is a relatively recent development, and a number of alternatives have existed at various points in history (Spruyt, 1994). It is far from obvious that the current system is stable in the long term.

There have been a number of historical contexts with low entry barriers judged by today's standards. Frontiers provide a space for new entrants in the governance market, and have played a major role in institutional development. People generally settle frontiers to exploit economic opportunities. The absence or perception of pre-existing political arrangements available to settlers, though, creates the need and opportunity for institutional innovation at the same time. And so throughout history, we have seen new frontiers, with their abundant space, giving rise to new forms of political organization.

The European settlement of North America in the seventeenth and eighteenth centuries shows this dynamic at work. There were, of course, indigenous inhabitants with their own political organization prior to European settlement (Grinde & Johansen, 1991), and the harm of colonization was and continues to be enormous. While we do not wish to defend colonialism in ethical terms, the American experience can help understand the relationship between the formation of new jurisdictions and institutional innovation. Although America was not in fact a blank slate, the early European settlers treated it as such and we can learn from their experience without endorsing the colonial project as a whole.

The open space of this frontier allowed many new jurisdictions to be formed. Colonies, some of which were explicitly for-profit enterprises, had a great deal of independence and varied in their approach to governance. Settlers during this period were highly mobile, and colonies needed to attract migrants in order to survive and grow (Billias, 1965; Doherty, 1999; Greene, 1994; Hughes, 1965; Osgood, 1904). Although the decision of where to live depends on many considerations, the quality of governance is one important factor, both directly in that settlers will choose rulesets which match their preferences and indirectly in that settlers will move to the economic opportunities opened by good governance. Colonial America thus combined low entry barriers with highly mobile citizens.

As space on the East coast became scarce, the frontier shifted west. Those settling the Old West became institutional entrepreneurs and devised a number of ingenious ways of solving collective action problems. Some new institutions were entirely voluntary and decentralized, while others began to resemble states (Anderson & Hill, 2004). As North America's frontier closed and power slowly centralized, the forms of government that resulted from this innovative period turned out to be a significant improvement over their European predecessors when judged by the conventional standards of contemporary liberal democracy. The compound republic of the United States was a unique combination of features from other past and contemporary political systems and, while not perfect, its constitution has served as a model for new and reforming nations since that time (Blaustein, 1987; Brennan, 1991).

Another suggestive example is the Greek city state culture, which consisted at any one time of around 100 self-governing (though not always entirely independent) *poleis* scattered around the Mediterranean and Black seas. During the fourth century BC, the total population of these poleis was probably at least 7.5 million (Hansen, 2006, pp. 31–38). New cities were formed via colonization; upon settlement, each colony would be an independent polis with its own laws and constitution. Although settlement was often directed by existing *poleis,* this was not always the case. Some colonization efforts were undertaken by groups of individuals without any formal sanction (Graham, 1964; Hansen, 2006, p. 5; Tsetskhladze, 2008).

During this time, entry barriers were low and we saw a great deal of state formation. Greek city states were highly competitive and innovative. Due to cultural and linguistic similarity, among other factors, the Greeks were "unbelievably mobile and unbelievably easy-going about letting strangers settle in their cities" (Hansen, 2006, p. 34). Each polis faced a genuine risk of being eliminated through desertion or conquest and were forced to compete in various ways, including the attraction and retention of citizens (Ober, 2008, pp. 80–84).

The result was a robust system of competition and cooperation which limited government power and produced a number of institutional innovations.

Although franchise was limited to adult male citizens, some Greek city states formed the first recognizably democratic systems of governance. As Ober (2008) argues, Athenian democracy was, relative to alternative systems at the time, a very effective system of making collective decisions and anticipated many modern findings in the social sciences. At the time, democracy was often maligned as leaving governance to the incompetent masses. In this respect, the practice of democracy downplayed the role of experts and sought to aggregate the dispersed knowledge of many individuals, the importance of which would later be described by Hayek (1945) and others (Ober, 2008, p. 1). The selection of representatives by lottery anticipated the argument of Mueller et al. (1972) that randomly selecting representatives does a better job than current democratic practice of aggregating preferences by avoiding the problem of rational ignorance (see also Biondo et al., 2013). The structure of Athenian political institutions, such as the Council of 500, anticipated findings in network science regarding the creation of bridges between otherwise isolated groups to facilitate the flow of information (Ober, 2008, pp. 142–151). Greek city states were also able to negotiate a robust form of federalism which addressed large scale collective action problems while avoiding centralization of power (Mackil, 2013; Larsen, 1968).

Today, the creation of new jurisdictions does not match the pace we saw in Colonial America or classical Greece. The frontier has closed and the nation-state has, for the most part, driven out smaller autonomous jurisdictions. This is not a situation which can easily be changed; the degree of entry barriers is not a variable under the control of policy-makers but rather an emergent property of the geographic, technological, and socio-cultural environment in which jurisdictions are embedded. However, several recent proposals seek to change or exploit these underlying conditions in order to enhance competition among governments.

In this paper, we argue that three proposed models of competitive governance – zone-based governance, seasteading and non-territorial governance – are promising ways to reduce entry barriers in the governance industry. To do so, we outline in section 2 the concept of entry barriers in economic theory and apply this to jurisdictional competition. We make the case that low entry barriers are an essential part of robust competition; even when other requirements of competition are met, high entry barriers are likely to produce collusion, centralization, and institutional inertia. We then in sections 3-5 apply this analysis to the three competitive governance models and suggest that they each represent a promising way of lowering entry barriers while pointing to the challenges and limitations of each model.

2. ENTRY BARRIERS TO THE GOVERNANCE INDUSTRY

A number of political economists have argued that competition among governments for mobile citizens constrains the power of government and promotes individual liberty (Buchanan, 1995; Osterfeld, 1989; Sinn, 1992; Tullock, 1994). Building on the foundational analysis of Tiebout (1956), these works argue that citizens "voting with their feet", by physically moving to a different jurisdiction, would choose policy bundles suited to their preference and thus force governors to more seriously take those preferences into account. These analyses have generally seen the degree of individual mobility and the number of jurisdictions as the defining features of meaningful competition among governments. If individuals are free to move among multiple jurisdictions, threats of exit will limit the power of governments and promote institutional innovation. Although individual exit – the ability of individuals to move to a different jurisdiction – is no doubt a crucial element of a competitive system of governance, we argue in this section that barriers to entry are also crucial. As Kirzner (1973, 1997) and other Austrian economists have argued, the level of competition in a given market does not primarily depend on the number of competing firms, but on the extent to which entrepreneurs can enter the market in order to test their ideas.

Barriers to entry have been defined variously in terms of pricing behavior (Bain, 1968, p. 252) or cost asymmetries between incumbents and potential entrants (Stigler, 1968, p. 63). These definitions are problematic insofar as they define entry barriers in terms of their supposed effects or exclude some important barriers (Demsetz, 1982; Gilbert, 1989, pp. 476–478). We here follow Gilbert (1989, p. 478) in defining an entry barrier as “a rent that is derived from incumbency.” This definition is agnostic on the concrete features which block entry, but captures the essential point that incumbents often have an exploitable advantage which discourages newcomers from entering the market. Such barriers may, in some cases, be legally imposed, but may also reflect the underlying cost structure of a market.

In the governance industry, entry involves the creation of a new jurisdiction or non-territorial provider of governance services. New jurisdictions may be formed through the colonization of an inhabited or uninhabited area, the centralized creation of autonomous subnational administrative governmental units, secession, or the collapse of an existing jurisdiction and subsequent state-formation. A barrier to entry in the governance market is thus any rent accruing to existing jurisdictions deriving from the fact that they are established entities and can avoid the costs and hurdles potential upstarts must face. This definition is quite broad and includes limits on citizen mobility (Gilbert, 1989, pp. 506–508), the financial costs of setting up a new jurisdiction, which cannot be recovered in the event it fails, and the perceived legitimacy of existing jurisdictions.

There has been much work in public choice and public finance on competition among governments (Mueller, 2003, p. 9). The classic work in the industrial organization of the market for governance is Tiebout (1956). His work was a response to concerns by public finance scholars about the challenges of central planning in the face of information problems. According to Tiebout, instead of adapting policy to voter preferences, local governments can keep policies constant and allow consumer-citizens to adopt whichever bundle of services best matches their preferences. If consumers can vote with their feet, local government planners do not face the same information deficit as central government planners. In the idealized case of an infinite number of jurisdictions and completely costless movement among them, everyone would get exactly the bundle of policies and public services they most preferred.

In the real world, of course, there can only be a finite number of jurisdictions and there will remain some cost of switching. As the number of jurisdictions rises and the cost of switching falls, though, we come ever closer to the unattainable ideal of complete economic efficiency in the market for governance. All markets have friction caused by distance,[10] imperfect information, and other factors. Still, compared to the central planner groping in the dark, Tiebout sorting is likely to produce something much closer to the optimum.

The Tiebout model is focused on the *sorting* of individuals into communities which best suit their needs and does not consider the response of governments. More recent work has extended the model by considering the ways in which citizen exit might limit government power (Brennan & Buchanan, 1980; de Figueiredo & Weingast, 2005; Sinn, 1992) and promote institutional innovation (Vihanto, 1992; Vanberg & Kerber, 1994; Stansel, 2012). On this understanding, the market for governance is not simply a metaphor. Citizens choose among alternative providers of governance, and these providers compete by limiting taxation and efficiently producing the public goods citizens demand.

Although some of this work has stressed that Tiebout competition is a dynamic process of entrepreneurial discovery, existing analyses have explicitly or implicitly taken the necessary conditions for meaningful competition to be static – a large number of competitors and free movement between them. In practical terms, this would mean that those wishing to foster competition should attempt to geographically decentralize government (Osterfeld, 1989; Tullock, 1994) or increase citizen mobility (Edwards & Mitchell, 2008; Frey & Eichenberger, 1999). Decentralization and mobility are no doubt important, but, as we argue below, they are not able to deal with a number of serious problems. The issues of collusion, centralization, and institutional inertia are likely to persist even with high levels of mobility and decentralization if barriers to entry remain high. A relatively neglected precondition for meaningful and robust competition is

[10] Tiebout (1956, p. 422) suggests that the need to make shopping trips constrains the perfect satisfaction of consumer preferences in the same way costs of moving jurisdiction constrains the satisfaction of political preferences.

the freedom of entrepreneurs to create new jurisdictions or non-territorial governance providers.

2a. COLLUSION

Most analyses of competition among government stress the avoidance of monopoly. Monopoly is one uncompetitive market structure, but not the only one. Competition is a prisoner's dilemma situation among competitors: all firms would be better off if they could raise prices and act as a joint monopolist, but each could increase profit by charging a slightly lower price. Without enforceable agreements, such a price-fixing, arrangements will unravel and an oligopolistic market will behave much like a perfectly competitive one (Tirole, 1988, pp. 209–211). When a small number of firms repeatedly interact, however, the prisoner's dilemma is iterated, and we know from theory (Taylor, 1976), simulation (Axelrod, 1984), and the field (Ostrom, 1990) that cooperation is common in such situations. Cooperation is desirable for members of the cooperating group, but it can be harmful more generally if group members cooperate to harm others (Cowen & Sutter, 1999). In the case of market competition, collusion produces inefficiently high prices and low production levels (Feuerstein, 2005; Tirole, 1988, p. 6). Collusion can happen either explicitly, as in a cartel arrangement, or tacitly, as each firm seeks to avoid triggering a price war. In either case, firms can maintain a collusive arrangement if and only if they are able to cooperate. There are many factors which facilitate cooperation, including the existence of entry barriers (Feuerstein, 2005; Levenstein & Suslow, 2006, 2011).

Collusion allows incumbent firms to earn positive economic profits, and this will attract entrants. If entry is possible, new firms will need to be brought within the collusive arrangement, lest they set competitive prices. Although accommodation is sometimes achieved, this is not always the case. Entry barriers are not entirely exogenous, of course. Incumbents may consciously attempt to increase entry barriers by committing themselves to harsh punishment of entrants or by lobbying for restrictions on entry (Levenstein & Suslow, 2006, pp. 74–75). Again, such deterrence is possible but costly and not guaranteed. The empirical evidence supports the hypothesis that barriers to entry are an important determinant of cartel success. Levenstein and Suslow (2006) review a number of empirical studies and conclude that entry is among the most important problems which cartels need to overcome, with a significant proportion of cartels being unraveled by entry.

The governance market exhibits a number of features which suggest that collusion is likely. Cartels are most durable when the number of firms is small (Levenstein & Suslow, 2006, pp. 58–61), when there are industry organizations able to coordinate firm behavior (Levenstein & Suslow, 2006, pp. 67–75) and when the cartel is able to detect and punish competitive behavior by firms (Levenstein & Suslow, 2006, pp. 69–72). This describes the governance industry fairly well. There are relatively few countries, coordination mechanisms in the form of supranational organizations (such as the OECD and World Trade Organization), observable policy decisions, and established means of punishment. Recent moves towards tax compliance and tax harmonization can easily be seen as price-fixing arrangements (Edwards & Mitchell, 2008), with defecting countries dubbed “tax havens,” blacklisted, and threatened with formal sanctions (Sharman, 2006, 2012; Whyte, 2019)

Even if we saw a one-off decentralization of power and a dramatic decrease in interjurisdictional mobility, barriers to entry would remain as a potential threat to competition. Any fixed population of jurisdictions could potentially solve the problem of collusion. If it were possible for new jurisdictions to enter the governance market, collusion would be much more difficult. Existing states would need not only to reach an enforceable agreement, but also to find some way of bringing new entrants into the agreement without undermining profitability. This is not impossible, but it is a much more serious challenge.

2b. CENTRALIZATION

One way competing firms can thwart competition is through mergers. Horizontal integration can be expected when it increases profitability after accounting for the costs of merger. One factor enhancing profitability is market power, and thus mergers can reduce the level of competition in an industry (Viscusi et al., 2005, p. 7). Mergers in the governance market involve political centralization, either through the full or partial merging of formerly separate jurisdictions (like the European Union) or the transfer of powers from lower to higher levels of government (like the gradual centralization of American federalism). Such anticompetitive centralization would not be surprising from a public choice perspective, since local governors are able to increase market power through centralization (Blankart, 2000; Eichenberger, 1994; Vaubel, 1994).

Centralization might also happen more innocently. There are many public goods which are most efficiently produced at a large scale, and joint production is often achieved via some sort of federation. Even when such a federation is desirable, it carries the risk of excessive centralization. The creation of a robust federation – that is, one which neither disintegrates due to internal disagreement nor centralizes due to the ambitions of federal bureaucrats or strong member states – is not a trivial task, and requires careful constitutional craftsmanship (Bednar, 2009; Buchanan, 1995; de Figueiredo & Weingast, 2005; Volden, 2005)

The United States of America is one notable example of an innocently-created federation which later centralized. The Articles of Confederation and the Constitution were significantly motivated by the need to protect against external military threats, and this required a federation responsible for national defense. As the *Federalist Papers* show, however, the framers of the Constitution were aware of the risks of over-centralization and thought the republic should give states sufficient rights to protect against encroachment[11]. Although it seems that competition among American states has remained in some areas of business law (Romano, 1985, 2006), decision-making power has incrementally shifted towards the federal government, especially since the New Deal, and this has undermined Tiebout competition (Greve, 2012; Zimmerman, 2008).

There are potential benefits from cooperation among local governments in producing large-scale public goods, such as national defense, but creating super-jurisdictional institutions to produce

[11] See especially Hamilton's discussion in Federalist 17.

or coordinate the production of such goods carries the risk of over-centralization. The possibility of entrepreneurial entry mitigates this problem by providing a mechanism for people to opt out of the federation. This is especially important when federation members are not allowed free exit. Assuming that newly formed states have the autonomy to refuse to join the union, centralization could be reversed. This allows for the benefits of federation while limiting the risks of over-centralization by providing a fallback option of creating a new jurisdiction outside the federation.

2c. INSTITUTIONAL INERTIA

Another advantage of competition in ordinary markets is its propensity to drive innovation. Hayek (1948) sees competition as a discovery mechanism which sorts good ideas from bad. The world is inherently imperfect, but proposed means of improvement are always uncertain. Profit-seeking entrepreneurs make conjectures which test the realities of technological feasibility and consumer demand. Seen in this light, the market is not primarily a mechanism which provides incentives for efficient behavior and maintains equilibrium; rather, the market is a “creative process” which generates knowledge. This open-ended process allows producers to discover new products and processes and consumers to discover the consumption bundles which best satisfy their preferences (Buchanan & Vanberg, 1991; Potts, 2001). Numerous small discoveries compound over time to produce technological innovation and economic growth (Baumol, 2002; Mokyr, 1992).

The establishment of new firms plays an important role in this process. Firms establish decision-making routines in order to economize on decision costs (Cyert & March, 1963; Nelson & Winter, 1982). These routines are learned from prior experience and are thus well-suited to the environment the firm faced in the past. In stable environments, this allows the firm to operate efficiently, but in rapidly changing environments such routines can prevent desirable organizational change. Routines are maintained by the behavioral norms and values of the individuals who constitute the organization. They evolve slowly and cumulatively, as the organization learns from past experience, and cannot be changed easily. As the firm matures and grows larger, inertial forces will become stronger (Hannan & Freeman, 1984, pp. 157–162). This inertia can be exacerbated by "competency traps": as an organization gains experience in using a particular routine, its competency with that routine will increase and short-sighted learning from often-reliable feedback mechanism will lock suboptimal routines in place (Levinthal & March, 1993).

One effect of such routines is that established firms will be relatively unable to seize on the opportunities presented by a changing technological environment. Large established firms do seem to be able to produce "competency-enhancing" innovations (i.e. those which increase the value of a firm's existing resources), but not "competency-destroying" innovations (i.e. those which decrease the value of a firm's existing resources), which come primarily from new entrants (Christensen, 1997; Henderson & Clark, 1990; Hill & Rothaermel, 2003; Romanelli & Tushman, 1994). The point here is not that new firms are more innovative than incumbents, but rather that new firms and incumbents innovate *differently*, responding to different incentives and behaving differently depending on the technological environment (Acs & Audretsch, 1987, 1990; Winter, 1984). Incumbents can often devote large R&D budgets to research on well-defined problems but will be less effective at producing breakthrough ideas which open new markets. This suggests that high barriers to entry will reduce product innovation at an industry level, and the empirical record seems to suggest that this is in fact the case. High rates of entry in an industry are correlated with innovation and increases in productive efficiency (Caves, 1998, pp. 1971–1975; Geroski, 1995, p. 431). Startups are a major contributor to innovation, and this makes barriers to entry an important factor in industry performance.

The evolution of routines also limits the ability of an organization to remake its formal organizational structure, and other factors add to this difficulty. Hannan and Freeman (1984) argue that most organizational change comes from the establishment of new organizations rather than the reorientation of existing ones. Firms in modern economies face selection pressures to reliably and predictably produce goods of a certain quality, and must demonstrate accountability to investors and customers. To achieve the goals of reliability and accountability, routines will be highly standardized and rigid. As in the arguments with respect to product innovation described above, this will produce efficient performance in stable environments, but will not allow for much organizational innovation. Organizational change, they argue, happens primarily at the population level as new firms replace old ones. Some firms are able to successfully remake their organizational structure (Romanelli & Tushman, 1994), but the empirical evidence suggests that younger firms are more likely to successfully undergo organizational change (Amburgey et al., 1993; Delacroix & Swaminathan, 1991; Miller & Chen, 1994).

These arguments hold *a fortiori* to government. Barriers to innovation are much higher in established governments than they are in established firms in traditional industries. Like other organizations, governments as producers of policy establish routines which can lead to inertia. In democracies, there are many such inertial forces which tend to make the implementation of bold ideas unlikely. Tight agenda-control (Tullock, 1981), party platforms shifting to match the preferences of the median voter, and various institutional barriers which dampen and delay the influence of public opinion on public policy (Riker, 1982) all work to thwart the generation of novel governance experiments. Further, the life-cycle dynamics of organizations described above mean that inertia will increase over time.

An additional factor here is the power of interest groups in protecting their own position. Olson (1982) argues that the formation of impactful interest groups is difficult, but that once formed, such distributional coalitions are quite robust. This means that those coalitions will gradually proliferate in politically stable societies. These groups will produce market distortions, reduce economic growth and prevent the reforms which would be required to reduce rent-seeking. The power of entrenched interests is particularly important when it comes to decision-making rules, since those with the power to make choices have this authority by virtue of current arrangements[12]. Olson

[12] Congleton (2004) shows that the median voter is benefitted by current degree of suffrage and will not want it expanded absent exogenous change, and Dunleavy and Margetts (2001, p. 295) suggest that stability in voting rules

shows that interest groups are generally only displaced in periods of political instability. When regimes are overthrown, interest groups are thrown out with them. The new regime which emerges will initially be relatively free of interest groups and may grow rapidly. Olson points to the post-war economic success of Germany and Japan as an example. The problem with relying on instability to reduce rent-seeking, of course, is that the collapse of regimes is normally accompanied by violence and misery. Low barriers to entry in the governance market would allow for the peaceful creation – and demise – of new regimes free of distributional coalitions. This allows people to escape special interest groups without existing systems being overthrown by force (Taylor, 2013). This produces a "bloodless instability" (Chamberlain, 2009) in which distributional coalitions are destabilized by entrepreneurial entry rather than revolution, much like disruptive innovation which already occurs in traditional industries.

With free entry, the problems of institutional inertia are effectively sidestepped. Rather than struggling against the status quo, institutional entrepreneurs could found startup jurisdictions in order to test ideas at a smaller scale than would be possible even in a very competitive governance market with a fixed population of established jurisdictions. Such an experimental economy of governance would be more conducive to innovation, which is surely a significant benefit of competition.

The very reason we need space for political experimentation is that existing systems are uncompetitive and unresponsive, meaning that there are weak incentives for desirable reform. If we *could* expect existing governments to enact reforms which substantially lowered barriers to entry, a major argument for the desirability of such reform would be undermined (Friedman & Taylor, 2012, pp. 219–222). If there is hope, it must lie on the entrepreneurs. Governments are unlikely to move in this direction of their own accord; rather, entrepreneurs must look for opportunities within existing rulesets, propose reforms aligned with the objectives of existing states, or find new spaces for political experimentation. In the following sections, we discuss three

can be explained by the fact that they "often exclude from political power those with most cause to change them."

contemporary examples of entrepreneurial entry in the governance service industry, which have the possibility of overcoming entry barriers.

3. ZONE-BASED GOVERNANCE

Currently, the most viable means of institutional entry is the creation of special jurisdictions, i.e. subnational jurisdictions which are exempt from some laws and regulations of the host country (FIAS, 2008), such as Special Economic Zones and Special Administrative Zones. A number of countries allow for the creation of such zones in order to foster economic development, and this willingness can be leveraged by those seeking to experiment with new forms of governance (Bell, 2018; Farole & Akinci, 2011; Frazier, 2018; Moberg, 2015, 2017; Taylor, 2017).

Entrepreneurship plays a key role in Special Economic Zones, with privately founded and operated zones having experienced stronger performance than government-run zones (FIAS, 2008, pp. 4, 45–47; Moberg, 2015, pp. 173–174). This can be explained in part by the stronger incentives to foster economic development faced by private entrepreneurs, as well as by their greater autonomy to implement policy without costly consultation (MacCallum, 1970; Stringham, 2006; Taylor, 2019)

One of the most promising current opportunities for low-cost political experimentation within the borders of a host nation emerges from the 2013 Honduran legislation allowing for the creation of Zones for Employment and Economic Development (ZEDEs) (Bell, 2018, Chapter 1.5; Colindres & Lutter, 2019). ZEDEs are constrained in a number of respects; they are required to comply with the Honduran constitution, remain an inalienable part of the country, and must defer to the national government on issues of national defense, passports, and other issues central to national sovereignty. In terms of internal governance, however, ZEDEs are granted a remarkable degree of autonomy. Zones can not only set their own tax rates and regulations, but could also run their own courts and could use an entirely different legal system – for example, adopting common law rather the statutory system of Honduras at large. The legislation enabling the creation of ZEDEs was passed in June 2013 and at the time of writing (May 2020) the first such Zone, Prospera Roatán, is in its early stages of development.[13]

The barriers to creating a new zone are significant, but orders of magnitude lower than the barriers to starting a sovereign country on a similar scale. A potential ZEDE must be approved by a Committee for the Adoption of Best Practices before it can be created, for example, but this appears eminently feasible when compared to the challenges and uncertainties of setting up an entirely autonomous jurisdiction.

ZEDEs and other Zone-based systems of governance remain reliant on the host country, and with this comes the risk of centralization and collusion discussed above. Since entry must be accepted by the host country, entrepreneurial entry does not offer the same safety valve it might in the other models discussed below. However, such Zones are a promising avenue for promoting experimentation and overcoming institutional inertia. Policies and institutions which would be too risky or face too much opposition in existing jurisdictions can be tested in the lower-risk environment of a Zone which require the active opting-in of participants.

The first Zones face a difficult task without the guidance of past efforts. Entry barriers will be rather high for the first few Zones, but every success (and indeed every failure) in this space adds to our knowledge and reduces the barriers to the creation of future Zones. Entry barriers in this space will never be as low as they are in the restaurant industry, but the ZEDE model in Honduras shows that they can be much lower than they currently are. Although the freedom granted by such Zones is far from absolute, nor is it trivial.

4. SEASTEADING

Another avenue for political experimentation is *seasteading* (Bell, 2018, Chapter 1.6; Friedman & Taylor, 2012; Quirk & Friedman, 2017). Seasteading is the creation of permanent, politically autonomous communities on the ocean, on ships or, in the long term, larger and more stable structures perhaps modeled on oil rigs. In its ideal version, by relocating 12 nautical miles from land, entrepreneurs could effectively start their own country.

[13] See https://prospera.hn/

While the freedom of the seas is far from absolute or inviolable, the current regime of maritime law provides for a significant degree of internal autonomy which, following existing regulations by other states and compliance with the United Nations, could be used to create settlements with innovative governance structures. Cruise ships and oil rigs show that life at sea is feasible given a sufficiently strong economic incentive. Pirate radio and gambling ships show that such an incentive can come from the costs of regulation on land. As commercial operations on the ocean drive innovation in seafaring technology and increase the legal and political knowledge required to co-exist with incumbent states, barriers to entering the governance market decrease.

An important first step towards seasteading is to work with existing governments, for example, through the use of what Bell calls "SeaZones" – special jurisdictions spanning land and sea (Bell, 2018, Chapter 1.6). To this end, The Seasteading Institute and the government of French Polynesia signed a Memorandum of Understanding in 2017, with the Seasteading Institute, Blue Frontiers and Blue21 to undertake research into the environmental impact and sustainability of a pilot project. As an archipelago of 118 islands and atolls, French Polynesia is extremely vulnerable to rising sea levels. Initial discussions proposed floating platforms or seasteads which could help adapt to sea level rise, while helping manage energy production and waste disposal (Mezza-Garcia, 2019).

The pilot, the Floating Island Project, was led by the private company, Blue Frontiers, and aimed to initially house around 300 people in residential, commercial, and research spaces. The cost of the marine real estate would likely be around US$1500 per square foot, comparable to the cost in major US cities (Mezza-Garcia, 2019). Although this is quite expensive and the autonomy provided by the French Polynesian government would have been far from complete, such projects advance state of the art of seasteading projects and reduce the costs of future initiatives. More importantly for our argument, this type of project show that there are routes for entrepreneurs who wish to enter the governance market to do so.

In the longer term, if seasteading projects are able to strike out on their own without the need for a host country, this would provide a much greater degree of freedom and potentially much lower barriers to entry. Not only would this overcome the problem of institutional inertia, but, relative to zone-based governance, it would also provide much stronger protection against centralization and collusion. Since there would be no need to ask anyone's permission to set up a new jurisdiction, it would be much easier to opt out of an over-centralizing federation and much more difficult for a cartel to thwart competition.

Moreover, the ability to create settlements on the high seas outside the control of any existing government would sidestep the serious challenge of reforming political systems. The Honduran ZEDE legislation shows that governments are sometimes willing to take steps to foster competitive governance, but it is not at all clear the extent to which we can expect this experience to be replicated in other countries. The high-seas variety of seasteading focuses on a technological environment, out of which the governance industry arises. This side-steps the need for reform and replaces a political challenge with a technological one. Since humans have shown themselves more capable of overcoming technological rather than political hurdles, this brings the problem into our sphere of expertise.

We must emphasize, however, that this long-term vision is not feasible in the short term. The immediate imperative of working with, rather than against, existing governments, is highlighted by the recent experience of Chad Elwartowski and Nadia Supranee Thepdet. Their single-family seastead anchored 13 miles off the coast of Thailand was raided and dismantled by the Thai government. They are now in hiding, charged with the capital crime of treason by the Thai government. Although complete autonomy from any existing government would be desirable, it is simply not a feasible option in the short term.

5. NON-TERRITORIAL GOVERNANCE

A more radical proposal which could dramatically reduce barriers to entry in the governance market is the unbundling of governance and territory. One such model would involve each individual or household choosing among competing general-purpose governance providers and "subscribing" to whichever best meets their needs, regardless of where they physically live. This would increase preference satisfaction and reduce barriers to entry in the governance market relative to territorially bundled governance, but it would not be without limitations on this regard. A more promising model would be to allow special-purpose governance providers specializing in providing particular governance services. This model would allow individuals or households to choose providers of particular governance services *a la carte* rather than being forced to choose from a fixed set of bundles (MacDonald, 2019).

The most obvious advantage of this approach is that it gives individuals greater choice and preference satisfaction. Unless the number of jurisdictions is unrealistically large, bundled territorial governance, even if highly decentralized, will force trade-offs among different policy dimensions (MacDonald, 2019, pp. 22-24).

More importantly for our argument here, non-territorial unbundling would substantially lower entry barriers. Indeed, bundling itself can be a powerful entry barrier in product markets; Nalebuff (2004) shows that bundling can be used by an oligopoly as a powerful deterrent to entry. If a firm has market power in the provision of two goods, bundling these goods together can decrease the expected profit of firms with only one of these goods to offer. Thus, market power in each one of these markets can be used to maintain market power in the other. This logic can be applied to the case of bundled governance. If a governance provider has a particularly strong reputation in one area, say, police protection, they can leverage this market power to charge higher prices for the other bundled services even if strong competition exists in these areas. More generally, the capital requirements will be much lower for special-purpose than general-purpose governance providers. Unbundling governance would allow for more parallel experimentation and likely more institutional innovation.

The non-territorial unbundling of governance would be the most transformative model of competitive governance discussed here, but the toughest challenge is its political feasibility. Moreover, as in the other two models of competitive governance discussed above, the degree to which unbundling overcomes entry barriers depends crucially on how reliant non-territorial providers are on existing governments. For example, a system which required the active approval of a central authority might promote innovation and overcome institutional inertia, but it would be unlikely to prevent centralization or collusion.

Given the world we currently live in, is there any way to get from here to there? From the current model of nation states to a robust form of unbundling which avoids the problems of collusion, centralization, and institutional inertia?

Although public choice theory gives us reasons to doubt that today's liberal democracies will enact the necessary reforms any time soon, there are a couple of somewhat more viable pathways to imperfect forms of unbundling. Firstly, the development of cryptography and blockchain technology may increasingly allow individuals to sidestep territorial governance and opt-in to alternative virtual systems of economic governance. MacDonald (2019) labels this "cryptosecession" and models it as a form of partial internal exit. Individuals cannot escape their territorial government altogether, but can exit particular dimensions of centralized governance. This provides incentives for private special-purpose governance providers to enter specific markets enabled by cryptographic technology. The present level of technology makes this workable only for high-margin illicit markets such as narcotics, but past some level of development, partial cryptosecession may become viable for other areas of economic and social life (Allen et al., 2019; Berg et al., 2018; Berg et al., 2019).

Secondly, if either special jurisdictions or seasteading provide adequate space for institutional experimentation in the future, unbundled governance could be one of the tested ideas. The founders of a seasteading community or a startup city could choose to allow for the unbundled provision of some or all services within the jurisdiction. This would allow for a less constrained form of unbundling, albeit in a more geographically contained area. For example, a Special Economic Zone could be founded on the premise that businesses within the zone are free to choose their own system of commercial law when making contracts, allowing them to adopt the legal code of some other country and nominate an arbitration agency to resolve disputes.

Some forms of non-territorial governance should be treated with caution, however. Berry (2009) argues that in the United States multiple levels of government competing for a common tax base actually decreases democratic accountability and leads to excessive levels of taxation. The important lesson for our purposes is that non-territorial governance must be combined with robust exit rights. Adding more layers of government is unlikely to increase competition unless citizens are able to opt-out.

6. CONCLUSION

The future of governance has yet to be written. Some predict – either with dread or jubilation – the emergence of a single world government or a centralization of power in large regional states (Marchetti, 2008; Wendt, 2003). At the other end of the spectrum is a future decentralized system of many autonomous, competing governments (Barber, 2013; Bell, 2018). Neither theory nor history supports the assumption that the number of nations, or the height of entry barriers, will remain the same. Moreover, since history is path-dependent, modest developments now could alter the future path of governance and have enormous consequences for the future of humanity. This makes an understanding of the preconditions for meaningful and robust competition among governments, as well as a consideration of how various concrete proposals fare in this regard, of the utmost importance. Well-designed projects, even at a small scale, develop our stock of knowledge while ill-conceived attempts could be damaging if they provoke backlash or disenchantment.

There has been a longstanding recognition of the importance of competition and experimentation in governance, but only recently with the development of the theory and practice of special jurisdictions has the issue of entry barriers come to the fore. To allow a thousand nations to bloom, and unlock the experimentation required to find new and better ways of governing, it is necessary to find means of reducing entry barriers in the governance market.

We have suggested three broad possible means of lowering entry barriers – zone-based governance, seasteading, and territorial unbundling. In all cases, the challenges are significant, but worth pursuing. We cannot be sure that any particular project will be successful. But the potential upsides of creating a more robust and innovative system of governance, along with the lessons learned from failures and successes, easily justify continued efforts in this area.

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