

# Internalizing Externalities Through Private Zoning: The Case of Walt Disney Company's Celebration, Florida

Edward P. Stringham<sup>†</sup>, Jennifer K. Miller<sup>\*</sup>, and J.R. Clark<sup>#</sup>

*Fayetteville State University<sup>†</sup>, San Jose State University<sup>\*</sup>,  
and University of Tennessee at Chattanooga<sup>#</sup> – USA*

**Abstract.** Do zoning rules need to come from government? This article highlights the economic features of one of the largest privately-planned towns: Celebration, Florida. The 10,000-resident town includes numerous privately-provided public goods as well as rules that reduce negative externalities within the community. These features are designed to internalize externalities and maximize the value of the community to customers. We discuss how private planners, in contrast to government zoning boards, have an incentive to figure out which community features consumers value. Using this master-planned community as an example of a successful corporate venture, we show that the private sector can successfully provide zoning on a citywide scale.

## 1. Introduction

Who should set the rules of a community? No one favors nuisances affecting their enjoyment or the value of their property, so most people look to government zoning to eliminate, limit, or internalize negative externalities. In addition to looking to zoning laws to eliminate negative externalities, most people want government to enact rules that will encourage positive externalities, such as large yards or tree-lined streets. Comprehensive zoning was first introduced in New York City in 1916, and it is nearly ubiquitous in America today.<sup>1</sup> Many scholars now model zoning as the most effective tool to deal with externalities and maximize the welfare of a community (Karkkainen, 1994; Hamilton, 1975; McMillen and McDonald, 2002).

Despite its popularity, some economists make the case that zoning creates certain externalities of its own (Fischel, 1985), and that the cure may be worse than

the disease (Ellickson, 1973; Powell and Stringham, 2008). Economists have pointed out that zoning can be used monopolistically (by the “haves” to exclude the “have-nots”), and evidence strongly indicates that zoning makes housing less affordable (Glaeser, Gyourko, and Saks, 2005; Green, Malpezzi, and Mayo, 2005; Malpezzi, 1996; Quigley and Raphael, 2005). Certain historians and political economists have also documented ways in which property owners can internalize externalities on their own, indicating the potential superfluity of zoning (Demsetz, 1964; Beito, Gordon, and Tabarrok, 2002). On a city-wide scale, Siegen (1970) points out that Houston exists without traditional zoning laws, and documents how residents and businesses rely on contractual deed restrictions to deal with potential externalities.

Although Siegen (1970) and others suggest that the elimination of zoning would benefit cities, many commentators remain unconvinced. McDonald (1995, pp. 138-139), for example, argues that creating deed

---

<sup>1</sup> American zoning regulations first appeared in 17<sup>th</sup> century Massachusetts. The laws gave towns the authority to assign locations for slaughterhouses, stillhouses, and leather currying (Solbert, 1951). The more comprehensive zoning laws enacted in 1916 in New York became the model that others followed (Karkkainen, 1994).

restrictions on a large enough scale to matter would involve prohibitive transaction costs, and thus that, lacking zoning, Houston residents have to deal with community-wide externalities. He concludes that wide scale zoning offers middle class homeowners important advantages when compared to a purely contractual system. Others such as Steele (1986) reach similar conclusions. These concerns are important for laissez-faire leaning economists to recognize. Even amongst such economists, almost everyone's favorite towns and cities have zoning. Many individuals value an "old town feel" and do not want to see their town transformed into a massive city with high-rises and urban sprawl. Thus, one can understand why many would prefer status quo policies if the only other option is to make all cities more like Houston.

To most people the policy choice is between government rules and regulations or no rules and regulations whatsoever. In this article, however, we provide an analysis of a less frequently considered alternative: non-governmental zoning (Deng, Gordon, and Richard, 2007). Dictionary.com defines zoning as "of or pertaining to the division of an area into zones, as to restrict the number and types of buildings and their uses," but the definition does not imply the division of uses must derive from the government. Over the past few decades economists have documented how non-governmental zoning occurs at the local level through private organizations such as homeowner's associations (Nelson, 2005). But until recently examples of private zoning on a citywide scale have been few (Foldvary, 1994). This study examines one of the largest examples of citywide private zoning: Celebration, Florida, an entire town planned and developed by The Walt Disney Company through its subsidiary, The Celebration Company. After documenting the features of Celebration, we then analyze the private zoning in comparison to government zoning. This ten square mile and 10,000 resident privately-planned town has implemented many measures to internalize externalities and successfully maximize the value of the land. Using the master-planned community of Celebration as an example of a corporate venture, we show that zoning on a citywide scale need not come from government.

The study is organized as follows. Section 2 provides an overview of Celebration, Section 3 describes the internalization of externalities in this private city, Section 4 describes the framework that Disney created to maximize the value of the town, and Section 5 concludes.

## 2. A privately-planned city

### 2.1. General description of The Walt Disney Company's Celebration, Florida

On June 18, 1996, the first residents moved into the privately-planned town Celebration, Florida.<sup>2</sup> Celebration is a 10.7 square mile area immediately south of Disney World Resort in Osceola County, a half hour drive southeast from Orlando. The \$2.5 billion project is comprised of eight developments: Village, South Village, East Village, West Village, Celebration Village, Lake Evalyn, Roseville Corner, and Artisan Park.

The town has many amenities that could be classified as public goods. Yet these goods are provided privately in an effort to increase the value of the development. The town includes a town center and lake, schools, a health center, nature trails, parks, a 109 acre office building area, and a four and a half star 18-hole golf course and clubhouse. Residents and visitors may take advantage of Celebration's amenities while staying at the 4-star Celebration Hotel, located downtown beside the lake, which also offers meeting and wedding services. As of 2003, Celebration was home to more than 8,000 residents with a planned maximum of 12,000 (Walt Disney Annual Report, 2003).

The value of these privately-provided public goods (and elimination of negative externalities) is reflected in the higher value of housing in the town. Tiebout's (1956) theory and Oates's (1969) supporting evidence indicates that good policies should be capitalized into the value of real estate. Jurisdictions with good policies should have higher prices, *ceteris paribus*, than jurisdictions with bad policies. In an ideal market, residents could shop with their feet for the jurisdiction offering the mix of local public goods that best suits their preferences. Caplan (2001), however, shows that local governments can act against residents' best interests (and not maximize the value of the property within its jurisdiction), because the losses will be imposed on the property owners rather than the government. But since Disney was the original owner of the land and thus the residual claimant, they had an incentive to pick the optimal set of policies that would maximize value for consumers.

Comparing housing prices in Celebration to housing prices in nearby jurisdictions indicates that Disney was successful at meeting consumer wants. The 2000 Census indicates that homes in Celebration had a

---

<sup>2</sup> Research in the following sections come from personal interviews, company literature, and information compiled from the Internet. To improve the flow of the paper, rather than listing specific sources of information after each sentence, we list the major sources in the reference section.

median value of \$380,900 compared to the county median of \$99,300. In January 2009, Trulia.com gave an average listing price of \$583,231 in Celebration, compared to \$236,494 for the county as a whole.

## 2.2. The legal foundation

Celebration owes its existence to Walt Disney's implicit recognition of the importance of internalizing externalities. Following the 1955 opening of Disneyland in Anaheim, California, one of Disney's major regrets was not having bought the land surrounding the park. Quickly, restaurants and motels surrounded Disneyland. Disney thought that these establishments were unsightly and detracted from the Disneyland experience. When Disney decided to build another park in Florida, his company purchased many parcels of land to create a buffer zone. They ended up with 28,000 acres, an area the size of San Francisco, where self-government was to become a reality.

Because the state of Florida recognized that the economy would benefit from the theme park, in 1967 the legislature passed House Bill No. 486, also known as Chapter 67-764. The act had a drastic effect on the Reedy Creek Drainage District in that control of the board of directors was shifted to the Walt Disney Company, the owner of 98 percent of the land in the district. This changed the area from a "Drainage District" to an "Improvement District," meaning that Disney would control and provide roads, bridges, lighting, zoning, and building. The Act's section on powers of the district included the specifications that the body in control would own the infrastructure, utilities, transportation, and recreation facilities. In fact, roads within the Disney property are not considered part of the state; they are the private property of the Walt Disney Company.

## 3. Internalizing externalities in a private community

Because the Disney Company was the sole owner of the land, management realized that they could profit if they could create amenities that other communities lacked. Much of the private planners' inspiration came from Walt Disney's original ideas about EPCOT, the Experimental Prototype Community of Tomorrow. But they also intended to create a town that brought back memories of days of an idealized past. Influenced by new urbanism, the architects sought to create a picture-perfect town with many community amenities that could otherwise be classified public goods. But since these public goods were localized in an area where Disney was the residual claimant, Disney accrued the benefits of providing

them. Let us consider some of what they helped bring about.

### 3.1. Internalized spillover benefits from retail and more

The 18-acre Market Street business and retail district in Celebration got its inspiration from town center areas in traditional American towns (Celebration Company, 2004c). Recognizing that residents would value the housing more if it was close to dining and retail, the private planners opted for a mixed use community. Banks, the post office, the town hall, and residential, retail and office space as well as restaurants and a cinema were built around the town's lake, which includes a dock and promenade. The town's center also features other public good-like amenities, such as fountains and courtyards, along with parks and recreational areas.

The private plan included space for numerous restaurants, which is now about a dozen.<sup>3</sup> In addition to restaurants, the private plan included space for other retail businesses<sup>4</sup> to give it an old town feel. These restaurants and stores increase the attractiveness of the town center, and although without one residual claimant they might have been providing spillover benefits, the potential externalities can be internalized within the proprietary community. If restaurants, for example, have spillover benefits that increase the value of the community, a proprietary community can encourage them by adjusting rent to restaurants downwards. Although the traditional public good model predicts an undersupply of anything with spillover benefits, a proprietary community has an incentive to solve these problems to increase the profits.

---

<sup>3</sup> *Barnie's Coffee* sells hot and iced beverages, wine, and pastries as well as a variety of ground coffees, coffee pots, and other items. *Cafe D' Antonio* serves upscale Italian food while *Celebration Town Tavern* specializes in seafood and New England clam chowder. *Columbia Restaurant*, known for its variety of Sangria, has Spanish/Cuban fare. Soups, salads and sandwiches can be found next door to the movie theater at *Herman's Ice Cream Shoppe*. The *Market Street Cafe*, situated across from the lake, is an Art Deco-style diner with classic American entrees such as burgers and meatloaf. *Seito Japanese Restaurant* offers sushi, stir-fry, and tempura. A mix of soups, light lunches, dinners and salads as well as teas, wines, pastries and other treats can be found at *Sherlock's of Celebration*, an English tea room. Lastly, *Celebration's Upper Crust Pizza* offers pizza for pick-up or delivery.

<sup>4</sup> More than twenty other downtown amenities and shops include a branch of *Bank of America*, *Celebration Eye Care*, *Celebration Wireless Solutions*, *Gooding's Grocery*, *Day Dreams Collectible Dolls & Bears*, *Market Street Gallery*, *Imagery by Isabel*, and several other gift, clothing, antique, and home accessory shops. *Salon*, a full service salon and body spa, *SOS Storage Overhead Systems*, a notary service, a travel agency, and a dry cleaner are also available.

Hospitals are often considered public goods that benefit members of a town. For this reason Disney helped arrange for Celebration Health, a private comprehensive health campus with a full-service hospital, to open in June 1998 (Celebration Company, 2000).<sup>5</sup> By helping with infrastructure costs or adjusting the rent accordingly a proprietary community can encourage private providers of public goods to set up shop.

In addition to for-profit ventures that provide spillover benefits, Celebration also included room for places of worship in its plan. The Community Presbyterian Church of Celebration completed its sanctuary in Fall 2000 (Celebration Company, 2004a). Other religious groups, including Celebration Community Church, Celebrate Family Church, Seventh Day Adventists, and Celebration Jewish Congregation meet in various locations throughout the community.

### 3.2. Internalized spillover benefits from attractive home exteriors

Another land use concern is how homes affect the value of homes around them. The value of homes can be negatively impacted by eyesores in the neighborhood, and the value of homes can be positively impacted if other homes are attractive. The private planners at Celebration may not have been economists, but they almost definitely had these ideas in mind. Traditional exteriors, complete with front porches, provide what many residents consider positive spillover benefits. Yet these spillover benefits are internalized in the community so everyone benefits. Behind most houses are alleyways, which are used for services, such as garbage, and garage access.

Conceived as a small southeastern town, Celebration contains a series of residential neighborhoods planned around public areas (Celebration Company, 2002). New York-based firms Cooper, Robertson & Partners and Robert A.M. Stern designed the neighborhoods, which vary in price and style.<sup>6</sup> Eight

<sup>5</sup> Owned by the private hospital group Florida Hospital, the health care services include an emergency department, 60-Bed Acute-Care/Critical Care area, Behavioral Health Center, Dental Center, Diagnostic Imaging Center, Fitness Center, Pain Center, Rehabilitation/Sports Medicine facilities, Cancer Institute, Sleep Center, Women's Medicine section, Aesthetic Surgery department, Cardiology department, Diabetes Center, Laboratory, Retail Pharmacy, family doctors, and Specialty Physician Offices. The more than 60,000-square-foot fitness center features aerobic studios, a day spa, gymnasiums, a lap swimming pool, a tread wall, weight training areas, a warm-water therapy pool, sauna and steam rooms, age-specific children's programs, a kids gym, and health education.

<sup>6</sup> From Manor style sites to Townhomes, the town offers a variety of prices and locations. Originally starting in the \$800,000s, Estate sites provide custom-built Estate Homes that, as of spring 2006, sold for upwards of \$3.1 million. The homes, which are typically around 5,000 square feet, often face a park, a green belt, or the golf course. Manor Home Sites allow buyers to choose among the most popular

different estate types and six architectural design styles create variety in the community. Observing the details of the design styles one can tell that the architects paid extra attention to exterior design compared with the typical home.<sup>7</sup> All of these details added costs, but they increased benefits to the entire neighborhood so the developer can internalize all of these benefits and costs.

### 3.3. Areas partially or not fully privatized

Although the community internalizes many goods and services, not everything at Celebration is private. For example, Celebration has a mix of private and public schools. Celebration Academy is a private school serving 100 students. Celebration High School and Celebration School (K-8) are each members of District 1 in the public school system of Osceola County, Florida.<sup>8</sup> Also located in the town's Center is the Stetson University graduate center, which opened in 2001. Stetson University, which is private, has its main

---

models and then customize the home to fit their lifestyle. Manor Homes, starting around \$600,000, are generally 90 feet wide and 130 feet deep. Village Home sites have smaller lots and start in the \$350,000s. Cottage Home sites are meant to imitate traditional city neighborhoods found in Tampa or downtown Orlando. Town-home sites are located near various community facilities, including The Celebration School, the golf course, and neighborhood parks. Garden Home sites are set on streetscapes similar to those found in the Garden District of New Orleans and differ in size. Bungalow Home sites are reminiscent of the early 1900s style and are influenced mostly by Coral Gables, Florida, and Pasadena, California. Bungalow Homes, starting in the \$180,000s, are the smallest, detached single-family homes available in town and are meant to add an element of intimacy to the streetscapes. Lastly, one-story Terrace Homes offer an exterior maintenance-free alternative to Townhome living. Ranging from 1,400 to 1,569 square feet, these homes start in the \$170,000s.

<sup>7</sup> The six design styles for homes in Celebration are Classical, Victorian, Colonial Revival, Coastal, Mediterranean and French. Classical Style homes, inspired by houses of the Old South, include elements from 19th century Greek revival architecture. To appear both formal and gracious, facades, column porches, and vertically proportioned windows are composed in rectangular bays. Victorians are built with elaborately detailed porches and verandahs that wrap around the home's corners. Based on houses built in the second half of the 19th century, the Victorian residences are asymmetrical, designed to be picturesque and whimsical. The Colonial Revival homes, meant to be slightly less formal than the Classical Style, have broad proportions and simplified details on the columns and eaves. Coastal homes are based on both the French Colonial and Low Country traditions. The simple but large houses have one and two-story wrap-around porches and windows that sometimes reach to the floor. The Mediterranean-style homes combine a number of styles rather than being absolutely traditional. Notable characteristics include stucco, porches, and tile roofs. Lastly, the French homes, based on French rural architecture, combine stucco walls with steeply pitched roofs and tall windows.

<sup>8</sup> As of 2009, Celebration High School had 1,955 students and a 19:1 student to teacher ratio while the Celebration School, for students in grades K-8, enrolls about 1,225 students and has a 16:1 student to teacher ratio, according to [greatschools.net](http://greatschools.net).

campus in DeLand, Florida. The 36,000 square-foot facility in Celebration offers graduate degree programs in business, counseling, educational specialization, and educational leadership.

Celebration's law enforcement is also not privatized; rather, county sheriff's patrols are supplemented by off-duty police officers (Ross, 1999, p. 206). Given that Disney World has a large security department, it is an interesting question why Celebration does not utilize it. Transportation to Celebration is also government-provided by the Lynx bus system, which is run by the Central Florida Regional Transit Authority. But inside the town, the Celebration Trolley, a privately owned and operated entity, runs an hour-long route that transports both residents and tourists around town.

#### 4. Creating a framework to enhance long-term value

After creating the infrastructure and building the town, Disney could have run the town as a land lease proprietary community in the way envisioned by MacCallum (2002). While retaining some of the features of a land lease proprietary community, the Disney Company chose to sell much of the real estate but create a homeowner's association over which they had veto power. The company also created the very detailed set of rules set forth in the "Covenants, Conditions, and Restrictions" in an effort to retain the Disney aura. Some complain that the rules are overly restrictive, because the Homeowner's association tells residents to "use the Celebration Pattern Book to guide decisions regarding modifications.

Some Pattern Book restrictions are specific to particular villages.

- Every home in Lake Evalyn is required to have a picket fence.

Some are specific to lot types.

- Village homes must have a canopy tree in addition to street trees.

Some are specific to individual architectural styles.

- Victorian homes do not have shutters.

Some are specific to individual streets.

- All homes on Downey Place must be painted Colonial Beige.

Some apply to all Celebration.

- All street facing window treatments must be white" (Anonymous, 2007).

The requirement that the side of window coverings visible from the street must be white or off-white in

color has caught the attention of the media (Ross, 1999, p. 24, p. 226). One family who added pink shutters on their home had to remove them since they were not only pink, but also because shutters are not allowed on a Victorian home. White shutters were allowed on other homes but not theirs. They also were told that they could keep a fountain but only if it was in their backyard. Critics argue that Disney is manipulating its residents for no reason.

But an alternate hypothesis exists: Disney will only create rules that they believe customers value overall. Since the initial sale price for the property depended on the future desirability of the community, the Company put in place various measures to make its vision perpetuating and available for future residents. A profit-motivated developer benefits from increasing the value of its land, so Disney had an incentive to choose the set of rules that future residents would desire most. In the case of the window coverings, the specifications were undoubtedly quality-driven and essential to the feel of the town. This sense of community and harmony of design, part of the Company's marketing campaign, was the exact characteristic sought after by Celebration residents. The person who wants to add shutters to a Victorian home or a big fountain in their front yard may value such actions, but she would be decreasing the value of neighbors' homes. The homeowners can weigh the benefit of giving individuals exterior design leeway with the potential negative of their neighbors having poor taste. By creating rules to restrict choices that impose negative externalities on neighbors they can protect the value of their homes.

Another "Covenants" detail caught by the media regards the veto power held by Disney's Celebration Company over any changes in governance made by the board, provided the Company still owned Celebration property. Interestingly, the prevailing sentiment described by Ross (1999, p. 230) was that the residents were "content with what they often called their 'benevolent dictator,'" (Disney's Celebration Company). Residents believed that Disney's Celebration Company would serve their private interests better than elected, low-paid, or volunteer office holders.

All residents are members of the homeowners association. According to information sheets found in Town Hall, city governance is "a representative form of government similar to our federal system." However, voting is restricted to homeowners, with each property unit having one vote (Ross, 1999, p. 229). Disney retained initial control of the homeowners association and gradually shifted it to residential control as developments were purchased and new members could be elected to the board.

In Celebration, emphasis on community is strong, and community events that enhance the value of the community are encouraged. Town Hall, for example, organizes various block parties and encourages them among the residents.<sup>9</sup> Celebration also features many community organizations.<sup>10</sup> From the neighborhood ice cream parlor to the white picket fences welcoming residents and visitors to town, these amenities enhance the community and thereby increase the value of the development.

#### 4.1. Profiting from creating value

Disney created a framework for Celebration that would provide benefits far into the future, and it has. Not only were housing prices much higher than surrounding areas, Disney was able to sell more of the property than was in their initial plan. Fueled by a strong demand for a piece of Celebration magic, the residential community expanded, with sales records broken with each additional release of land. Disney also sold other parts of Celebration, too. While the Disney Company was building additional commercial units and offices for them to own, they sold already-established areas to other firms. By this time, the Disney property that the Company originally intended for development had been distributed, so it shifted its focus to selling the remaining commercial land and the town center to organizations that would focus on the properties' long-term growth, management, and operations. For example, in January 2004 The Disney Company sold Celebration's town center, Market Street, an 18-acre site containing 16 retail shops, six full-service restaurants, more than 94,000 square feet of commercial office space, 105 private apartments, and three land parcels. One of the stipulations in the deal was that the new owners at Lexin Capital, a private real estate investment company, were required to uphold architectural and design standards as well

<sup>9</sup> These parties, typically themed according to the host block, range from pot-luck to catered, with each taking on the feel of the host neighborhood. The biggest event of the season is the Red Rose Ball, a black-tie affair held on Valentine's Day each year to raise money for the nonprofit Celebration Foundation (Ross, 1999, p. 243, 202).

<sup>10</sup> One of Celebration's original residents created the Foundation in 1996 to build community. Today, the organization is the volunteer center of the town and is governed by a board of volunteer directors. Besides welcoming new neighbors, the Foundation organizes events, such as art festivals and the annual Great American Pie Celebration, and produces the community phone directory each year.

Other community groups include Celebration Little League; the Celebration Players theater group; Celebration Running Club; The Celebrators, an active group for people age 50 and over who are retired or semi-retired; Daughters of the American Revolution (John Call Chapter), which is named for Walt Disney's patriot ancestor, John Call; the Garden Club of Celebration; and the Rotary Club of Celebration, FL, which sponsors a variety of events throughout the year.

as traditional events, such as July 4<sup>th</sup> festivities (Celebration Company, 2006).

In addition to consumers, many groups have recognized Celebration. Many of the town's builders have won awards for Celebration's unique architectural and marketing accomplishments. In 1996, two years after its founding, the town was awarded "Development of the Year" by the National Association of Industrial and Office Properties (NAIOP). Celebration was recognized in 2000 by the Home Builders Association of Mid-Florida as the "Best Community" priced between \$250,000 and \$500,000. Communities nominated for this award were judged on criteria such as sales success, curb appeal, overall look or setting, and location of amenities. Also taken into consideration were aesthetic value, theme, signage, and overall design of product mix (Celebration Company, 2000). Other awards include the "Parade of Homes Award" (2001), the Urban Land Institute's Award for Excellence as Best New Community (2001), and the American Society of Landscape Architects Award of Excellence - Celebration Town Center (1998) (Celebration Company, 2004a).

## 5. Conclusion

Celebration, Florida, demonstrates that an entire town can be privately zoned. The Walt Disney Company created a design and a host of rules for all residents to follow, but because the town was a for profit venture, the company had to select the set of rules and regulations that the customers would desire most. Since the Walt Disney Company was the residual claimant, it would win or lose with good or bad rules (Stringham, 2006). The company had an incentive to maximize the value of the community, which it could only achieve by pleasing customers. Such incentives are very different from those of the typical government zoning board, which is controlled by various competing interests that do not necessarily align. For example, government often has little incentive to care about potential future residents because only current residents vote. A potential future resident who is excluded from a restrictive zoning policy never has the chance to have his voice heard, so zoning boards often engage in "pull up the drawbridge" zoning.

With the private zoning at Celebration, the Walt Disney Company had an incentive to care about pleasing not just early residents, but all residents who would buy in the future. Disney might have had altruistic motives, too, but it was in the company's incentives to maximize the long term value of the entire town. Even though no residents were present

when the Disney Company devised its list of rules, it was considering all future residents' needs.

The high consumer demand to live in Celebration demonstrates that a master-planned town with a multitude of privately-provided public goods can be very valuable. Celebration is one of the most advanced examples of a privately-zoned community, but it is also part of a much larger trend. Private communities, albeit not always on such grand scale as Celebration, are a part of a wider phenomenon coined by McKenzie (1994) as "privatopia," privately governed communities now enjoyed by more than 40 million Americans. Over the past two decades, homeowner's associations established to ensure quality, cleanliness, and dependability have become increasingly popular because of the added property value they provide to members. More and more, these associations are demonstrating that local public goods can be privately provided. Many private communities are as small as one building and others are quite large, such as King Ranch in Texas, which is nearly the size of Rhode Island. The optimal size of a private community is determined by many factors, one of the most important being how well a community can internalize externalities. This, of course, varies according to local conditions and preferences of residents.<sup>11</sup>

As more large-scale privately governed communities come into existence, different types of communities will likely cater to different types of customer wants. Many customers may prefer the idyllic community with the white front porches, but the advantage of markets is that one size need not fit all. Different companies will have an incentive to cater to different customer wants. Competition between private communities may be a way of rescuing the idealized competition between jurisdictions envisioned by Tiebout (1956).

The case of Celebration, Florida, in which a large corporation sets the rules according to customer wants, can be seen as a model for others in the future. Celebration is private, voluntary, and extremely successful. The Walt Disney Company has demonstrated that a private entity can provide public goods, create rules, and, ultimately, establish a stable, sought-after town. In the future, we can hope for even more private self-governing communities.

---

<sup>11</sup> Residents preferring a more urban environment may want their community, for example a high-rise building in Manhattan, to be in close proximity to many other communities, whereas residents wanting a more secluded environment can choose to live in gated suburban communities.

## References

- Anonymous. 2007. "Life in Disney's Back Yard." Webpage dated September 23, 2007 available at: <http://lifeindisneysbackyard.blogspot.com>.
- Beito, D., P. Gordon, and A. Tabarrok. 2002. *The Voluntary City: Community Choice and Civil Society*. Ann Arbor: University of Michigan Press.
- Caplan, B. 2001. Standing Tiebout on His Head: Tax Capitalization and the Monopoly Power of Local Governments. *Public Choice* 108: 101-122.
- Celebration Company. 2000. "Florida Hospital Celebration Health." Press Room, 28 Dec. 2000. Accessed 19 Jan. 2006 [www.celebrationfl.com/press\\_room/faq02.html](http://www.celebrationfl.com/press_room/faq02.html).
- Celebration Company. 2000. "Celebration Wins MAME 2000 Best Community Award." Press Room, 27 Sept 2000. Accessed 19 Jan. 2006 [www.celebrationfl.com/press\\_room/000927.html](http://www.celebrationfl.com/press_room/000927.html).
- Celebration Company. 2002. "Celebration Residential." Press Room, 12 Nov. 2002. Celebration Company. Accessed 19 Jan. 2006 [www.celebrationfl.com/press\\_room/faq10.html](http://www.celebrationfl.com/press_room/faq10.html).
- Celebration Company. 2004a. "Celebration, Florida." Press Room, 9 Jan. 2004a. Celebration Company. Accessed 19 Jan. 2006 [www.celebrationfl.com/press\\_room/faq07.html](http://www.celebrationfl.com/press_room/faq07.html).
- Celebration Company. 2004b. "Celebration Town Center Sold To Lexin Capital." Press Room, 21 Jan. 2004. Accessed 19 Jan. 2006 [www.celebrationfl.com/press\\_room/040121.htm](http://www.celebrationfl.com/press_room/040121.htm).
- Celebration Company. 2004c. "Market Street Retail & Business." Press Room, 12 Jan. 2004c. Accessed 19 Jan. 2006 [www.celebrationfl.com/press\\_room/faq04.html](http://www.celebrationfl.com/press_room/faq04.html).
- Demsetz, H. 1964. The Exchange and Enforcement of Property Rights. *Journal of Law & Economics* 7: 1-26.
- Deng, F.F., P. Gordon, and H.W. Richardson. 2007. Private Communities, Market Institutions, and Planning. In *Institutions and Planning*, ed. Niraj Verman, 187-206. Amsterdam: Elsevier.
- Ellickson, R.C. 1973. Alternatives to Zoning: Covenants, Nuisance Rules, and Fines as Land Use. *University of Chicago Law Review* 40(4): 683-784
- Fischel, W.A. 1985. *The Economics of Zoning Law*. Baltimore: Johns Hopkins University Press.
- Foldvary, F. 1994. *Public Goods and Private Communities*. Northampton: Edward Elgar Publishing.
- Glaeser, E.L., J. Gyourko, and R.E. Saks. 2005. Why Have Housing Prices Gone Up? *American Economics Review* 95(2): 329-33.
- Green, R.K., S. Malpezzi, and S.K. Mayo. 2005. Metropolitan-Specific Estimates of the Price Elasticity of Supply of Housing, and Their Sources. *American Economic Review* 95(2): 334-39.

- Karckainen, B.C. 1994. Zoning: A Reply to the Critics. *Journal of Land Use and Environmental Law* 10: 45-90.
- Hamilton, B.W. 1975. "Zoning and Property Taxation in a System of Local Government. *Urban Studies* 12: 205- 11.
- MacCallum, S. 1970. *The Art of Community*, Institute for Humane Studies: Menlo Park, CA.
- MacCallum, S. 2002. The Case for Land Lease versus Subdivision. In *The Voluntary City*, eds. D. Beito, P. Gordon, and A. Tabarrok , 371-404. University of Michigan Press: Ann Arbor.
- McKenzie, E. 1994. *Privatopia: Homeowner Associations and the Rise of the Residential Private Court*. New Haven: Yale University Press.
- Malpezzi, S. 1996. Housing Prices, Externalities, and Regulation in U.S. Metropolitan Areas. *Journal of Housing Research* 7(2): 209-241.
- McDonald J.F. 1995. Houston Remains Unzoned. *Land Economics* 71(1): 137-140.
- McMillen, D.P., and J.F. McDonald. 2002. Land Values in a Newly Zoned City. *The Review of Economics and Statistics* 84(1): 62-72.
- Nelson, R.H.. 2005. *Private Neighborhoods and the Transformation of Local Government*. Washington, DC: Urban Institute Press.
- Oates, W.E. 1969. The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis. *Journal of Political Economy* 77(6): 957-971
- Powell, B., and E.P. Stringham. 2008. Housing. In *The Concise Encyclopedia of Economics*, ed. David Henderson, 245-248. Liberty Fund: Indianapolis.
- Ross, A. 1999. *The Celebration Chronicles: Life, Liberty, and the Pursuit of Property Values in Disney's New Town*. New York: Ballantine Books.
- Quigley, J.M, and S. Raphael. 2005. Regulation and the High Cost of Housing in California. *American Economic Review* 95(2): 323-28.
- Siegan, B.H. 1970. Non-Zoning in Houston. *Journal of Law and Economics* 13 (1): 71-147.
- Steele, E.H. 1986. Participation and Rules-The Functions of Zoning. *American Bar Foundation Research Journal* 11(4): 709-755
- Stringham, E.P. 2006. Overlapping Jurisdictions, Proprietary Communities, and Competition in the Realm of Law. *Journal of Institutional and Theoretical Economics* 162(3 September): 516-534.
- Tiebout, C. 1956. A Pure Theory of Local Expenditures. *Journal of Political Economy* 64: 416-424.
- Whitner, L.A. and D.A. McGranahan. 2003. Rural America: Opportunities and Challenges. *Amber Waves* 1: 15-21.