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**Romer's Charter Cities v. Colonization, Imperialism, and Colonialism: A General Characterization**

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**Abstract:** Paul Romer's radical idea of chartering cities to stimulate long run economic growth and development has provoked a hot debate, not all supportive. Some of the opposition argues that the charter-city model is an antiquated idea that conjures up brutal images of failed (neo)colonialism. This essay characterizes colonization, imperialism, and colonialism in order to shed extra light on why and how effects of chartering a city are dissimilar to the effects of colonization, imperialism, and colonialism. The characterization finds that while colonization, imperialism, and colonialism share strong historical affinities, no such connections can reasonably be made to the charter-city idea. A key assumption (requirement) of the charter-city model is voluntary participation of all players. Colonization, imperialism, and colonialism were forceful and repressive systems which relied on both government cohesion and administered prices, and were therefore inefficient. Monopoly gains (rents) from colonization, imperialism, and colonialism came at the expense of reduced consumer surplus elsewhere. Success depended on monopoly rents from the trade in "objects." Under charter cities the potential benefits to the urbanization and the economic growth of developing countries are huge. The charter-city model requires voluntary agreements. By overcoming the twin problems of consensus building and commitment utilizing market mechanisms, charter cities generate gains from the exchange of ideas. Evidence is starting to emerge suggesting that people understand that charter cities are not tentacles of (neo)colonialism; they promise real benefits if only policy makers decide to break old rules.

**Keywords:** charter city, Paul Romer on ideas, colonization, colonialism, imperialism, economic growth. **JEL Code:** F5, O1

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## 1. Introduction

The charter-city model of economic growth that Paul Romer (2010a, b, c) and his colleagues at <http://www.chartercities.org/> are promoting is in my view a welcome contribution to the general economic theory of land that goes back to mercantilism, physiocrats, David Ricardo, Thomas R. Malthus, Johann H. Von Thunen, and many others. While the objective of the model is the long-run economic growth of developing countries, its general implications for land conservation may well turn out to rival H. Hotelling's 1931 paper. For example, if this model were applied to the USA, just imagine the enormous possibilities for resource conservation, economies of scale, and neighborhood externalities that would arise from relocating the whole U.S. population to one or two of the fifty states. With a combined land area of 277,693.9 square miles, California and Arizona, for example, could comfortably accommodate 1,116.4 persons per square mile. At the scale of Hong Kong's 6,313 persons per square mile, the U.S. population could be housed in a 50-story structure with each state occupying its own level (floor). Conceivably the fixed cost of that project would be relatively low since the construction technology, engineering, and management are readily available. Potential benefits are huge: vast areas of uninhabited land would open up; and efficiency gains from energy use would increase national energy security. In fact, perfect substitution of fossil fuels by solar and/or nuclear energy would become possible, and energy independence a reality. Earth becomes Heaven.

The only obstacle that would prevent the building of the United States of Calizona is normative rules. As Romer (2010a, p. 1) puts it,

In this century, new technologies can raise living standards at the fastest rate in human history. To careful observers, this much has been clear for some time. What's new is the recognition that it will happen only if our rules keep up with our technologies and the proliferating web of human interactions that these technologies make possible. The constraint we will face will come from neither scarce resources nor limited technological opportunities; if we falter, it will be because of our limited capacity for discovering and implementing new rules.

Superficially, in the USA today the benefits from the current rules status quo are greater than the cost of implementing new and untested rules. In many developing countries by contrast the case for charter cities stands to generate greater benefits than costs; advocating for the change and implementation of new rules is not unreasonable. Yet, a frequent criticism against the charter-city model of economic growth of developing countries is that it reminds some people of colonialism (see <http://www.chartercities.org/blog>). What is the basis for this reaction? This essay explores that question.

Since the question of colonization and its aftermath is really a question of land, its value, and surrounding issues, the essay begins with a general summary of the key ideas about land. The summary is more indicative than instructive of the issues. The third section of the essay outlines classical theories of colonization, drawing up the works of E.G. Wakefield, Adam Smith, and Karl Marx. It indicates the links between the "theories" of colonization and the broad themes of economic

imperialism, colonialism, and national ideology (nationalism). In all these, the scope of the discussion very general. Given the understanding of the third section, I contrast the charter-city model to colonialism, and make a concluding remark.

## 2. Motivation

One exciting aspect of the charter-city model is that it reintegrates the role of land in economic growth theory, and thereby extends Paul Romer's (1990, 1993) new growth theory in creative ways (cf. Jones and Romer, 2010). The reintegration is good news, because neoclassical theory has assigned a unit parameter to the impact of land on production on an old assumption that the supply of land is fixed. Essentially, land plays a minor and fixed role in the neoclassical theory of economic growth and development. The assumption itself, while it enables elegance, breaks with economic history. For example, the mercantilist school of thought considered land the sole source of prosperity. National wealth came from the accumulation of land, classically defined to include gold and silver, and a surplus trade balance. A nation poor of gold and silver had to sell whatever trinkets it had to acquire gold and silver if it hoped to be rich. In this case a good trade policy supported tariffs on imports and promoted subsidies on exports. Trade was a zero-sum gain.

*Laissez faire* physiocrats were anti-mercantilists. To them the value of land was its agricultural use, and national wealth is a direct function of productive work (agricultural labor) of agricultural land. The importance of land explained Quesnay's *Tableau economique* and Turgot's support for farmers' self-interest and private property as motivations and preconditions for high productivity and diminishing returns as a limit to productivity. At the time the general understanding was that reinvestment of profit in capital accumulation was the only sure way of preventing (at the least postponing) diminishing productivity. This is a familiar line of literature to deserve further attention.

Another familiar and related vein of literature suggests that the Malthusian *absolute check* on economic growth is clearly physiocratic in its origin. Malthus's two "postula" indicate that diminishing returns are a permanent and unavoidable curse. For Ricardo scarcity and diminishing returns are relative so that the demands on the limited supply of land of increasing population put but manageable upward pressure on rent, even without significant capital accumulation and given unequal quality of land. Obviously under the charter-city model of gigantic (Hong Kong) scale, rent on agricultural land would decline while that of urban land would increase. Since in many arid lands agricultural lands is of a poor quality to begin with, turning it into urban land (charter cities) would increase its price (rent).

Other implications of the charter-city model for the von Thunen rent are huge as evident from von Thunen land rent ( $R_i$ ) expressed as

$$R_i = Y_i(P_i - C_i - FM_i), \quad (1)$$

where  $R_i$  is  $i$ th land rent,  $Y_i$  is gross yield from the  $i$ th amount of land,  $P_i$  is the price of the  $i$ th

product,  $C_i$  is the cost of producing the  $i$ th product,  $F_i$  is the freight rate of the  $i$ th product to the market, and  $M_i$  is the distance from the source of  $Y_i$  to the market.

Now, suppose  $Y_i$  is a constant returns to scale Cobb-Douglas function of capital ( $K_i$ ), and human capital ( $H_i$ ), given some level of technology ( $A_i$ ), i.e.,  $Y_i = K^\alpha (AH)^{1-\alpha}$ . Letting

$$H_i = e^{\theta q_i} N_i, \quad (2)$$

for  $q_i$  the quality of the population  $N_i$  as measured by things like health, education, job seniority, and so on, then for  $Y_i = K^\alpha (Ae^{\theta q_i} N_i)^{1-\alpha}$ , (1) becomes

$$R_i = [K^\alpha (Ae^{\theta q_i} N_i)^{1-\alpha}] [P_i - C_i - F_i M_i]. \quad (3)$$

For a 50-story Calizona,  $M_i$  is Pythagorean, i.e.,

$$M_i = \sqrt{x_i^2 + y_i^2}, \quad (4)$$

where  $x_i$  is the height of the  $i$ th State (level) in the 50-story Calizona and  $y_i$  is the horizontal distance from the structure to some source of the  $i$ th product. Hence, per capita  $R_i$  becomes

$$r_i = A k_i^\alpha e^{\theta q_i} [(P_i - C_i - F_i \sqrt{x_i^2 + y_i^2})]. \quad (5)$$

This gives the gist that the charter-city model has wide-ranging implications not only for the economic growth of developing economies, but for the role of land in economic growth of all countries. Now to get back to the point of this essay, let us characterize the processes of colonization, imperialism.

### 3. Colonization, Imperialism, and Colonialism

**L**iterally, to *colore* is Latin for inhabiting a place for agriculture. However, there have been many different characterizations of colonization.

#### 3.1 Conservative (Systematic) Classical Colonization

A definitive scheme of what may be called conservative classical colonization was first outlined by E.G. Wakefield (1849[2001]), and it is also known in the literature as “systematic colonization” or “assisted colonization” (Archer, 2003, Kittrell, 1973, 1966, 1965). Of course, colonization occurred long before Wakefield. From Adam Smith’s *Wealth of Nations* it is clear that ancient Greece had colonies undertaken to relieve the mother-city states from population and food pressure. The colonies were treated like the “emancipated child ... [who is] at all times entitled to great favor and assistance, ... yet ... [over] whom [the mother] pretended to claim no direct authority or jurisdiction” (p. 523, cf. Kittrell, 1973). Roman colonies satisfied demand for land and were representatives of the mother-city. Today’s modern cities like London (*Londinium*) and Cologne (*Colonia Claudia*) were Roman colonies (Wikipedia). From this history it is clear that classical colonization exported capital and/or labor to the colonies and repatriated profit to mother-cities.

Technically, systematic colonization differed from classical colonization in that it was one of the largest mercantalist vent-for-surplus schemes. The British version of it sought to transfer surplus capital and population to the colonies to create wealth for Britain. As Kittrell (1973) puts it, “Wakefield’s technique of colonization was embodied in [the] arguments for the sale of colonial lands at an artificial price sufficiently restrictive as to preclude an uneconomical and fatal dispersion of settlers in the land-abundant colonies” (p. 87). The scheme required money payment for colonial lands. The size of land was of the size that it could not be subdivided and resold. The landowner was liable for a land tax, with tax revenue going to fund the emigration of laborers to the colonies, and whatever was left to offset other colonial administration costs to make the colonies “self-supporting” ([http://www.australiangenealogy.org/history/wakefields\\_scheme\\_colonization.htm](http://www.australiangenealogy.org/history/wakefields_scheme_colonization.htm)). To accomplish all that, the scheme proposed to manage supply of and demand for labor, such that capitalists could earn profit and laborers have well-paying jobs. The scheme favored emigration of young people of both sexes and in proportions that encouraged married family life, and that those who assisted emigration be compensated somehow.

At the time schematic colonization was a controversial innovation much like Romer’s charter cities. Although most contemporary political economists agreed with the general framework of systematic colonization, some called Wakefield’s idea crazy, simplistic, and more, as far as Karl Marx was concerned. The same adjectives are being used today about charter-cities, not that the two schemes are the same. Wakefield’s the main problem had to do with determining the land price that was both sufficient and restrictive. He had no good answer for that question, but neither had his critics. He suggested that the price be just right - not too low and not too high. Too high of a price would encourage substitution of high quality land for low quality land with the effect of “diverting settlements to costly lands” (p. 91). Too low of a price would encourage slavery, as every free person would become a landowner. Thus, a “goldilocks” price would be a sledding function of local wage rate, cost of living, land fertility, and climate. The reasonableness of a positive price for land was never in question; it is the restrictiveness of the price that bothered many for it suggested creating inefficiencies by concentrating the supply of an abundant resource and charging a restrictive price for it. This is the part of systematic colonization that received the sharpest and most deserved criticisms (see Kittrell, 1973, pp. 90-91), and that may have limited the influence on economics of Wakefield’s scheme.

Systematic colonization, while it may have succeeded in financing some emigration, failed to re-create a model society or generate huge profits for either capitalists or the mother-country. In regard to the former, systematic colonization elevated immigrant laborers to a higher status in colonies than they would in the mother-country, something the upper classes did not take kindly to. With respect to the latter, presumably, laborers preferred to be landowners themselves, and presented competition for land, which, by also reducing the supply of labor (increasing wages) lowered profit, and questioned the efficacy of assisted colonization. These were the same effects Wakefield wanted to address in the same place.

Wakefield's solution was a practical response to the failure of colonies such as Swan Bay (Australia, 1829). These failures suggested that spontaneous, unregulated colonization would not develop in colonies where free men could easily become landowners themselves. Competition for land would mean that the labor supply would fall, wages rise, and capital productivity fall with an increase in K/L ratios. This motivated the colonial government to grab land away from the conquered natives and sell it to the colonists for the benefit of the mother-country and monopolies.

According to the charter-city model the host voluntarily leases a sizeable piece of land for the charter city (see <http://chartercities.org/faq/11/faq>). Thus, *the model focuses on transferring to hosts growth-enabling rules and institutions that govern them in contrast to systematic colonization which emphasized the emigration of population from, and immigration of wealth into, the mother-country, with little to no added value to the colonies.*

The rights to land ownership are fundamental rights; the struggle for land is inseparable from the struggle for freedom. This is precisely why such a struggle almost always led to nationalism, and in most cases to independence soon thereafter. American independence was a land victory; Paul Romer's experience with Madagascar described by Mallaby (2010) is another example of the sensitive nature of the land issue and the emotions that it invokes. It all suggests that for the charter-city model to get off to a good start there is a need for a strong and legitimate host leadership. However, there is also a trade-off between too strong a government and other essential values like democracy. Lazy thinking (lol) insists that democracy is good for all, all the time, in all places. Romer's recognition that democracy is not always everything to everyone, reminds me of J. Bhagwati's (1958) classic "immiserizing growth;" not so much because it raises a question about whether there is such a thing as growth/development-enhancing dictatorships or that development is freedom as Amartya Sen (1999) suggests, but because democracy may be a consequence of economic growth and development instead (cf., Brown, 2000).

A recognition that democracy may not be the means to which growth and development are ends does not mean that rules cannot be invented and implemented where democracy is weak or absent. China is still not a democratic country; however the Western basis for her rapid growth today has been in the making for sometime, see, e.g., Teng and Fairbank (1970), Bonavia (1982), and Gasster (1983). Moreover, much of East Asia has become more democratic with rapid growth than it was without it. For the most part rules that work already exist somewhere, and many may well be neo-medieval as Mallady suggests of charter cities. However, the spread and implementation of ideas appear to

have been frustrated by the dogmatic belief in a geography that promotes the distrust of foreigners on one hand, and the supposedly incorrigibility of the “native” on the other hand (cf., Booth, 2007). Today many countries use similar rules only differently, and the difference in use has meant the difference in performance. For example, Zimbabwe relies heavily on the U.S. dollar (\$) and currency market to deal with the hyperinflation of its economy denominated in the country’s local currency (Z\$). North Korea apparently specializes in forging US\$. At the same time both countries are vehemently opposed to the US economic system and seemingly its rules. Again, what that means is that just like in a war where the use of weapons and ammunition captured from the enemy may well decide who wins the next battle, ideas developed in democracies often work in non-democracies as well ( See Romer, 2010c).

### *3.2 Liberal colonization*

It is true that systematic colonization was not really an economic theory; it was rather a practical technique. However, there is sufficient evidence of its basis in the liberal philosophical tradition of Bentham, Ricardo, Mill, Locke, and even Smith. For example, the connection of “assisted colonization”, and Benthamians and Ricardians is well documented, not in the least that Wakefield corresponded with Bentham (Kittrell, 1965). The difference is that all economic liberals at the time had faith in unrestrained competition in trade (Ricardians) and unregulated competition of ideas (Millians) within a self-interested framework (Smith, Bentham, and so on). However, for the Benthamian-Ricardians the quantity of capital, rather than the size of land, determined the volume of trade. In this view colonies are leeches of capital from the mother-country, although Bentham later retracts this view.

Wakefield appealed to Adam Smith’s authority on the relationship between capital and profit in the process of growth. However, the theoretical tie between the two on the issue of colonization has been pretty loose. One can say that Smith could not have supported systematic colonization as it was against his “Invisible Hand” idea. He argued, for instance, that American colonies were founded in error after Columbus mistook America for East India. Only the presence of gold and silver later attracted the interest of the Council of Castile to the idea of colonizing America. But even then the growth of colonies depended on cheap and fertile land, good knowledge and government of colonies, high wages and profit, and population control. Thus, the American colonies grew faster than other imperial colonies because their “institutions were more favorable to improvement” (p. 539), as opposed to “the absolute government of Spain, of Portugal, and in less degree of France, [which] are even more violent in the colonies than at home” (p. 552). Hence, continental Europe “contributed little” (p. 556) to the productivity and well-being of colonies, concluded Smith.

On the other hand colonies contributed to Europe by increasing employment and reducing overcrowding, extending the market size through zero-sum gains from trade, as the mother-country and sectors with monopoly power gained at the expense of other countries. Consequently domestic investment fell, and Smith concluded that “monopoly is bad, but trade itself is good” (p. 573), so that government support to monopoly was not good for the country either. He insisted that “the policy of the monopoly is a policy of shopkeepers - not country” (p. 579). Thus, in Smith’s mind the



“Columbian exchange” was an unequal exchange (Cf. Nunn and Qian, 2010) by which colonization exported mainly diseases to the colonies; formed unequal social relations with the “natives” of colonies, exploited both “natives” and migrant laborers; enslaved mainly Africans; and promoted miscegenation, genocide, imperial colonialism, dependency and neo-colonialism all at much higher opportunity costs than the benefits of the infrastructure, medical advancement, and technology it delivered. Hence, liberals opposed colonization and advocated for the liberation of all colonies, because self-determination was good for the mother-country, good for the colonies, and bad for monopoly merchants. Again, to Adam Smith the “discovery of America and the Cape passage has exalted the mercantile system” (p. 591), which led to monopoly and colonization at the cost to the mother-country, and represented “transitory [monopoly] profit” and “permanent revenue of the sovereign” (p. 602). Since “exclusive companies are a nuisance” (p. 600), the evil comes from the system [of colonization], not from the character of the men who administer it” (p. 602).

### *3.3 Marxist Opposition to Colonization*

Marxists viewed any form of colonization as a disparate form of exploitation and social change. Karl Marx himself reserved his harshest ridicule for Wakefield’s systematic colonization as Chapter 33 on “the modern theory of colonization” (pp. 838-848) in *Capital* clearly shows. In his viewpoint systematic colonization is “primitive accumulation of capital” (p. 846). It is a vain attempt to export capitalism to colonies to offset its declining rate of profit in the industrial nations of Europe. The attempt will not work because, argued Marx,

property in money, means of subsistence, machines and other means of production, does not as yet stamp a man as a capitalist if there be wanting the corrective - the worker, the other man who is compelled to sell himself of his own free-will. He [Wakefield] discovered that capital is not a thing, but a social relation between persons, established by the instrumentality of things” (p. 839).

For systematic colonization to work, the worker must be willing to “self-expropriate” - i.e., not want to own land or capital, only labor. All this, according to Marx, proved “that the capitalist mode of production and accumulation, and therefore capitalist private property, all have their fundamental condition in the annihilation of self-earned private property, in other words, the expropriation of the laborer” (p. 848).

### *3.4 Colonization to Imperialism*

There is no question that Karl Marx understood that capitalism was the most productive economic system. He and Frederick Engels wrote in *The Communist Manifesto* (1846) that

“during its rule of scarce[ly] one hundred years, [capitalism] has created more massive and more colossal productive forces than all preceding generations together. Subjection of Nature’s forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railway, electric telegraphs, clearing the whole

continents for cultivation, canalization of rivers, whole population conjured of the ground - what earlier centuries had even a presentiment that such productive forces slumbered in the lap of social labour?"

They (Marx and Engels) attributed labor productivity to technological progress. Yet, in *Capital* (1906) Marx expected capitalism to collapse under its own weight as profits declined. He anticipated unregulated colonization to fail and Wakefield's assisted colonization was proof that capitalism was indeed failing. In this assessment, as it turned out, Marx was in correct, and it took other Marxists, like V.I. Lenin, to patch up the logical holes in Marx's theory, and soothe unmet expectations.

Fundamentally, Lenin (1965) was even more unclear than Marx because he did not distinguish colonization from colonialism. However, for him (Lenin) colonization transformed free capital into monopoly capital by "replacing large-scale by still larger-scale industry, and carrying concentration of production and capital to the point where out of it has grown and is growing monopoly: cartels, syndicates and trusts, and merging with them, the capital of a dozen or so banks, which manipulate thousands of millions" (pp. 105 - 107).

The concept of imperialism, albeit difficult to explain, is a direct consequence of colonization as Ken Boulding and Tapan Mukerjee (1972) show in their edited collection of essays, *Economic Imperialism*. A precise definition of imperialism is elusive, but it is generally understood that imperialism is an unequal and domineering relationship between one nation and another. While there have been many empires across world history, modern imperialism is recent and is characterized mainly by the domination of non-European peoples by European nations for economic and political reasons. Access to resources and markets was a major economic reason for imperialism; racial superiority was a major political reason for imperialism ( see J.A. Hobson, 1901). It made it easy to claim that the locals did not understand, and therefore misused, valuable lands. The locals undervalued and misused lands because they were inferior, and it made sense further to take the land away from them.

### *3.5 Imperialism to Colonialism*

Again, colonization led to imperialism and imperialism gave birth to colonialism. Colonization was a process of forming a colony - people and other animals, big and small, did colonize. Colonialism on the other hand was colonization PLUS, the PLUS included unequal rule of the colonizers over the colonized. Colonialism preached profit-making, impoverished others, and propagated European religious and other values (Osterhammel, 1997). Whereas in settler colonialism a large population of settlers took over native fertile land for agriculture, in exploitation colonialism a few settlers took over land with the aim of exploiting the land and its people on behalf of the metropole (mother-country). Both forms of colonialism were old; new was the colonialism by Western Europe of non-European lands.

### *3.6 Colonialism to Neo-Colonialism and Beyond*

Colonialism was related to imperialism in that a colony is a part of an empire. In that limited sense capitalism enabled colonization; colonization led to Western imperialism, which established colonialism and expanded capitalism. From Marxists' viewpoints colonialism was an extension of capitalism. V.I. Lenin went as far as claiming a joint-causation in which colonialism is the cause of imperialism, and imperialism was "the highest stage of capitalism." Such a viewpoint rendered support to the right of all peoples to self-determination, which someone else might say opened the door to Soviet imperialism and Japanese imperialism.

Marxists were not alone in their opposition to colonization, imperialism, and colonialism. Liberal economists going back to Adam Smith, Frederic Bastiat and others, also disagreed with many forms of restrictions on markets and the individual. They argued that such practices were costly to both the colonies and the metropole. The negative impacts of colonization, imperialism, and colonialism on their subjects were horrific: dispossession, exploitation, slavery, neocolonialism and dependency. In the end the health, food security, and slave trade impacts of these processes have all been unequal (Nunn, 2008, Nunn and Qian, 2010).

The effects of colonialism have lingered on to neo- and post-colonialism. Edward Said (1978, 1998) traced orientalism to imperialism. Said's reading of social history is not entirely without a basis. Asia, generally speaking, reacted to Western imperialism by imitating its techniques, adopting its ideas of progress and freedom. In particular China strengthened itself by introducing rail and port infrastructures, and improving its armaments, and its metal and textile mills. Japan "copied" the Western universal education system, and foreign industrial, scientific, and military expertise. India introduced the Western system of higher education for the urban elite, while Indianizing its government. Thus, while the extent of post-colonial effects of imperialism remain debatable, their existence does indeed favor Said's thesis (cf. Booth, 2007, Gasster, 1983, Teng and Fairbank, 1970).

Elsewhere, but in a related area, Frantz Fanon's *The Wretched of the Earth* (1961) and *Black Skins, White Masks* (1952) represented other summaries of the lingering effects of imperial colonialism. Here the consequence of colonialism was neo-colonialism of which only a certain consciousness could cure. The anticolonial national ideologies that emerged in the 1950s onwards were outward expressions of that consciousness.

To sum: Colonization enabled imperialism, which enabled a colonial ideology called colonialism. Opposition to colonialism gave rise to nationalism which sparked the process of decolonization (See Paul E. Sigmund, 1972). Whereas national ideologies were successful in bringing about some political freedoms, their effects on national economies have remained questionable as Harry G. Johnson (1967) clearly characterized (cf. Amavilah, 2008a, b). Part of the difficulty stemmed from the fact that many national ideologies were not anchored in good economic theory (if in any theory at all), but also because the process of decolonization itself came to mean different things to different people. Historian Raymond F. Betts (1997) has observed that the meaning of decolonization changed from the liberation of colonized countries to encompassing "changes of attitudes and mentality in both [formerly colonizing and colonized] communities" (p. 3). With that change it has become nearly impossible to assess progress made.

#### 4. The Charter-city Idea

The preceding sections characterized colonization, imperialism, colonialism, and associated issues. Looking back at the main themes of that characterization, it is easy to see why some suspect the charter-city model of (neo)colonialism. In this section I briefly assess whether the idea of charter-cities is (neo)colonial and what its general implications might be for African countries particularly.

##### *4.1 Is the Charter-City Idea a (Neo)Colonial Idea?*

From the historical perspective there is a huge difference of both form (structure) and content (goal) between colonialism and charter cities as models of economic growth and development. Paul Romer's (2010b) "breakthrough idea" in the charter-city model is the proposition that

Today many countries are stuck with rules that slow down inflows of technology, prevent successful urbanization, and stifle personal ambition. They need new rules that will let their citizens take full advantage of mutually beneficial exchange with millions of fellow citizens and with people and firms from around the world. Those rule could be introduced by chartering new cities like Hong Kong. ... Many nations need to change rules. ... Charter cities - ... - could be the skunkworks that bring systematic change to entire nations" (pp. 10-11).

Charter cities can serve as agents of change. Why? - because they can deal effectively with two related challenges that stand in the way of rule-making and rule-implementation. Chartercities.org calls the two challenges "the challenge of building a consensus" and the "the challenge of commitment." Because it always takes time to initiate large projects, one good thing about that is that consensus building reduces error about the process implementation. The bad thing is that the long time lag slows the process itself down, and *systematic colonization was imposed to speed up or circumvent the consensus building process, but it ended up with an inefficient land pricing scheme which redistributed surpluses*. The charter-city model imports rules (ideas) then uses the market mechanism to implement them. From the perspective of the host, the market mechanism requires voluntary participation, which allows for social efficiency in the pricing of rules. Here Romer gives the Stockholm approach to internalizing congestion cost as an example. Systematic colonization did not permit voluntary exchange of land, and therefore its pricing method was inefficient from the very start. *Charter cities shorten the process of consensus building; complying with the rules is voluntary - an opt-in or opt-out. The host, who can also be the source simultaneously, remains in charge of the polity and its structures; the guarantor is in charge of enforcing the rules.*<sup>2</sup>

The second challenge in making charter cities relevant in a way that distinguishes them from colonization, imperialism, and colonialism is the "commitment challenge." Historical experience proves that contract breaches and regime switches have been major problems in advancing

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<sup>2</sup>For the definition of host, source, and guarantor, and their interactions see

development projects in developing economies. For further evidence review League of Nations and United Nations mandates, e.g., the example of Britain, South Africa, and Namibia. *Charter cities minimize the challenge of commitment by “leveraging the institutional credibility of partner government(s),” which facilitates adherence to new rules.* Sticking to rules enables risk-sharing among stakeholders. Average country and political risks fall and investment rises. Again, this aspect of charter cities differs from colonialism, for example, because colonists were “foreigners” pursuing “foreign self-interests.” Under the charter-city model the only foreigners are guarantors whose sole “objective is neutral enforcement of contracts between host (and source, if one entity) and investors who may be foreign or local. In other words, the charter-city model characterizes trade in ideas (rules), which neither colonization, imperialism, nor colonialism ever did.

#### *4.2 Charter-Cities and the Neo-colonization of African Countries?*

Colonization was both unfair and unavoidable. As they emigrated from prehistoric Africa, along the way, humans claimed as their own areas that once belonged to someone or something. We are (at least we were) all colonizers. In Southern Africa the Bantu people colonized the lands of the native people, the Khoi San people (so-called Bushmen). Northward emigration into Europe and beyond displaced someone or something; it is unthinkable that these lands were empty. More recently Western Europeans colonized everyone, as the examples of Africa, the Americas, and Australia and New Zealand clearly demonstrate.

In the massive edition of *The Economics of Colonialism* Peter Duignan and L.H. Gann (1975) describe the effect on economic growth of Africa and its European colonizers of colonialism - see also reviews by Rimmer (1978) and Beverige (1977). Some of the pieces in the volume argue that the expansion and maintenance of imperial colonialism depended on purely economic forces, such as the search for new markets and sources of material supplies. Taken to the extreme this argument suggests that colonialism was all about exploitation. Other entries in the same book reason that colonialism was a modernizing agent - a good thing (cf. Herskovits and Harwitz, 1964). While it would be nearly impossible to assess the net balance of all these, Patrick Manning (1974) has given an indicative analysis of the costs and benefits of colonialism. Among the benefits he listed (1) gains from trade with the mother-country; (2) transfer of technical advances; (3) foreign investment; (4) mother-country government expenditures on colonies; (5) taxes; (6) introduction of money and monetary systems; (7) regulatory systems; (8) formal education; and (9) law and order. However, one could as easily list the benefits as the costs of colonialism. For the native peoples law and order was actually political coercion and repression; high taxes meant loss of land, and so on. Dramatically put, it is not clear what the net benefit were of saving a sick native from death only for him or her to live five years longer in abject poverty and deprivation. In the end whether colonialism was net beneficial or net costly depends on the type of colonialism, the colonizer, and the colonized country (cf. Brown, 2000, Souza, 2011). This is not just theory: Anne E. Booth (2007) tells us that East and Southeast Asia’s development was spurred by rapid urbanization caused by land scarcity following population explosion in the 1900-1940 decades. The economics of high population density necessitated high agricultural productivity per acre and “uplifted the natives.” In Japan where such productivity was highest it led to global Japanese imperialism and as a reaction to it nationalism in Japan and

neighboring countries.

African countries bore the burden of imperial colonialism - there is no doubt about that one! A unified policy as Frannie Leautier (2011) recently pointed out is the way for them to go. Yet unity also requires functioning (democratic) institutions. At the dawn of independence both Kwame Nkrumah and Julius Nyerere wanted African unity. However, both were similarly cautious about how that could be done with African countries so much differentiated institutionally. Nyerere in fact wanted independence for Tanzania delayed to make it easy for Tanzania and other East African countries to emerge as one after they gained their independence (Rothschild and Curry, 1978, cf. Amavilah, 1995). To date regional integration in Africa remains elusive, despite the talks. Because modern cities are cosmopolitanically homogenous, charter cities will in fact provide stepping stones for integration which so far has been difficult to achieve.

Charter cities are not only not colonialism, the idea itself is timely. The rate of urbanization is ever rising. Estimates indicate that a third of people in developing countries lives, or is making efforts to live, in cities. Many will surely end up in slums. *Charter cities reframe the role of traditional cities as destinations of unstoppable urbanization to cities as sources of ideas, creativity, and social progress.* They are practical complements of the UN-Habitat's goal of "Harmonious Urbanization" ( see Anver Versi, 2008). Better (charter) cities would (a) promote orderly urbanization and reduce poverty, (b) downgrade and eventually eliminate slums, (c) increase community participation and create more and better ideas, (d) finance urbanization, (e) improve local governance (cf. Ernest Harsch, undated), and (f) address women and gender inequality issues, according to Mapetla and Schlyter (2009). These are things we now know for sure colonization, imperialism, and colonialism just could not do!

## 5. Concluding Remark

This essay characterizes colonization, imperialism, and colonialism as modes of progress and contrasts them to Paul Romer's charter-city model of economic growth and development. The objective is to magnify the differences and shed one more ray of light on the efficacy of the charter-city model. While the characterization is very general, perhaps even silly and superficial, it finds that colonization, imperialism, and colonialism are historically interlinked. One needed colonies to build an empire and a colonial ideology (colonialism) to rule the colonies. No such link can reasonably be made with the idea of chartering a city to promote economic growth and development.

A key difference is that the "isms" were forced and therefore inefficient systems. Their short-lived success was unsustainable as it depended on government support and monopoly rents from trade in "objects." The charter-city model requires voluntary agreements as a matter of internalizing an externality. It overcomes the twin problems of consensus building and commitment, utilizing market mechanisms. In this situation markets themselves must be established first, but thereafter socially-efficient solutions obtain and represent gains from trade in "ideas." This case is a classic application of Coase Theorem in which negotiation can lead to efficiency (irrespective of property rights) as long

as the number of parties to the negotiation is small so that transaction costs are low (Coase, 1960).

If there is another thing that would slow down the process, it would be principal-agent trust/mistrust, which would depend on the country. This is one reason Romer has hinted to Scandinavian countries and Finland, and Canada as preferable guarantors, given their neutral recent history and minimum participation in colonization, imperialism and colonialism. Already it is satisfying to learn from <http://www.chartercities.org/blogs> that Honduras has shown interest in the project. This goes to show that people understand that charter cities are not tentacles of (neo)colonialism; they understand that charter cities promise real benefits if only policy makers decide to break old rules.

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