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Private Cities, the Metaverse and the Future of Non-Territorial Governance

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Abstract:

This paper investigates the potential of non-territorial governance, specifically virtual jurisdictions enabled by the metaverse, for lowering transaction costs of institutional experimentation. It is separated into two parts: in the first one, the author argues that more competition is needed in the sphere of governance and that emergence of cities-as-firms could accelerate evolution in governance. The paper establishes the Coasian case for private cities and provides real-life examples of "almost private" cities demonstrating that the idea of private governance is gaining momentum. The paper then outlines three types of obstacles–economic, regulatory, and political–that undermine the development of private and semi-private cities today, slowing down the quest for more optimal governance models. The second part is dedicated to non-territorial governance as a shortcut that private cities can use to circumvent the above-mentioned obstacles. Finally, the author explains how the metaverse–an emerging virtual realm that enables the peaceful coexistence of multiple societies–can act as a platform for unconstrained testing of new rules, strategies, and technologies. The paper ends by discussing the instruments that the metaverse grants to institutional entrepreneurs and the possible directions of the sector's evolution in the coming years.

Keywords: special jurisdiction, private city, transaction costs, non-territorial governance, metaverse.

Resumen:

Este artículo investiga el potencial de la gobernanza no territorial, específicamente las jurisdicciones virtuales habilitadas por el metaverso, para reducir los costos de transacción de la experimentación institucional. El artículo se divide en dos partes: en la primera, la autora sostiene que se necesita más competencia en el ámbito de la gobernanza y que la aparición de ciudades-como-empresas podría acelerar la evolución en la gobernanza. El artículo establece el caso coasiano para las ciudades privadas y proporciona ejemplos de la vida real de ciudades "casi privadas" que demuestran que la idea de la gobernanza privada está cobrando impulso. Luego, el artículo describe tres tipos de obstáculos—económicos, regulatorios y políticos—que socavan el desarrollo de ciudades privadas y semi-privadas en la actualidad, frenando la búsqueda de modelos de gobernanza más óptimos. La segunda parte está dedicada a la gobernanza no territorial como un atajo que las ciudades privadas pueden utilizar para sortear los obstáculos mencionados anteriormente. Finalmente, la autora explica cómo el metaverso—un reino virtual emergente que permite la coexistencia pacífica de múltiples sociedades—puede actuar como una plataforma para probar sin restricciones nuevas reglas, estrategias y tecnologías. El artículo concluye discutiendo los instrumentos que el metaverso otorga a los emprendedores institucionales y las posibles direcciones de la evolución del sector en los próximos años.

Palabras clave: jurisdicción especial, ciudad privada, costos de transacción, gobernanza no territorial, metaverso.

1. Introduction

History has seen many attempts to create enclaves of freedom to boost economic progress. The need to obtain permission from the host country, however, has always remained the main bottleneck. Barriers are generally higher in countries suffering from the weak rule of law — which, in turn, are precisely the same countries that would benefit most from such projects. With that in mind, institutional entrepreneurs explore the possibilities of non-territorial governance. Unconstrained by location, virtual jurisdictions could move from ideation to action radically faster than their less agile physical counterparts. That would allow institutional entrepreneurs to test-drive new governance models without cutting through red tape, complying with democratic procedures, or reaching a critical number of residents. Later, models that prove their workability in the laboratory, so to say, could be implemented in real-life jurisdictions, eventually challenging — and changing — public institutions. Apart from being laboratories to test new rules, such entities could become legitimate parallel economies unconstrained by the multiplicity of barriers present in the brick-and-mortar economy. The tectonic lifestyle changes of recent years have made physical location less relevant, while the growing interest in the metaverse environment opens new opportunities for virtual jurisdictions.

Part I — The quest for institutional competition

1.1. Cities-as-firms: Hayek, Coase, and the case for private governance

A full-scale war at the gates of Europe, the lingering effects of the global pandemic, the global political instability–an unfortunate combination of all those–has prompted Collins Dictionary to choose ‘permacrisis’ as the word of the year 2022. The phenomenon is defined as “an extended period of instability and insecurity, especially one resulting from a series of catastrophic events” (Collins Dictionary, 2022). Historically, every major crisis has the power to accelerate the discovery of novel approaches to human action–new ways of collaboration and communication, conducting businesses and governing societies. Both the public and the private sectors are involved in this discovery process, yet the different set of incentives faced by government employees versus private agents creates different dynamics, leading to effectively different results.

Back in 1945, having just witnessed another global crisis, Austrian economist Friedrich von Hayek, the future Nobel laureate, demonstrated the power of prices to convey crucial information about the ever-changing societal preferences. “In a system in which the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people”, he wrote in The Use of

Knowledge in Society (1945). This ability of market price signals to accumulate dispersed knowledge is particularly vital at times of uncertainty when changes are happening at such a pace that no single planner is able to keep track of them. Neither elections and polls nor even the most sophisticated and pervasive web-based tools of today can capture these changes as efficiently as the profit-and-loss mechanism would.

This gap between the governments' rigidity and the private enterprises' agility has prompted some thinkers and practitioners to investigate whether governance can be privatized as well so that municipalities would face incentives similar to those faced by market agents. A number of scholars, including Foldvary (1994), Beito (2002), Tabarrok (2002), Pennington (2004; 2014), Cox and Gordon (2007), Andersson and Moroni (2014), Bertaud (2018) and others, have examined the potential of private agents to provide municipal services — something that is traditionally placed within the state's domain. Privatising public goods on the local level would facilitate knowledge-sharing, aligning the goals of producers and consumers of urban goods and services, eventually leaving both better off. On the other hand, the fragmentation of urban canvas between numerous competing firms comes with a cost. Even the advocates of private governance (e.g., Rajagopalan & Tabarrok, 2014; Andersson & Moroni, 2014) admit that such piecemeal privatisation of a cityscape may result in higher transaction costs.

To solve this apparent dilemma, we can look at private governance through the lens of the theory of the firm developed by another Nobel-winning economist, Ronald Coase. One of his key insights considered the economic rationale behind firms. The Coasian theory states that, although the market is generally more efficient in allocating resources, sometimes market agents choose to unite into hierarchically governed firms— "little planned societies" —to minimise transaction costs inevitable in the process of market exchange (1937). The prevalence of transaction costs in municipal governance suggests a market opportunity for entire private cities similar to the Coasian firms.

A growing number of authors (e.g., Rajagopalan & Tabarrok, 2014; Lu, 2016; Quirk and Friedman, 2017; Gebel, 2018; Beyer, 2022; Lutter, 2021; Kichanova, 2022) argue that to be subject to the same market dynamics as for-profit companies, entire cities could be developed and governed privately. Like employees in the Coasian model, residents of such cities would voluntarily delegate some of their decision-making power to the private developer/governor for the sake of convenience and efficiency. Developers, in turn, would be incentivised to satisfy the residents' desire for good governance. As a result, the developer's goal — to make a profit — would be aligned with the resident's goal: to live in a safe, comfortable, and wealthy city. Should a resident be unsatisfied, she can choose to move to another city, thus reducing the developer's revenue. Such foot-voting, in the spirit of Charles Tiebout (1956), subjects municipalities to the same market forces that private entrepreneurs deal with, allowing for real-time fine-grain adjustments to the ever-changing societal preferences.

The emergence of the market for private governance would create a profit opportunity for developers, a wider choice of rules of cohabitation for citizens, and an accelerated institutional evolution for the benefit of the whole society. Notably, that would also encourage "competition between incumbent and potential governments" (MacDonald, 2015), eventually forcing conventional municipalities to evolve as well. While such cities-as-firms remain largely a theoretical concept so far, there are signs that the idea of private governance is gaining popularity.

1.2. Almost private: Cities-as firms and where to find them

While a 'pure' private city[1] is practically a non-existing phenomenon, there are real-life projects that share certain crucial aspects with hypothetical private cities. Such semi-private cities are rare, but they do exist, providing valuable insights into how 'pure' private cities may function. Those cities may be privately developed but not necessarily privately governed — the classic example is Gurugram (formerly Gurgaon) in India, a booming financial hub just outside Delhi (Rajagopalan and Tabarrok, 2014). Alternatively, they may be publicly developed but privately governed — such was, until recently, the city of Sandy Springs, Georgia, in the U.S. (Porter, 2014). Yet another strand of semi-private cities are developed, managed, and governed by private firms yet stand on public land, remaining subject to national laws. To some extent, they resemble homeownership associations, yet the scale makes them stand out. Examples are found in such diverse regimes as Guatemala (Cayalá), Pakistan (Bahria Town), and the United Arab Emirates (Dubai Sustainable City). Another layer of complexity is added when cities like that obtain the status of special jurisdiction and a partial exemption from national law. Honduran emerging 'charter cities', such as Próspera and Morazán, fall into this category, coming arguably as close to a 'pure' private city as possible in the given circumstances.

The gradual erosion of the nation-state dominance (Bell, 2018; MacDonald, 2019) under the pressure of globalization and the rising political, economic, and cultural status of big cities (Florida, 2005; Glaeser, 2011), coupled with an increasing ability of people to vote with their feet, altogether amplify the pressure for more agile, competitive, and innovative governance models. National governments can foster this competition by establishing special economic zones (SEZs) — geographically demarcated areas with relatively relaxed regulations to attract foreign direct investment (Farole & Akinci, 2011). Privately-run SEZs demonstrate better results than conventional, publicly governed ones (Moberg, 2015). All these

[1] Hereby I define private city as a (1) permanent and densely settled place (2) with administratively defined boundaries, (3) whose members work primarily on non-agricultural tasks, (4) which is owned, managed, and governed by a private entity, and (5) is not subject to public authority. I provide the justification of this definition in my doctoral thesis titled *Cities as Firms: The Coasian Case for Private Urban Development* (2022).

factors explain the rising interest in private cities not just among libertarian visionaries (e.g., Gebel, 2018; Castle-Miller, 2018; Bell, 2021) but even among mainstream institutions such as the World Bank (Li and Rama, 2022).

1.3. Catch-22 for private cities: Stability versus flexibility

The market demand for private governance is growing in developed and developing countries alike. The number of people willing to live in privately developed neighbourhoods is on the rise both in the U.S. (Webster, 2021), where over half of the owner-occupied homes are managed by homeownership associations, and, for example, in India (Kumar, Chaudhry, Chachan, & Gupta, 2021), where rapid urbanisation exacerbates urban ills found in conventional cities. For developing countries, where the rule of law is a critical issue, the demand for better governance is driven not so much by the desire to have cleaner streets and better-maintained lawns as by the quest for security and fundamental rights. It shouldn't come as a surprise then that it was Honduras — the country with one of the highest murder rates in the world (World Bank, 2021) — which gave the green light to the most innovative experiment in private governance to date.

Less stability, more flexibility: Próspera, Honduras

The idea of "charter cities" has been circulating among Honduran intellectuals and politicians since at least the 1980s. The topic, however, is extremely politically divisive in the country — a range of left-wing activist groups vocally opposed it as "unconstitutional" and "neo-colonial" (e.g., Amavilah, 2011; Van de Sand, 2019; Cao, 2019) — so the first attempt to establish charter cities in 2011 was aborted following a political campaign. In 2013, Congress made another try and enabled the creation of ZEDEs (a Spanish acronym for the "Zones for Employment and Economic Development") — special jurisdictions with an extraordinary degree of autonomy. Most governmental functions within ZEDEs, from tax collection to land zoning, can be outsourced to private firms. On top of that, ZEDEs can pass their monetary policy, introduce private security systems, and even adopt foreign legal regimes (Bell, 2021). In other words, to effectively establish their own private jurisdictions. All of this gives ZEDEs unmatched freedom and incentives for institutional experimentation.

Located on the Island of Roatán, ZEDE Próspera embodies the developers' firm belief in the power of an unconstrained market to generate prosperity. Some elements of Próspera's business are relatively conventional, such as real estate, yet the main product Próspera sells to investors is its outstandingly business-friendly environment. The first residents were the low-skilled workers delivering homes and infrastructure for the brand-new city, followed by 'digital nomads' for whom relocation is less of a problem.

In parallel, the team is working on increasing the number of 'e-citizens' —a system similar to Estonia's e-residency programme that allows a person based anywhere in the world to register a company and hire employees in Próspera. That element brings Próspera closer to a non-territorial jurisdiction— not tied to the land of Roátan, hence potentially less vulnerable to political shocks, which occur in Honduras every once in a while.

For ZEDEs, the national election in November 2021 came as a shock. The ruling National Party lost both the Congress and the presidential seat to the left-wing Libre Party, which soon repealed the ZEDE Law. Because that scenario had never been entirely ruled out, ZEDE promoters had pre-emptively introduced several layers of legal protection against such a course of events, some ingrained in the constitution and others relying on international investment treaties[2]. The congressional vote, therefore, does not mean the end for Próspera and other ZEDEs (Cueto et al., 2022). The Próspera team continues development against all odds, hoping that as soon as they start generating jobs, the economic rationale will trump political populism. But ultimately, in a country as fragile as Honduras, the government's compliance with investment treaties and its own laws is far from guaranteed.

The story of Honduran "charter cities" is very illustrative — it demonstrates both the hypothetical possibility of private cities and the obstacles that make them unlikely to emerge. In today's political reality, innovators willing to establish a private alternative to suboptimal governance models have to rely on the same flawed institutions that are responsible for their failure. Próspera is not putting all eggs in one basket and, besides building seaside villas, invests in creating a platform for the virtual economy. Some of the first corporate residents are academic institutions teaching remotely, fintech startups, and software developers — those who register in Próspera without ever visiting Roatán not for its stunning sunsets but for the ease of doing business. Because there is a demand for platforms facilitating remote work, even if the political climate in Honduras becomes extremely unfavourable, ZEDEs can potentially survive as prosperity hubs by moving their activities entirely into the virtual realm — such as the metaverse.

More stability, less flexibility: Irvine, U.S.

On the other side of the spectrum lie projects such as Irvine, California, or Celebration, Florida — both successful examples of privately developed cities in the west. Benefitting from the stable and predictable rules in the U.S., their developers had incentives to adopt a long-range planning horizon. Unlike municipal governments, re-elected every four or five years, private developers are interested in creating a business model that would continue to generate profits decades into the future — a "city as a hotel" model whereby

[2] Treaties with Kuwait, the United States, and the Dominican Republic — Central American Free Trade Agreement had Honduras explicitly promising not to revoke the ZEDE law for the next 50 years.

good governance is part of the same package as maintaining shared spaces and enforcing the design code (McCallum, 1997; Stringham, Miller, & Clark, 2010).

The Irvine Company, which single-handedly developed the city in the 1960s, still owns a sizable share of its urban land, earning revenues from selling real estate. From the start, the developer had made several strategic decisions that limited their short-term profits in favour of long-term ones. Most importantly, to keep the population growing, in 1971, the Irvine Company made a counterintuitive decision to introduce democratic governance — which limited their control over the city but raised the land value. Today, with a population of 300,000, Irvine is ranked among the top ten safest (FBI, 2019), happiest (McCann, 2022), healthiest (Patch et al., 2021), and greenest (Chapman et al., 2021) cities in the U.S.

The largest master-planned city in the U.S., Irvine, can be an excellent illustration of the fact that, in the presence of stable institutions, the "city as a hotel" model brings tangible results — that socially desirable outcomes can be delivered via market institutions. That said, Irvine cannot be considered a private city anymore — since its incorporation in 1971, it has been governed as a conventional municipality. Here lies what I call the Catch-22 of private cities: the inevitable trade-off between stability and flexibility. It is the deficit of stable and predictable rules which creates a market for private alternatives to existing governments, yet it is the same deficit of good rules which discourages innovators from addressing this problem. In institutionally fragile countries like Honduras, private cities' promoters may find more opportunities for experimentation with innovative governance but less stability when executing their plans. In countries like the U.S., where the rule of law is well-protected, large-scale private developers feel relatively secure about the safety of their investment, however, the space for experimentation is limited. This dilemma explains, to a large extent, why private cities' projects are so rare.

1.4. Private cities and transaction costs

Private cities can be viewed as the Coasian answer to transaction costs prevalent in urban governance. To become a viable — and profitable — alternative to existing cities, they need to address three types of transaction costs: economic, regulatory, and political. The first type includes conventional transaction costs related to land assembly, master planning, infrastructure provision, etc. Building a whole city from scratch so that it is both liveable and economically sustainable is an incredibly complex challenge. Unsurprisingly, history has seen more failed attempts than successful ones. Architect and businessman Raymond Watson, who was the mastermind behind Irvine, attributed it to "one very simple reason: it's an extremely risky business" (Watson, 2003). On the other hand, economic costs are the easiest to calculate. After all, there is no shortage in large-scale private developments per se, and it is not the shortage of cement — or developable land for that matter — that explains the practical absence of private cities. Attracting the population to a

new city is a challenge of its own. Yet, the number of people jumping into the unknown — like the tens of thousands of Honduran immigrants each year (Burnett, 2021) — suggests that, for many, good institutions are worth the price of relocation. Add to this the rise of remote work following the Covid-19 pandemic, which has made talent more mobile than ever, and the idea of foot-voting will look much less ephemeral.

The second group of obstacles refers to the costs of cutting through red tape — negotiating with regulators, complying with democratic procedures, obtaining necessary documentation, etc. Any profound experimentation in the sphere of governance is impossible absent a special jurisdiction, a special law that grants a future private city at least partial exemption from national laws and enables the developer to test-drive unconventional governance models. This second category represents a bigger challenge, yet the need to consider the regulatory environment is also not unique to urban projects (Flyvbjerg, 2017). Private cities have a lot to learn from infrastructure providers — oil and gas pipelines, railroads, and power plants are all examples of 'immovable' property, which is fixed to the ground and cannot be promptly relocated to another jurisdiction if the rules of the game suddenly change (Kaznacheev, 2017).

Keeping that in mind, transnational corporations continue building megaprojects on institutionally shaky ground. And while not all decisions by multinationals are based solely on economic rationale (besides, their investment decisions are not always well-informed), the scale and commitment involved in developing immovable infrastructure often imply a significant expectation of return on investment. Enforcement of contracts between the investor and the host country remains an Achilles' heel of all such initiatives, and yet a range of leverages are being used by multinationals — and can be used by private cities — to make their public counterparts stick to the agreement (Bell, 2021). Delving deep into the stories of private urban initiatives, we discover that it is the third type of obstacles — the political ones — that usually become an ultimate roadblock.

1.5. Private cities and their enemies

Contemporary scholars engaging with the Coasian theory prefer viewing transaction costs not as a basis for a market but rather as a sign of a market opportunity (Candela & Geloso, 2019). By addressing the economic and regulatory costs outlined above, private developers can count on rewards in the form of profit. But the third group of obstacles to private cities is much harder to quantify and account for, as it has less to do with economics and more with such an intangible thing as ideology. Ideological animosity and political backlash can severely delay or stall projects that they consider inimical. A vivid example of that is Lavasa, a private city in India. The developer, Lavasa Corporation Limited, successfully got most of the indigenous population on their side but fell victim to a countrywide populist movement fighting against what they

dubbed “Special Exploitation Zones” (Parikh, 2015). It took a ten-year-long advocacy campaign on behalf of local villagers to revive the project (Kichanova, 2022).

Political campaigns have the power to severely delay private cities’ development. Based on experience, it is the third category — political obstacles — that represents an ultimate roadblock to projects of that kind. Even developers who successfully overcome economic and legal costs risk having their projects stalled by politically motivated campaigns. One would expect such an outcome to be more likely in countries where the rule of law is not in its best state. However, stories similar to Lavasa can be found in rich, developed, and institutionally stable countries. One such example comes from Canada, where Sidewalk Labs, a sister company to Google LLC, had to shut down its ‘smart city’ venture following grassroots protests. The highly ambitious project earned much excitement from urbanists across the world. Developers envisioned self-driving cars, smart traffic management, and a network of sensors to collect and analyse big data — all the innovative solutions that the company later planned to replicate in other cities in Canada and beyond. All in all, 50 million dollars were allocated towards the project. The goal, in the words of former Google CEO Eric Schmitt, was to test-drive “all the things we could do if someone would just give us a city and put us in charge” (Hook, 2017).

Google is known to be exceptionally successful in providing services in the digital realm. However, their brick-and-mortar initiative was unable to withstand the political backlash. The project was heavily criticised over data privacy concerns (Fussell, 2018), lack of accountability, transparency, and democratic participation (Bliss, 2019; Pearson, 2019), and the general idea that a private firm can be trusted with providing public goods (Sadowski, 2017; Wylie, 2020). As a result, Sidewalk Labs had to significantly scale down its plan in 2020 and later abandon the project altogether (Doctoroff, 2020). With its immense market power, a corporation like Google still couldn’t leverage the unquantifiable risks of ideological hostility.

1.6. The precautionary principle: The fear of all things new

As opposed to conventional interest groups, ideologically motivated movements are seldom open to bargaining and negotiations. They rise against private cities not because they expect to be personally affected but because they inherently reject the very idea that public goods can be outsourced to profit-making firms. This anti-development sentiment that permeates contemporary societies (Niemetz, 2021) is part of a bigger picture — the one demonstrating suspicion of private agents addressing societal problems in principle. This suspicion only grows when big corporations propose solutions to global issues universally considered to be the state’s responsibility, such as climate, healthcare, or urbanisation. It is indicative that in a recent Oscar-nominated Netflix hit “Don’t Look Up”, an apocalyptic satire about the comet on its way

to hit the Earth, the role of the main villain belongs not to the self-centred politicians turning a blind eye to the upcoming disaster but to the visionary billionaire who proposes a private remedy.

At the heart of this anti-innovation, anti-capitalist sentiment lies what Virginia Postrel called the "stasis" mentality. In The Future and Its Enemies (1998), she demonstrates how in the post-Cold War world the traditional left-right ideological divide has been replaced by the "stasis" versus "dynamism" as the two poles of the debate. The "dynamists" welcome "a world of constant creation, discovery, and competition", while the "stasists" prefer "a regulated, engineered world and view mistakes as disasters rather than inevitable by-products of progress. Building upon her insights, Adam Thierer in Permissionless Innovation shows how the "stasis-minded" crowd is guided by the precautionary principle — an instinctive fear of new ideas and technologies and the demand for policymakers to limit or control such ideas and their authors (Thierer, 2014). The precautionary principle transcends ideologies: the right wish to limit technological progress "for the sake of order, security, tradition, institutions, and so on", while the left demand it "in the name of justice, equality, privacy, and other assorted values" (ibid.). Both are found among the opponents of private cities — Lavasa, for instance, was simultaneously blamed for destroying the traditional Indian lifestyle and fuelling inequality. And while developers may try hard to secure support on the ground and morally disarm their opponents, genuinely pushing the pendulum in the opposite direction requires reshaping the debate at a higher level.

In an intellectually and institutionally hostile environment, the road between an idea and its implementation may take decades. Originally, the idea of charter cities as prosperity engines for Latin America was conceived in the Francisco Marroquín University in Guatemala, the regional epicentre for free market thought founded in 1971. The first charter city, Próspera, didn't emerge until 2021 — it took half a decade between assembling a team of intellectuals and seeing their ideas cast in brick and mortar. These dynamics illustrate Hayek's famous theory of social change: ideas originate among academics to become later adopted by intellectuals, then pave their way into the masses, and, finally, catch the attention of policymakers. While investing efforts into changing the intellectual climate is a noble goal, discovering a shortcut, which would allow testing innovative governance models here and now, could bring immediate results: financial reward for innovators, freedom and prosperity for citizens, and institutional evolution for the rest of us. Non-territorial governance can be used as a shortcut of that kind, and the metaverse is the space to test whether it is truly the case.

Part II — Non-territorial governance as a game-changer

2.1. Non-territorial governance: Unbundling land and laws

Próspera's developer remains carefully optimistic despite the change in the political climate and even the revocation of the ZEDE law. The team hopes that, as soon as the new private city starts generating economic benefits for an average Honduran, it will become politically unfeasible for the ruling party to disrupt the project. By making locals immediate beneficiaries, developers ensure that the NIMBY ("Not In My Backyard") movements are balanced by YIMBYs ("Yes In My Backyard") — interest groups that vocally support the development. In the case of Lavasa, it was the persistent bottom-up campaign that finally revived the project. By getting the local population on their side — through establishing genuine alliances with grassroots activists, launching community-oriented initiatives, investing in local infrastructure etc. — entrepreneurs hope to create a vocal YIMBY movement in support of their initiatives.

The critical problem comes with the fact that, at the early stage of the project, when it is particularly vulnerable to ideological attacks, there are no YIMBYs on site yet to voice their support. The number of potential beneficiaries of institutional experimentation — directly or through the spillover effect — may be massive. Still, at a given moment, they are not yet aware that they will become winners. McKinsey estimated that the establishment of just a few ZEDEs could potentially create 600,000 new jobs for Hondurans (Economist, 2017) — that exceeds by orders of magnitude the number of those actively protesting against ZEDEs. If there was a way to test-drive a new governance model in vitro without cutting through red tape first; to gather a critical mass of volunteers willing to be part of an experiment without physically relocating them to one place; to reap economic benefits without engaging in political fights — that would be a great step forward for private cities.

Innovative projects like Próspera are already testing this approach. What Próspera sells to its residents is something intangible, something that cannot be taken by force in a police raid: a set of rules for cohabitation. Its e-governance platform allows residents to register companies and enjoy ZEDE's business-friendly regulatory environment remotely, without physically relocating to Roatán Island. This feature brings Próspera one step closer to the concept of non-territorial governance — a practice of unbundling political jurisdiction and territory, allowing people to move between jurisdictions without changing geographic location (MacDonald, 2015; MacDonald, 2019; Tucker & de Bellis, 2015; Friedman & Taylor, 2021).

The rise of non-territorial governance can drastically reduce barriers to entering the market for private governance, making switching between competing jurisdictions as easy as switching from one operating system to another on one's smartphone. While this may sound merely a theoretical concept, some aspects of non-territorial governance have been part of the world economy for ages— consider low-taxation jurisdictions like Jersey or the Cayman Islands, where tens of hundreds of companies are registered remotely. But doing business is just one aspect of human action that can accelerate innovation and

competition as long as people can congregate in virtual city-states without physically gathering in one place. Technological progress is already shifting the balance from activities and organisations tied to a particular territory to the hybrid physical-virtual way of living. The advent of the metaverse can significantly accelerate this process.

2.2. Metaverse: An incubator for cities of the future

The term "metaverse" originates from the science fiction novel Snow Crash by Neal Stephenson (1992), but in recent years the concept has come to represent more than merely a fictional setting. Nowadays, the name refers to an archipelago of three-dimensional virtual worlds enabled by virtual and augmented reality technologies, each with its own societal structure (Clark, 2021; Ravenscraft, 2021; Robertson & Peters, 2021). Fernandez and Hui (2022) describe the metaverse as "a microcosmos of our physical reality" where "users can interact with other virtual assets and avatars" and, potentially, a platform for "global collaboration and coordination". What just a few years ago sounded a little more than a vague cryptoanarchist dream has finally grabbed the attention of investors, scholars, and the broader public. Urbanists, too, have been showing interest — to them, the metaverse looks like a convenient space to test-drive the different models of the so-called smart cities.

There is no universal agreement on the definition of a smart city. A McKinsey Global Institute report on smart cities, for instance, talks about cities that "put data and digital technology to work with the goal of improving the quality of life" (Woetzel et al., 2018). Among technologies that make cities smart, researchers typically mention real-time data collection and processing, Internet of Things (IoT), and GIS-based tools (Cosgrave, Doody, & Walt, 2015; Walcroft & Chiasson, 2018; Matta, Fritz, & Kim, 2020). It is also commonly accepted that smart cities should not exist for the sake of technology itself but have to be "citizen-centric" — to put technologies to the service of humanity by addressing societal problems. Sidewalk Labs' project in Canada was trying to do exactly that: build a place more efficient, sustainable, and liveable than an average city with the help of the most advanced technologies available. Google, which backed the initiative, was not the only company whose ambitions stretch into the field. Megacorporations, including Alibaba, Amazon, Cisco, General Electric, Google, Huawei, IBM, Microsoft, Nokia, and Siemens, are all involved, in one way or another, in various smart city projects. It is only natural that companies that are most experienced in operating massive amounts of data — social network giants, leading software developers, online commerce platforms — feel confident enough to join the quest for smart cities.

The main problem, as evident from the case of Sidewalk Labs, is that private players cannot implement their urban visions without public support. Metaverse, on the other hand, is a realm of permissionless innovation — a space where visionaries can test-drive their ideas of what a future city may

look like. Allam et al. (2022) believe that metaverse "has the potential to redefine city designing activities and service provisioning towards increasing urban efficiencies, accountabilities, and quality performance". Unsurprisingly, companies including Apple and Microsoft are already exploring this new virtual world for possibilities. Many companies pioneering the metaverse market come from the video games industry — Roblox, Epic Games, PlayStation, and others (Moy, 2022). This explains why the first snapshots of virtual worlds resemble a computer game setting — and, to some extent, justifies the scepticism of those suspecting that the metaverse is just another gamified environment. Evangelists, nevertheless, believe the metaverse will be more than a constellation of game-like bubbles. They envision a convergence between the physical and the virtual, whereby digital versions of offline spaces, be it conference halls or entire cities, will augment their 'real' counterparts. While fashion brands launch virtual showrooms and corporations develop 'digital twins' of their offices, private governance advocates explore the metaverse as a testing ground for non-territorial jurisdictions.

2.3. Liberland, a virtual private city-state

In 2015, a group of libertarians led by Czech activist Vít Jedlička proclaimed the Free Republic of Liberland on an unpopulated piece of disputed land (terra nullius) between Croatia and Serbia. The following week, the self-proclaimed micronation reportedly received over 200,000 citizenship applications. The project has moved significantly since then in terms of gaining support, yet the 7-square-metre piece of land on the floodplain of River Danube remains uninhabited. Claiming an actual, physical parcel of land has always been part of Liberland's promotional strategy — and has undoubtedly contributed to its media visibility. At the same time, de facto Liberland has always remained, practically, a non-territorial jurisdiction. Despite continuous media presence, a global network of ambassadors, and over 7,000 e-citizens (and reportedly some 780,000 on the waiting list), the self-proclaimed republic has so far failed to achieve diplomatic recognition from any recognised nation. Adding insult to injury, several attempts to physically settle down on its territory ended with the Croatian police arresting frontiersmen. Consequently, thousands of those who consider themselves Liberlanders have never received a chance to meet each other. Should they be able to commence the development today, thousands of e-citizens could constitute that YIMBY movement that Próspera and Sidewalk Labs lacked when attacked by NIMBYs.

Unwilling to remain trapped in the bottleneck typical for projects of that sort, Liberlanders placed their hopes into the metaverse, which they believe will allow them to test-drive their model of private jurisdiction. In April 2022, Liberland launched a digital copy of the city-state in the metaverse realm. Zaha Hadid Architects (the same company that provides architectural services to Próspera) has developed a master plan for the virtual space, which accurately reflects the topographical features of the parcel claimed

by the Republic of Liberland. Should the window of opportunity open one day, the renders are detailed enough to guide the development of a physical city. For the time being, the Metaverse Liberland is open for guests to explore virtual spaces, including a city hall, co-working zones, and a gallery for displaying digital art, and interact with each other using personalised avatars. Patrik Schumacher, Principle of Zaha Hadid Architects, views the role of the project as twofold: as a prototype for "the development of Liberland as libertarian micronation" and simultaneously "as free standing virtual reality realm with the ambition to become the go-to-site for networking and collaboration" (Schumacher, 2022). The latter role effectively establishes the Metaverse Liberland as a non-territorial private jurisdiction — and, more specifically, as a virtual private city.

If following Bertaud (2018), we regard cities as, first and foremost, labour markets, then the absence of physical infrastructure should not stop us from seeing virtual spaces as cities as long as they enable people to assemble and engage in economic transactions. The metaverse domain allows for registering companies, providing various services, buying, and developing virtual land, introducing new digital currencies, solving disputes, implementing and testing different tools for collective decision-making, and performing other forms of voluntary transactions. One crucial feature of real-life cities that makes them incubators of innovation is their ability to encourage serendipitous encounters between people with different expertise and different worldviews, enabling the exchange of ideas (Jacobs, 1961; Florida, 2002; Glaeser, 2011). The Internet as we know it today lacks this feature, but the metaverse cities hold the potential to combine the best of both worlds — the spontaneity of brick-and-mortar cities and the ability of people from different countries to assemble regardless of national borders. The benefits of clusterisation, famously outlined in Richard Florida's The Rise of the Creative Class (2002), explain why the market for 'unreal estate' is "not dissimilar from [that for] real estate in a large city such as London, with prices based on location, and property buyers wanting to be part of a vibrant ecosystem" (Trieu & Nguyen, 2022).

This creates an opportunity to use the metaverse as a platform for testing unconventional land-use policies — something that would accelerate experimentation in urban governance for the benefit of existing 'real' cities. The Metaverse Liberland, for example, implements the combination of three planning regimes all potentially applicable in real-life cities: (1) the central hub will be developed in a top-down manner ("curated"), (2) the surrounding districts will emerge as a result of co-production facilitated by democratic tools, and (3) the remaining zones will allow for entirely spontaneous market-based development "via a free-wheeling discovery process" (Schumacher, 2020). In the physical world, institutional experimentation of that scale and ambition would require getting a green light from municipal authorities and approval from residents. The metaverse environment eliminates the need to negotiate with both the government and the public. "To revolutionize the mature societies takes too long. We want and need more freedom now, and

this can only be achieved by starting fresh with a coalition of enthusiasts and without infringing on incumbent interests," writes Schumacher (ibid.). The "crypto-metaverse" seems a perfect realm for start-ups of that kind.

2.4. The Liberal Archipelago of the virtual worlds

Entrepreneurs operating in the metaverse can avoid the three types of transaction costs — economic, regulatory, and political — that hinder the development of private cities in the physical world. Virtual cities are spared the necessity of obtaining a special jurisdiction status, cutting through red tape, and dealing with politicians and grassroots opposition. In the absence of all these barriers, metaverse developers get a chance to move from concepts to implementation in a matter of months, not decades, as was the case for Honduran charter cities. Because the metaverse has no pre-existing jurisdictions, virtual start-up societies can be built upon explicit consent, and rules will emerge from voluntary agreement and market competition. At the next stage, governance models that outcompete others in the virtual environment can be transferred to real-life cities, eventually challenging — and changing — public institutions.

These digital realms offer an unprecedented sandbox for testing innovative governance models, free from the physical and bureaucratic constraints of the physical world. In these virtual environments, a diverse array of governance structures can be rapidly implemented, adapted, and evaluated, providing valuable insights into their efficacy and societal impact. This experimentation in the digital sphere has the potential for significant osmotic effects on real-world governing institutions. By observing the successes and failures of various governance models in these virtual societies, political theorists and practitioners can pick strategies that are applicable to real-life communities. This cross-pollination of ideas can lead to the evolution towards more adaptable, efficient, and inclusive governance systems in the physical world, benefiting from the innovative trial-and-error processes undertaken in their digital counterparts. Thus, the metaverse holds the promise not only of expanding our digital horizons but also of refining and revolutionising the way we govern our physical societies.

That said, metaverse private cities will not operate as merely digital twins to brick-and-mortar cities. In addition to being laboratories for social experimentation (based on explicit consent), metaverse cities may simultaneously function as independent parallel societies, as private non-territorial jurisdictions free from many constraints faced by real-life private cities' projects. The creation and peaceful coexistence of multiple non-territorial jurisdictions in the metaverse — in the spirit of Chandran Kukathas's Liberal Archipelago (2003) — would accelerate experimentation, competition, and discovery in the field of governance, potentially eliminating that disparity between rapid adaptation of the private sector and the rigidity of the public one.

This scenario, of course, is tentative, and the sector is still in its infancy stage. That said, the market for 'unreal estate' hit $500 million in 2021 (Bidar & Patterson, 2022) and is projected to surpass $1 billion in 2022 (Tzanidis, 2022). There are four major platforms in the metaverse at the moment — The Sandbox, Decentraland, Cryptovoxels and Somnium Space — jointly offering 268,645 parcels of land. The majority of transactions, however, occur on the secondary market platforms like OpenSea and Rarible. Metaverse real estate brokers like Metaverse REIT help buyers to purchase desirable parcels of land, and TerraZeroTechnologies provides the first-ever metaverse mortgage. Metaverse landowners can profit from renting out their parcels for others to design their own games, host events such as musical concerts and fashion shows, and create virtual showrooms and meeting spaces. Facebook's decision to reinvent itself as Meta and focus its efforts on exploring the possibilities of the metaverse (Meta, 2021) further increased the market's appetite for exploring the virtual world.

Following the trend, even the public sector is now investing in the metaverse realm. For instance, the Seoul Metropolitan Government has unveiled a metaverse twin for the Korean capital city (Gaubert, 2021), while Barbados opened an embassy in Decentraland, one of the major platforms for creating virtual worlds (Wyss, 2021). While it is reasonable to take such initiatives with a grain of salt — in an unregulated environment such as the metaverse, bureaucracies are likely to achieve humble results compared to private innovators—these are clear signs that the metaverse is gaining momentum. We, therefore, may expect, in the near-to-medium future, an increasing number of people becoming citizens of virtual private cities—and appreciating the opportunities brought about by non-territorial jurisdictions. Sidewalks Lab will, at last, receive a chance to implement its smart city project in its original scale, charter cities will find it easier to demonstrate to Hondurans that the ZEDE regime brings economic progress, and hundreds of other similar projects will get an opportunity to kick off without asking for anyone's permission.

3. Conclusion

Recent years have once again highlighted the agility of the private sector in adapting to change, along with the failure of government institutions to catch up. Creating the market for private cities, cities-as-firms, would introduce price-based incentives into urban governance and accelerate the quest for better ways of cohabitation. A growing number of privately developed cities demonstrates both the supply and demand for such alternatives. Yet, many projects of that kind never get a chance to be built — economic, regulatory, and, most importantly, political obstacles become roadblocks. The need to ask for the government's permission plus ideological animosity manifested through NIMBY-like campaigns (NIMBYs in the broad sense — opposing not a particular road extension but all things unconventional) stand in the way of private cities.

A vocal YIMBY movement — people voluntarily opting to become part of a daring experiment — could shift the balance. Today, enthusiasts of private governance are dispersed throughout the world and separated by national borders, but the virtualisation of our daily life makes distances and borders less relevant. The concept of non-territorial governance, whereby laws are detached from land, allows entrepreneurs to circumvent existing blocks and start building virtual societies without lobbying bureaucrats or physically congregating in one place. The platform where this process is already happening is the metaverse. A realm of permissionless innovation, the metaverse allows visionaries to test-drive their ideas of what a city of the future should be without cutting through red tape or confronting opposition. One of the pioneering projects is the Liberland Metaverse, both the digital twin of an eponymous self-proclaimed libertarian micronation and a free-standing virtual society. As the market for 'unreal estate' and other metaverse-enabled goods and services is expanding, incentives to enter the race increase, and Liberland should expect to see competitors soon. The advocates of private governance should pay more attention to the window of opportunity opened by the advent of this 'Liberal Archipelago 3.0', as the metaverse can become a place where next big steps in institutional evolution will take place.

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