

THE MAGIC OF TRILEMMA: URBAN GOVERNANCE AND GATED COMMUNITIES

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ABSTRACT: While in the mainstream narrative gated communities are attributed to deviated or incidental developments this paper makes on the basis of public choice theory an attempt to reveal the rational incentives for people to move into gated and guarded enclaves. By doing this it argues that the ascent of gated communities has provoked a special kind of decision pattern in urban policy, of the so-called trilemma, when policy makers have to choose among three desirable objectives, but they can opt only for two, with one of the objectives rejected. Consequently, the definitive question is that if policy makers are in favour of one of the main objectives – high social cohesion, low density, and efficiency in public services – what objective should they give up from the remaining two others?

KEYWORDS: gated communities, urban governance, public choice, trilemma.

1 Introduction: pros and cons in the debate on gated communities

Pros: the virtues of club

Conventionally, the economic explanation for the rise of gated communities is based on the club theory invented by Buchanan (1965) and applied to gated residential developments by Foldvary (1994), Webster (2001), and Glasze (2005). Gated communities operate like clubs because residents privately finance the commonly owned and used goods and services in form of ownership bounded user fees and only they have the right to exclusively consume in exchange. Gated enclaves can hence effectively solve the market failure problem since market organisations are, as a rule, unable to produce public goods and services as long as price could not be attained and free riders could not be excluded (Bator 1958, Cowen 1988). Presumed that people with similar social status and interests are more willing to pay for goods and services in common use than in a community with a heterogeneous social structure, the segregation of people is the logical consequence of the *club-like working mechanism*. In return, the private provision of collective goods and services behind the gates is coupled with some social benefits, such as increased

responsibility, greater self-government, and better accountability. Club theory thus plausible reveals many important features of gated developments and clearly indicates their advantages; it leaves however open the question: If there is a successful model, *why have gated communities appeared only in the last few decades?*

Cons: new segregation and the politics of fear

On the contrary, critics emphasise that changes in economic policy over the past two decades, the *withdrawal of the state* as a service provider, privatisation and the deregulation of economy in particular, and the changes in social climate featured by rising individualism and exclusionary behaviour of the affluent have proved to be conducive to gated communities. As a consequence of these rapid changes the social gap has widened enormously and that manifested in the creation of gated enclaves for the rich in the city structure on the one hand, and led to social polarisation indicated by these physical barriers on the other. Atkinson and Blandy (2005b: 180) assert the ultimate rule; “Where the wall starts a new social area begins, whether one lives inside or out”. Bauman (2001: 116-117) goes further and coins gated communities as voluntary ghettos as far as “the real ghettos are places from which their insiders cannot get out, (...) the prime purpose of voluntary ghettos, on the contrary, is to bar outsiders from going in”. Because of the fear of crime, gated residential developments were built with a number of security measures such as walls, gates, and guards and these measures straightforward exacerbate segregation (Caldeira 2000, Low, 2003). Segregation is, however, an inherent phenomenon of urban development which has been observed since the first cities appeared many thousand years ago, and gated communities are widespread also in countries with apparently low crime rates and that raise further questions: *why is expressed today the self-segregation of the affluent by gates, walls and security guards, and why are these prevalent in countries with significantly diverse economic and social conditions?*

2 You get what you have paid for

Model, rule and taxation

In contrast to the mainstream approaches (McKenzie 1994, Atkinson and Blandy 2005a, Glasze et al 2007, Cséfalvay 2009) which put the emphasis on social factors (e.g. exclusionary behaviour of the affluent and fear of crime) or economic considerations encapsulated in the public-private dichotomy (e.g. market provision of public goods via club) this paper argues that the driving force of paramount importance behind the ascent of gated communities is to be seen in the distinction between the local municipalities and the gated enclaves

regarding of the government. In particular, the key question is not the bold fact whether in gated communities self-government with a specific legal status exists, but the way how self-government will be achieved and gated communities governed. There are three main points which make sharp distinctions between local municipalities and gated residential developments; the model, the rules, and the instruments of government, and these distinctions could be strong incentives for people to move into gated communities.

In line with the taxonomy of governments developed by Bailey gated communities can be described by the *fiscal exchange model* where the “government provides services solely in accordance with voters’ willingness to pay taxes” (Bailey 1999: 13). Contrastingly, local municipalities refer to the fiscal transfer model in which “the provision of public sector services is used to pursue social policy objectives” (Bailey 1999: 14). As an overall rule gated communities follow the *principle of fiscal equivalence* which, in Olson’s (1969: 483) words, asserts the “match between those who receive the benefits of a collective good and those who pay for it”. On the one hand gated residential developments fully match the territory of the government to the territory of collective goods and services provided, and since free riders are entirely excluded gated communities fully match the beneficiaries to those who cover the costs on the other. Gated communities could hence levy *benefit taxes*, in particular user fees, in a way that people’s taxes only rely on the amount of collective goods and services received in exchange.

The central proposition of this paper therefore underlines that *the distinction between local municipalities and gated residential development with respect to government models, rules and instruments could constitute strong incentives for residents to move into gated communities*. Citizens who are in favour of fiscal equivalence and benefit taxation are encouraged to search for residential areas that meet these requirements and gated communities could represent an alternative exit option for this.

Exit option gated community

In his seminal book Hirschman (1970) distinguishes two ways how people express their disaffections. The exit option refers to a rational response in the market for goods and services as people turn from a particular producer to other. In a sharp contrast to this, people in the political market employ the exit option merely as the last feasible alternative if the potentials for negotiations, that mean the voice option, are fully exhausted.

At the level of local governments exit indicates the ability of citizens to choose freely among local municipalities which impose local taxes and provide local public goods and services in return (see *table 1*). If people are dissatisfied with a particular package of taxes and public services in a given municipality,

their disaffection can be indicated by moving away to other. As Tiebout (1956: 422) ingeniously notes “spatial mobility provides the local public-goods counterpart to the private market’s shopping trip”, as far as citizens “vote with their feet”.

Consequently, the more local governments offer a specific package of taxes and public services the stronger will be the competition among them, and the easier it will be for people to deploy the *exit option* and find places convenient to their preferences. With this respect, gated residential developments can be regarded as new elements increasing competition among providers of locally bounded public goods and it can be hence asserted that *the more gated communities provide special packages of fees and local public goods and services (in other words the more room exists for exit option) the more choices the residents have to express their individual preferences.*

Table 1 System of exit and voice options at local level

	VOICE	EXIT
System	Political market	Market for goods and services
Local governments	Decentralisation	“Voting with feet”
Residential area	Neighbourhoods	Gated communities
Provision of public goods	Publically by public sector	Privately in club realm
Control over exclusion	Social arrangements	Physical barriers, guards
Control over congestion	Planning procedures	Inherent feature of club realm

Voice option decentralisation

On the contrary, the voice option reflects the capacity of residents to reveal their preferences by deploying political mechanisms without migrating from their municipal jurisdictions (e.g. electoral voting, public hearing, petitions and complaints to public service managers, customer surveys) (Dollery and Wallis, 2001). The feasibility of the voice option is although strongly influenced by the fact how functions, financial resources, and discretions are to be assigned among the different tiers of government (central government, regional governments, local municipalities, neighbourhoods, etc). In this respect the theory of fiscal federalism originated by the works of *Oates* (1968, 1972, 2005) conceptualises the decentralisation theorem with its normative statement that central government should focus basically on the objectives macroeconomic stabilisation policy, income redistribution, and national public goods provision,

because the high mobility of factors (capital, firms, and people) involved in fulfilment of these objectives requires centralised policy efforts. In return, local governments should deal primarily with local public goods (goods whose consumption is restricted to the own jurisdiction) since according to theoretical assumptions only a decentralised system of governments can effectively match the provision of local public goods to the diverse preferences of the residents. The proper assignment to power, finance, and discretion between central and local governments, and in particular the decentralisation, can be hence seen as a voice option and it can be conclusively pointed out that *less decentralised is the system of government (the less room exists for voice option) the more are the incentives for citizens to move into gated communities.*

Provision of public goods and services

According to the most frequently quoted definition stated by Blakely and Snyder (1997: 2) “gated communities are residential areas with restricted access such that normally public spaces have been privatized”. In this sense they represent not only a rivalrous entity to local municipalities in provision of local public goods and services, but also constitute an *exit option* by providing these privately. If local governments are unable to provide goods considered as public, such as green and safe residential environment, in other words if the voice option fails, people can turn to gated communities. On the contrary, the conversion of a given good into public good with the prominent features free of charge and free access for all can be termed, in Hirschman’s words, as a *voice option*. Consequently, it is likely to presume that *the less are local municipalities able to provide public goods and services desired (the less room exists for voice option) the more are the incentives for residents to move into gated communities.*

Control over exclusion

Since the boundary between public and private goods became fuzzy both practically by the ongoing trend of public-private partnership, and theoretically by the critique on public goods and market failure theories (Snidal 1979, Holcombe 1997, Zerbe and McCurdy 1999, Sandler 2004), the control over exclusion in residential areas has become a question of eminent importance. Setting rules on homeowners and free riders by mostly spontaneous social arrangements represents the softest and almost inexpensive form of control. Legal instruments, such as property right and planning regulations to exclude free riders can tighten the control; they are albeit coupled with higher costs in return. Physical and environmental barriers, such as gates, fences, and walls, and security devices, such as closed circuit TV and guards constitute hence the strongest and most expensive form of the control mechanisms continuum.

Taking the public choice assumption that individuals are utility-maximizers and act calculating between costs and benefits, they will commit themselves predictably to the less expensive option provided that it fits to their preferences. It is hence likely probable that residents will take the strongest form of control over exclusion, and that is the exit option of gated communities, only in the case if the softer and less expensive control mechanism, that means the voice option, proved to be failed. Consequently, we can presume that *the less are the capacities for social and legal control mechanisms over the residential areas (the less room exists for voice option) the more are the incentives for people to move into gated communities.*

Control over congestion

Beside the provision of local public goods and services, it seems to be as equally important to put control on congestion in the residential areas. As Buchanan (1965: 3) notes “for any good or services, (...) the utility that an individual receives from its consumption depends on the number of other persons with whom he must share its benefits”. Since cities are almost ever-expanding and suburban areas sprawling nearly limitless, it is a further important feature of gated communities that they are rigidly restricted in their growth. On the one hand, the size of a gated community as a club is determined in line with the increase of the numbers of residents by the growing benefit of cost in financing of the commonly used goods and services, and by the decreasing benefit of utility of these because increasing congestion costs on the other. Conclusively, the numbers of residents are always limited and gated communities appear as self-regulating and self-sustaining system as long as they hedge in their growth and congestion.

Despite ongoing tendency to increase people’s involvement the urban planning has remained a strongly centralised task carried out top-down by central authorities and residents have relatively minor influence on decisions regarding growth and crowd of their living areas. On the contrary, in gated communities the congestion is set by the developers, and when people move to gated residential developments they choose not only homes but also living environments with a specified density fixed in time. In this sense urban planning refers to voice, while gated communities to exit option; and in can be hence presumed that *the more congested are the local municipalities, in particular, the suburban areas (the less room exists for voice option) the more are the incentives for residents to move into gated communities.*

3 Trilemma in urban policy

Inescapable Trinities

These distinctions between local governments and gated communities indicate that policy makers are facing extreme diverse expectations in urban issues. Taking a closer look however three main objectives appear, such as providing residential areas featured with high social cohesion, low density, and efficiency in public services. While these objectives are evident they represent an almost inextricable situation for establishing coherent policies because they are at the same time extreme controversial tasks too. As a consequence, in urban policy it has emerged a special kind of decision pattern, of the so-called “trilemma”, when policy makers have to choose among three desirable objectives, but they can opt only for two, with one of the objectives rejected.

In our epoch of rapidly changing global economy policy makers are confronting with a new kind of decision as they have to choose among three possible elements in a functioning system; although, they can have at most two out of these three at the same time, having to decide which one they wish to give up. The analytical framework of such a kind of trilemma was first invented by Obstfeld and Taylor (1998) and termed as the ‘*monetary policy trilemma*’, and that imposes tradeoffs among fixed exchange rates, monetary autonomy, and capital mobility. These are desirable, yet contradictory objectives: only two out of the three policies can be mutually consistent.

Another impossible trinity was designed by Rodrik (2000, 2002) and labelled as the *political trilemma of the world economy*. Its message is that the nation-state system, the global economic integration, and the democratic mass politics are mutually incompatible, and we can have at most two out of these three. There are, however, tradeoffs which represent stable systems that work in the long run. The first solution is – in Friedman’s popular term (1999) – the so-called golden straitjacket; a symbolic garment for those nation states, which entirely and often at expenses of democratic representation fulfil the requirements of global economic actors. The second trade-off is termed as global federalism and it compromises a coalition between the global integrated market and the global democratic politics, while the nation state is supposed to be gradually hollowing out. Lastly, it is largely thinkable to run the global economic integration at much slower pace by downgrading to a post post-war Bretton Woods regime, in which trade liberalisation was strongly limited by nation-state and domestic democratic politics. These trade-offs can be regarded as feasible solutions they are although by far not equally desirable form diverse political points of views and/or diverse systems of values.

Politics is always about taking decision in a triangle of questions; what must we do, what can we do, and what do we want to do? This triangle of necessity,

possibility, and deliberateness is an anticipated challenge in the political decision-making process. The novelty of our era is that policy makers are facing an additional inescapable triangle, a policy trilemma.

Trilemma in urban policy

Since the beginning of the modern urban development both residents and policy makers are focusing on three desirable objectives in urban policy. First, citizens want to have an equal access to public goods and services, and they hardly tolerate that wide social groups are excluded from these; hence they express their wish for high social cohesion. Second, residents stress their need for privacy and therefore prefer living environment with relative low density (or put it in economic term, with low congestion costs). And third, citizens want to have access to public goods and services at relatively low prices which requires an economically efficient provision of these goods and services. (Undoubtedly there are many other important tasks in urban policy such as the requirement for environmental sustainability or the need for economic competitiveness. They however do not refer directly to the everyday life of residents in compare to the objectives mentioned above.)

While these objectives are apparent they require very different agencies (see *fig. 1*). To achieve the objective of equal access to public goods and services we need strong municipalities because they are legally enabled to impose taxes on the residents in order to provide public goods and services free of charge for all. The vital need of residents for privacy calls for suburban neighbourhoods with relatively low density. Lastly, the economically efficient provision of public goods and services requires residential areas where free-riders are excluded and this could be fulfilled by gated communities. It is obvious that to some extent each agency attempts to deal with all these objectives, in this triangle it comes however to play their *relative importance*. For example, the intention to provide living environment with low density is an important task in local municipalities, suburban neighbourhoods, and gated communities; although this objective is without doubt the most significant in the suburban neighbourhoods. Similarly, gated communities are often to be found in suburban areas, their most prominent feature is however the wide range of amenities provided privately and economically efficient behind the gates.

The trilemma of the urban policy is that the strong municipalities, strong suburban neighbourhoods, and strong gated communities are mutually incompatible at the same time. If policy makers prefer residential areas with high social cohesion (to provide public goods and services for all) they should promote strong municipalities and at the same time they have to choose between suburban neighbourhoods with low density or gated communities with high efficiency in production of public goods and services. If policy makers prefer

strong suburban neighbourhoods with low density (to reflect citizens’ demand to privacy), they have to choose between efficient production of public services in gated communities or high social cohesion in strong municipalities. And if policy makers prefer residential areas with highly efficient production of public goods and services (to use the money of the residents in most reasonable way), they have to choose between the strong suburban neighbourhoods with low density, or the strong municipalities with high social cohesion.

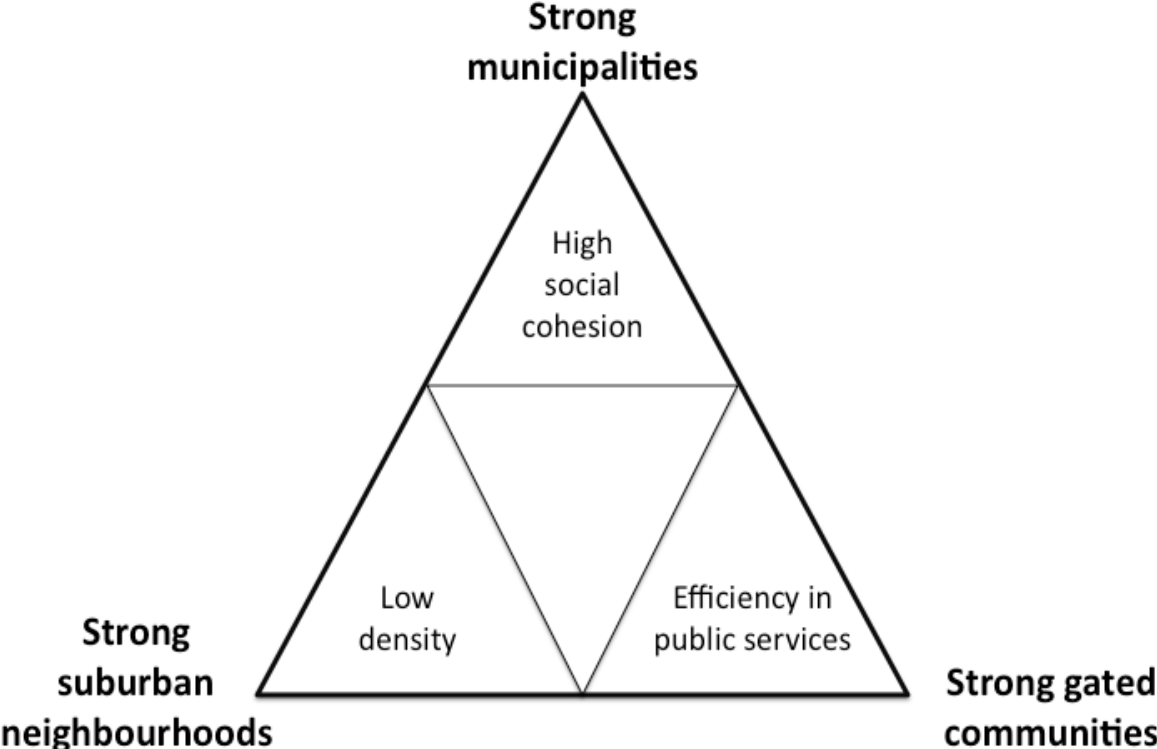


Figure 1 Trilemma of the urban policy

The notion of ‘strong’ is related here to the empowerment to deal with functions and financial resources; in a given area the more functions and financial resources the municipalities, the suburban neighbourhoods, and the gated communities have, the stronger they are. Though the number of functions and the amount of financial resources are rigidly limited in the entirely system. Consequently, increasing the number of functions and the amount of financial resources in one particular entity within this triangle leads to a loss of these in the remaining two others. For example, if gated communities develop self-governments to manage the collectively owned and used goods and services they take important functions from local governments at the same time.

Tradeoffs in urban governance

Albeit there are three tradeoffs that represent coherent urban governance systems that work: a coalition between strong municipalities and strong suburban neighbourhoods, or a coalition between strong suburban neighbourhoods and strong gated communities, or a coalition between strong gated communities and strong municipalities (see *table 2*). They indicate theoretically possible models for urban governance but they cannot be found in this crystallised form in particular countries. Urban policy is very varying in respect historical tradition, legal regulation, tax system, and many other influencing factors and these tradeoffs have to be hence seen primarily as Weberian ideal types.

Table 2 Tradeoffs in urban governance

Objectives of urban policy	Tradeoffs in urban governance		
	Strong municipalities and strong suburban neighbourhoods	Strong suburban neighbourhoods and strong gated communities	Strong gated communities and strong municipalities
High social cohesion	+++	+	++
Low density/ congestion cost	++	+++	+
Efficiency in public services	+	++	+++

In the case of urban governance which matches strong municipalities with strong suburban neighbourhoods the main advantage lies in the possibility to pursue social cohesion by income redistribution. Furthermore, in this model the suburban neighbourhoods can promote low density because they are mostly master-planned areas featured specifically for this desire. Disadvantage is however that economic efficiency remains particularly low in the provision of public goods and services because of the low density of wide suburban areas and the high bureaucracy at local municipalities. For these reasons this alternative can be termed as the *urban governance model for high social cohesion* which

became the mainstream urban governance pattern in the large metropolitan areas of Western and Northern Europe and the USA during the post-war period. Moreover, while in the USA in the 1970's there was a broad discussion about the suburban exploitation of central cities (Bradford and Oates 1974), we can observe today a wide variety of alliances between them (Jaffe et al 2004).

The second option is a coalition between strong suburban neighbourhoods and gated communities, while municipalities remain comparatively weak in return. The main advantage of this model is the low density both in suburban neighbourhoods and in gated communities. Similarly, it is favourable that gated communities produce commonly used goods and services via market providers very efficient, although this alternative lacks a wide scale provision of public goods and services. Since the number of residents in gated communities is rigidly restricted by the logic of club economy, the scope of the provided goods and services remains relatively moderate. The particular disadvantage of this model is the very limited social cohesion. Suburban neighbourhoods and gated communities are featured by homogenous social structure which promotes, in Putnam's term (2000), bonding social capital, but both of them lack the bridging social capital which is an essential precondition for social cohesion. Therefore, this scheme can be regarded as the *urban governance model for low congestion cost* which is widely to observe in the metropolitan regions of the Eastern and Central European transitions countries and in the extremely sprawled sun-belt suburbs of the USA.

The third alternative of the urban governance is represented by a coalition between strong gated communities and strong municipalities. In this model the main advantage is the high efficiency in production of public goods and services. While gated communities produce the commonly used goods and services privately and effectively on a small scale, local municipalities focus rather on large scale production and therefore efficiency will be gained from economics of scale. Disadvantage is however that gated communities remain separated enclaves in the often highly congested city fabric. Hence this model can be termed as the *urban governance model for efficient production of public services* which arises only in the last two decades in some European and US-American cities and can be partly observed in the Mega-cities of South America.

All these alternatives may be feasible, and their features to some extent can be observed in different countries. They represent feasible solutions what does not mean, however, that all the three trade-offs are desirable from diverse political points of views and/or diverse systems of values.

4 Concluding remarks

There is no silver bullet

The main message of the trilemma is that policy questions regarding to urban governance issues are extremely complex and they can not be answered normatively in a simplified manner of pro or against of one of the particular objectives. Conclusively, in the debate on gated communities the question of prominent importance is not primarily, whether gated enclaves can produce public goods and services via market provision economically efficient, what adherents of the club theory put in the focus. Similarly, it is not the most important question, whether gated and guarded residential developments foster urban segregation, which is the cornerstone of the critique. The profound question is that if policy makers are in favour for one of the three objectives - high social cohesion, low density, and efficiency in provision of public goods and services - what objective should they give up from the remaining two others? The trilemma hence suggests that there is no general satisfactory solution to the problems we are facing. On the contrary, if policy makers prefer one particular objective in urban policy they have to decide at the same time what objective they want to reject from the remaining two others within the trilemma.

Revolt of the upper middle-class

In practice gated communities have become an exit option from a number of aspects. They represent an exit option from the over-regulated and overcrowded cities and the flight from blight can be identified as one of the main motivations for living behind gates. Gated and guarded residential developments constitute an exit option when a centrally featured system of government diminishes the ability of the local municipalities to reflect properly the demand of citizens for local public goods and services. They indicate an exit option when in residential areas the soft forms of control over exclusion are exhausted. Gated communities denotes an exit option when local municipalities fail to meet the requirements of residents to deploy vital governmental rules, such as fiscal exchange, and instruments, such as benefit taxation. This exit option is particularly strong when local governments are simply unable to provide public goods and services required and gated residential developments have hence become in many parts of the world a manifestation for the revolt of upper middle-class against the local municipalities. If policy makers cannot solve these problems at the level of local municipalities they remain captured by the trilemma for a long time.

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