

# Gated Communities for Security or Prestige? A Public Choice Approach and the Case of Budapest

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## Abstract

*While in the mainstream narrative gated communities are regarded as incidental or deviate developments, this article attempts to offer, on the basis of public choice theory, an alternative answer to the fundamental question: why are people moving to gated residential areas? Drawing on the case of Budapest, it discusses the dominant theses and concludes that eagerness for prestige seems to surpass both fear of crime and the urge for self-segregation on the part of the affluent as the dominant motive. The search for prestige is particularly intense in Budapest, where local governments possess very weak fiscal autonomy and depend strongly on state grants, making them hardly able to provide the public goods and services that meet citizens' preferences. Consequently, in Budapest and to some extent rather ironically, the rise of gated communities, which in the literature is vehemently disputed as a socially problematic process, has become a manifestation of the revolt of the upper middle class against a grossly overcentralized government.*

## Introduction: are gated communities unique?

When wide-scale inquiries into gated communities began, particularly in the 1990s, gated residential developments were regarded as a typical phenomenon of US urban development that would appear under the very specific circumstances of a highly liberalized housing system (Barton and Silvermann, 1994; McKenzie, 1994; Blakely and Snyder, 1997). The first research findings in Europe — particularly in Madrid, Lisbon and Moscow — likewise focused on a unique set of circumstances as an explanation, highlighting how the profound change from authoritarianism to democracy and a market economy might be conducive to the rise of gated enclaves (Lentz and Lindner, 2003; Raposo, 2003; Wehrhahn, 2003). During this fundamental transformation regulatory tools framed by state and local authorities weakened, thus, on the supply side, giving private developers more scope to supplant the latter with new services. On the demand side, the change in the political and economic dispensation — especially after the defeat of Communism in 1990 — led to increasing social polarization, inspiring those who gained by the transformation to seek not only safe but also exclusive and prestigious housing. Meanwhile, however, research indicates that gated communities have become widespread, without any such transformation taking place, in various metropolitan areas

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of Western Europe, first of all in the United Kingdom (Atkinson *et al.*, 2005) and in France (Madoré and Glasze, 2003), although — remarkably enough — no gated enclaves have emerged in Central Europe (e.g. in Germany and Austria). From the literature, in sum, ten European countries can be identified as possessing a significant number of gated communities: Belgium, Bulgaria, the Czech Republic, France, Hungary, Lithuania, Poland, Portugal, Spain and the United Kingdom (Madoré and Glasze, 2003; Raposo, 2003; Wehrhahn, 2003, Atkinson *et al.*, 2005; Stoyanov and Frantz, 2006; Claessens, 2007; Gasior-Niemiec *et al.*, 2009; Smigiel, 2009). Consequently, the rise of gated communities, particularly in Europe, can no longer be attributed to incidental or unique circumstances, and if one really wishes to understand the gated communities concept, one must ask why this is so.

This article is, as a result, divided into three parts. The first section briefly introduces and discusses the mainstream explanatory theses for gated communities, which emphasize fear of crime and the self-segregation of the affluent classes. The second part offers an alternative approach drawing on public choice and fiscal federalism theory, and underpins the importance of the allocation of power, functions and finances between central and local governments as the decisive factor in the rise of gated and guarded housing. The final chapter attempts to test the relevance of both the mainstream thesis and the alternative theory to the case of Budapest, a metropolis quite neglected in the literature of gated community research.

## Rival approaches

### Market versus politics

Gated communities are undoubtedly a subject of vehement political discussion, and inquiries into gated enclaves cannot, as a rule, be separated from the overall political bias of the researchers. Setting aside, for the moment, the full complexity of the issue, however, two basic approaches emerge: the market-driven process and the politics-driven process perspectives and research agendas (Cséfalvay, 2009). The market-driven process approach conceptualizes the rise of gated communities in terms of rational, economically rooted choices, with the emphasis on the question of production and allocation of local public goods and services. According to this view, gated communities are a market-based solution to the provision of these goods and services, restricted by a club economy. The politics-driven process approach to gated communities, on the other hand, represents them as results of the exclusionary political behaviour and practices of the affluent. It stresses the question of the distribution of public goods and services, and argues that gated communities create the problem rather than offering solutions.

### The market-driven process approach

The textbook economic explanation for the rise of gated community draws on the club theory developed by Buchanan (1965) and applied to gated residential areas by Foldvary (1994) and Webster (2001). Gated communities operate like clubs because residents privately finance commonly owned and used goods and services via ownership-linked user fees, and in exchange only they have the exclusive right to consume them. By doing this, gated enclaves can effectively overcome market failure, since market organizations are, as a rule, unable to produce public goods and services where market prices cannot be attained and free riders cannot be excluded (Cowen, 1988). People with similar social status and interests are more willing to pay for goods and services for use in common than are the members of a community with a heterogeneous social structure, and this straightforwardly fosters segregation. It is also presumable that the super-rich are able to finance a safe and green living environment privately on their own initiative, while the lower socio-economic classes, unable to do this, remain highly dependent on public

provision. Representatives of the upper middle classes, though unable to cover privately the full costs of a high-quality living environment, can finance it via costs-sharing clubs. Segregation of the upper middle classes, therefore, appears to be a logical consequence of a club-like system, and, in addition, the market provision behind the gates is, according to the adherents of this approach, coupled with a number of social benefits: increased responsibility, greater self-government and better accountability — achievements that local governments cannot always match.

### The politics-driven process approach

Scholars arguing for the politics-driven approach emphasize, by contrast, that the rising individualism and exclusionary behaviour of the affluent could be seen as triggering a social climate conducive to the development of gated communities. Sennett (1992) theorizes the fall of the public man and the rise of individualism, which then are expressed in the city structure by the vanishing of traditional public spaces, while Reich (1991) notes the 'secession of the successful' — in other words, the withdrawal of the winners of economic change from the public sphere. In addition, commentators stress that changes in economic policy, the withdrawal of the state as a service provider, privatization and the deregulation of economy in particular could create a favourable investment climate for developers of gated communities. Because of these rapid social and economic changes in the past two decades, the social gap has widened enormously, resulting in a widening territorial gap between rich and poor, and these two widening processes influence each other. This conclusion is a seductive one: social polarization could lead to the creation of gated enclaves for the affluent in the city structure, on the one hand, while, on the other, the physical barriers strikingly express the social polarization to the outside observer. In this vein, 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 goes further (2001: 116–7) and describes gated communities as voluntary ghettos, highlighting the contrast that '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'. Segregation is certainly not a new phenomenon in urban history, but the self-segregation of the affluent by physical barriers is a development not observed widely in the last few centuries.

### Crime prevention: a club good or a trigger for gated communities?

The competing approaches differ very significantly from each other in the way in which they interpret security measures. The market-driven process approach sees security as one of the most important public services, so that the rise of gated communities represents part of an ongoing shift in crime prevention competences from the central and local government level to the neighbourhood level (Glasze *et al.*, 2005). This shift has two main features: first, the creation of a number of physical and environmental barriers; and, second, bolstering the cohesion of community in order to prevent crime — strategies that were described by Jeffery (1971) as 'crime prevention through environmental design', and by Newman (1972) in the form of the practical concept of 'defensible space'. Hence, gated residential developments with their physical barriers and entry control devices are extreme cases of crime prevention at the local level, with the community's 'eyes upon the streets' (Jacobs, 1962: 35) replaced by the eyes of video cameras and private security guards.

Contrastingly, researchers emphasizing the politics-driven approach underline the very strong ties between the segregation of the affluent and their fear of crime. This conclusion is seductive too: because of the fear of crime, gated residential developments were built with a number of security devices such as walls, gates and guards, and these measures themselves straightforwardly exacerbate segregation. As Low (2003: 18) notes,

a gated community ‘excludes all those who are considered dangerous’, while Atkinson (2008: 7) stresses ‘that gated developments reinforce a social and spatial split between the “have lots” and “have nots” and that the latter are excluded from such spaces both physically and by their lack of resources to access security’.

## An alternative approach based on public choice

### Some unanswered questions

While the mainstream approaches reveal many important features of gated housing, they also leave open many important questions. If gated communities are economically efficient and successful, as adherents of the club theory assert, why have they become a global phenomenon only in the last few decades? Despite a robust legacy in very different parts of the world (Borsdorf, 2002; Wu, 2005; Blandy, 2006; Le Goix and Webster, 2008; Bagaeen and Uduku, 2009), the large-scale implementation of gated communities remains a recent development. Furthermore, club theory does not reflect the latest research findings that gated communities are, as a rule, favoured by the upper middle classes, but in many parts of the world, in particular in the Anglo-Saxon countries, lower-middle-class and working-class gated enclaves are accelerating too (Sanchez *et al.*, 2005; Minton, 2009).

Similarly, segregation is an inherent part of urban history, but why do gates, walls and security guards express today the self-segregation of the affluent? Atkinson and Blandy (2005a), like Glasze *et al.* (2007) emphasize the Latin wisdom that like takes pleasure in like — *similis simili gaudet*. However, the fundamental question is left unanswered: why are some countries highly penetrated and others entirely untouched by gated and guarded developments despite the universal need to live among one’s peers? Security concerns undoubtedly play a decisive role in the emerging trend of gated enclaves, but in many regions of the world, particularly in Europe, gated communities are widespread in metropolitan areas with apparently very low crime rates. This raises a further question: why are gated communities equally prevalent in countries with significantly differing economic and social conditions? The idea of the local emergence of gated residential areas determined by — according to Le Goix and Webster (2008: 1208) — ‘the local institutional milieu’ is a very powerful one, and research evidence from South Africa (Durington, 2006; Landman, 2006), South America (Caldeira, 2000; Thuillier, 2005) and Asia (Webster *et al.*, 2007) highlights the pivotal role of the specific combination of local actors and institutions. Nevertheless, they still leave open the question: why do diverse local milieus produce the same pattern of gated communities in different parts of the world?

### You get what you have paid for

These unanswered questions call for an alternative approach and the public choice theory of local governments could provide a prolific theoretical background for this. Hence, this article argues that there are three main areas in which sharp distinctions can be drawn between local municipalities and gated residential developments: the model, the rules and the instruments of government — and these distinctions might constitute very strong incentives for people to move into gated communities.

Based on the taxonomy of governments designed by Bailey, local municipalities represent the *fiscal transfer model* in which ‘the provision of public sector services is used to pursue social policy objectives’ (Bailey, 1999: 14). Contrastingly, gated residential developments exemplify the *fiscal exchange model* where the ‘government provides services solely in accordance with voters’ willingness to pay taxes’ (*ibid.*: 13). As an overarching rule, gated communities deploy the principle of *fiscal equivalence*,

which, in Olson's (1969: 483) words, ensures a 'match between those who receive the benefits of a collective good and those who pay for it'. Therefore, they can impose benefit taxes, in particular user fees, to reflect the contributors' reliance on the public goods and services received in exchange. Local municipalities, on the other hand, can hardly cope with the mismatches between their area of jurisdiction and the spatial radius of various collective goods offered. Similarly, they can hardly arrange the beneficiaries of public goods and services to match those who cover the costs of these by paying local taxes.

Since both local municipalities and gated communities are providing local public goods and services, the emergence of gated residential developments has provoked fierce competition. In this rivalry, gated communities employ a fiscal exchange model with benefit taxation, while local municipalities rely on a fiscal transfer model with its inherent redistributive functions. Citizens who are in favour of fiscal equivalence and benefit taxation are therefore encouraged to look for residential areas that meet these requirements, and gated communities could represent an alternative option for this. Evidently, gated communities do not constitute an alternative channel for the provision of every local public good or service. Both the logic of economies of scale at municipal level and that of the club economy in gated residential developments restrict the size and scope of public goods and services provided by gated enclaves. Bulk services with advantages of scale (sewage disposal, water and electricity supply, etc.) often create natural monopolies, disrupting the equation between marginal cost and marginal benefit, and their provision remains largely the responsibility of local municipalities. On the other hand, the size of a club is always limited by the balance between the growing benefit derived from cost sharing among club members and the decreasing utility of goods and services as the number of members rises. Because of the limited number of club members and hence the restricted purchasing power of the residents as a whole, gated communities mostly offer amenities that could improve the living environment with additional features (swimming pools, leisure parks, sport facilities, security measures, etc.). In conclusion, gated communities are to be seen as alternative providers only for a particular range of local public goods and services, constituting an additional layer in the complex multi-layered system of public goods and services providers.

### Gated communities as exit option

In regard to people's search for alternative solutions, Hirschman (1970) distinguishes two ways in which people can express their disaffection: the *exit option* is a rational response in the market for goods and services in which people turn from a particular producer to another; in the political market people employ the *voice option*, that is, negotiation among stakeholders, and look for an exit only in cases where the potential for negotiations is fully exhausted. At a local level, exit indicates the ability of citizens to choose freely among residential areas and their specified governments, which impose local taxes and provide local public goods and services in return (Breton, 1996; Boyne, 1998). If people are dissatisfied with a particular package of taxes and public services provided by a given local government, their disaffection can be indicated by moving away to another. As Tiebout (1956: 422) notes 'spatial mobility provides the local public-goods counterpart to the private market's shopping trip' so that citizens 'vote with their feet'.

It is evident that people display a wide array of motives and factors when it comes to moving to another residential area, such as job opportunities, family ties, social networks and so on, and they decide to stay or move not simply by weighing up the taxes imposed and services offered in the respective residential areas. The economic factors represent, however, the basic framework for the overarching rule propounded by Hirschman and Tiebout: the more residential areas 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 to suit their preferences. In this respect, gated

communities can be regarded as new elements increasing competition among providers of locally bounded public goods, and it can be assumed 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 options) the more choices the residents will have to express their individual preferences.

### When the voice option fails

Contrastingly, at local level, the voice option reflects the capacity of residents to reveal their preferences without migrating from their municipal jurisdictions by deploying political mechanisms such as voting in elections, attending public hearings, sending petitions and complaints to public service managers, participating in customer surveys and so forth (Dollery and Wallis, 2001). The feasibility of the voice option is, however, strongly influenced by how functions, financial resources and discretions are assigned among the different tiers of government. According to the fiscal federalism invented by Oates (1972; 2005) the rule is simple: the more financial autonomy and taxing power local governments possess, the easier they can respond to the needs of their residents. In other words, a decentralized system of government results in enhanced voice options at the local level, and therefore the absence of gated communities can be seen as a proof of the proper functioning of local governments since they are able to provide packages of local taxes and public goods and services that meet citizens' demands. As a conclusion, it can be assumed in a reverse way that the more centralized the system of government is (in other words, the less room exists for voice options), the more incentives there are for citizens to move to gated communities.

Since the boundary between private and public goods became, to use McKenzie's term (2003), 'fuzzy' — both practically through the ongoing trend towards public–private partnership, and theoretically by the critique of public goods and market failure theories (Snidal, 1979; Hirschleifer, 1983; Sandler, 2004) — the key point has been the question of why and how state and local municipalities impose control over excludability in regard to certain goods and services provided. Economic considerations underline that in some cases the exclusion of free riders is technically impossible and/or economically inefficient because of the high costs involved. Expected gains from positive externalities produced by employing non-excludability, and benefits from providing merit goods (Musgrave, 1959), which are goods characterized by underconsumption despite their social or welfare importance, can also justify the conversion of a given good into a public good. These economic arguments are, however, very precarious, because they are predominantly based on political and equity considerations (Holcombe, 1997; Zerbe and McCurdy, 1999).

The conversion of a given good into a public good that is free of charge and offers free access for all can be hence regarded, in Hirschman's term, as a *voice option*. Gated communities, on the contrary, represent not only a rival entity to the 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 a green and safe residential environment, in other words, if the voice option fails, people can turn to gated enclaves to finance the required goods and services in a cost-sharing club privately. As a consequence, it can be presumed that the less local municipalities are able to provide the public goods and services that people desire, the more incentives there are for residents to move into gated communities.

## The boom in gated residential parks in Budapest

### Testing the relevance of the mainstream theories

Interestingly, both researchers representing the market-driven approach and adherents of the politics-driven perspective arrive at the same conclusion: the fear of crime and the self-segregation of the upper middle classes are the most decisive reasons for the

existence of gated communities. The differences between the two approaches are to be found rather in the way in which they explain the driving forces behind gated enclaves. According to the market-driven theory they can be traced back to the inherent rules of a club economy; the politics-driven approach puts the stress on the social practices and behaviour of the affluent. In contrast to these, the alternative theory is based on public choice, emphasizes the importance of centralization and particularly highlights the idea that the weak financial autonomy and tax-raising powers of local municipalities could constitute a strong incentive for people to move to gated communities. The following question ought, therefore, to be raised: *How do crime, social polarization and fiscal autonomy affect the development of gated communities?* In order to provide a partial answer to this question and to test the relevance of these theses, crime, segregation and taxation issues have been analysed in the case of Budapest. The Hungarian capital is relatively little discussed in the gated community literature and this fact offers the opportunity to carry out an inquiry free from biases derived from previous investigations.

The dawn of a new lifestyle

Since the millennium a new and flourishing market for so-called ‘residential parks’ (the Hungarian term is *lakópark*) has emerged in Budapest and its suburban belt. The residential park represents an overarching category in the Hungarian housing system that comprises very different kinds of master-planned housing developments containing apartment buildings or family houses. The common features of these parks are that they are built and marketed by private real estate developers, they mostly have significant security installations and they also contain goods and services that are used and financed in common, ranging from a communal swimming pool to simpler facilities, such as playgrounds for residents’ children, well-manicured green areas or jogging tracks.

The newly built residential parks have been glorified as a new high-quality lifestyle option, and, in particular, the marketing has accentuated the contrast between them and the high-rise, prefabricated housing estates inherited from the communist era. In this way, residential parks have created a sharp dividing line between the market system and the command planned economy. Similarly, residential parks stress a social divide: while high-rise prefabricated housing estates are characteristically inhabited by the working and lower middle classes, residential parks are favoured by the upper middle classes.

Between 2002 and 2007, nearly 240 residential parks were built in Budapest, totalling almost 37,000 flats (see Table 1). Two in five of the newly built residential parks (43% in all) and more than half of the newly built flats (52%) have some security measures. Seventy-one residential parks (30%) and more than 14,000 dwellings (38%) have 24-hour security. Following the definitions by Blakely and Snyder (1997), Atkinson and Blandy (2005a) and Glasze *et al.* (2007), this article categorizes residential parks with permanently controlled access and 24-hour security services as gated communities or gated residential parks; it labels residential parks in Budapest’s housing market with no security measures at all or without 24-hour security cover as non-gated residential parks.

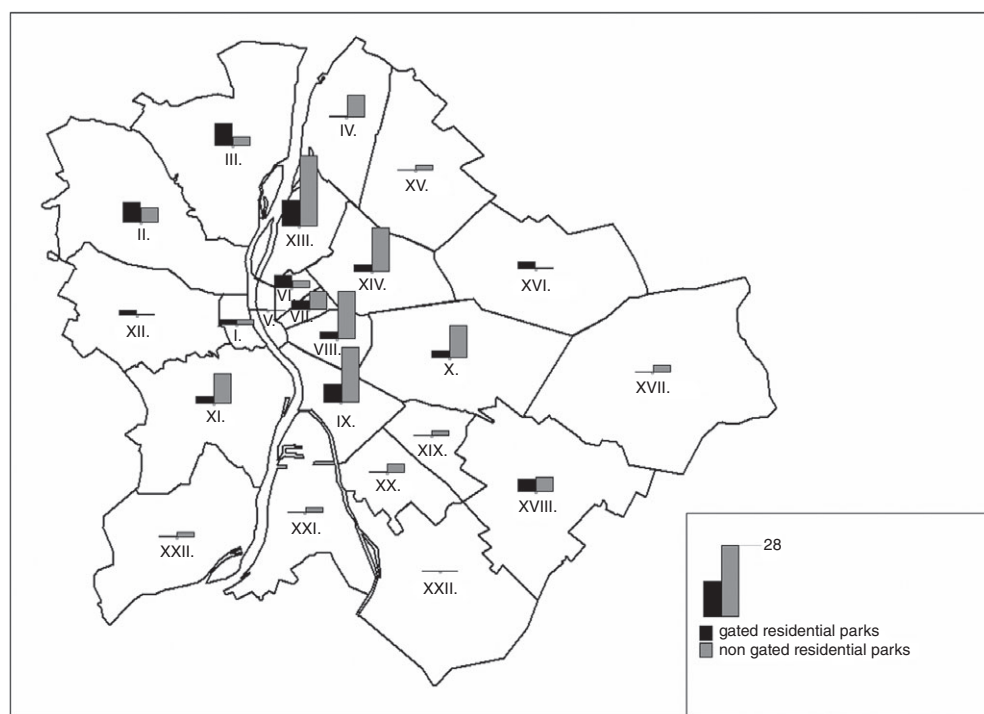
Table 1 The number of newly built residential parks in Budapest, 2002-07

	Gated Residential Parks	Non-gated Residential Parks		Total
	24-hour Security Service by doorman or guards	Other Security Measures (CCTV, magnet card)	No Security Measures	
Residential parks	71	32	134	237
Dwellings	14,104	5,214	17,561	36,879

Source: Author’s research database

As with every new phenomenon, the official statistics in almost every country, including Hungary, seem unable to capture the development of gated communities. National statistical offices do not use the term 'gated community', hence they do not collect data on it (although the term is explicitly used in real estate market language in some countries, e.g. the USA and Poland). The distinction between gated and non-gated residential areas is a scientific one, developed by researchers and mostly based on three key features: the restriction of access to the public (e.g. gates and security guards), the provision of commonly financed and used goods and services (e.g. club goods), and the existence of micro-government (e.g. homeowners associations). The present study is based on information gathered from sources provided by the developers and includes the already existing residential parks, including residential parks with permanent access control by a doorman or guard, in the category of gated communities. Since in Budapest nearly every residential park is sold by webpage-based marketing, these webpages went into the research as primary sources for a dedicated and unique database, and, in addition, the validity of the information provided by developers' websites was controlled by field research observations and interviews too.

Quantitatively, there are three main concentrations of gated residential parks in Budapest (see Figure 1). The largest cluster is found in the traditionally very prestigious northwestern part of Budapest, where the II and III districts have seventeen gated enclaves (11% of the total). As an example, the Öko-Apartmanház with its guardhouse staffed 24 hours a day in Budapest's green area provides common amenities ranging from a training pitch and swimming pool to a large park and its own chapel (see Figure 2). The second main concentration can be found in the northeastern part of the inner city, the recently gentrified zone of Budapest expanded to the XIII and XIV districts, where thirteen gated communities have been established since the millennium. One of the largest



**Figure 1** Number of newly built residential parks in Budapest, 2002-07 (*source: author's research database; map designed by László Csordás*)



**Figure 2** Living guarded in the green – Öko-Apartmanház in the traditionally very prestigious northwestern part of Budapest's II district (photograph by author)



**Figure 3** Privatizing the bank of the River Danube – Marina Part in the northeastern part of the inner city, the recently gentrified XIII district of Budapest (photograph by author)

developments in this area is the Marina Part which was built on the site of a former wharf and now provides well-manicured pathways on the privatized bank of the river Danube and a round-the-clock security behind its gates (see Figure 3). The third and smallest concentration is in the southeastern part of the inner city, the urban renewal zone of Budapest, which comprises the VIII and IX districts, and where ten gated residential developments are located. In sum, these three clusters concentrate more than half of all gated communities in Budapest.

### Flight from crime versus flight from blight

According to Newman, 'all *defensible space programs* have a common purpose: They restructure the physical layout of communities to allow residents to control the areas around their homes' (1972: 9, emphasis added). Despite the community's tighter control (and stronger feeling of safety) these spaces are a common feature open to the public. By



**Figure 4** Creating defended space by street grid, fences and security guards – Magdolna-völgy gated residential park on the outskirts of Budapest (photograph by author)

contrast, *defended spaces* are not accessible to the public since security guards control the entrance 24 hours a day. In public discourses defensible spaces are regarded as widely acceptable, while defended spaces — and gated communities by definition provide spaces of this kind — cause deep disapproval and controversy.

Leaving aside the theoretical background, gated residential parks in Budapest make use of the whole arsenal of both the defensible and defended space concepts, such as street layouts with a variety of cul-de-sacs, short roads and curves capable of being controlled by the ‘community’s eye on the streets’, closed-circuit television cameras (CCTVs) which record penetration by non-residents and all who pass the gates, and the indispensable security guards. These devices are particularly intensively deployed in the suburban belt of the Hungarian capital where more free spaces are available. Among them the Magdolna-völgy gated residential park in the small suburban village of Piliscsaba has only one entrance with a guardhouse staffed all day (see Figure 4) and the president of the Homeowners’ Association clearly indicates its functions: ‘There is no need here to lock the car, kids can play or ride their bicycles on the roads free from care, and here no one should fear that building material in the construction site will be stolen. We have moved from Budapest because we want to live in a green and safe environment and that is why we need fences and gates’. At the same time he does not deny the ultimate social role of the fences: ‘In Magdolna-völgy there are no deprived people and nobody depends on state benefits, . . . the majority of the residents are better-off young families with kids. We could become one of the most prosperous villages of the country; we could become a kind of Mini-Switzerland’ (Zsuppán, 2006: 23).

Nevertheless, despite the wide range of security measures deployed, the fear of crime and the prevention of crime do not seem to have played a pivotal role in the rise of gated communities in Budapest. This is the main message of the questionnaire that was conducted in 2006 in four gated residential parks: Cézár Ház (see Figure 2), Juharliget, Óbuda Lakókert and Egressy Udvar. From each of these parks 30 households were included in a representative questionnaire. Cézár Ház with 316 dwellings is located in the XIII district, Juharliget with 273 apartments in the IV, Óbuda Lakókert with 193 apartments in the III and Egressy Udvar with 131 apartments in the XIV. All of them have a 24-hour security service combined with CCTV and their social structure is characterized predominately by the upper middle classes (74% of the heads of the

**Table 2** Opinions of the respondent households regarding living conditions in gated residential parks compared to their previous place of residence (%)

	Better	No change	Worse
Physical environment	80	18	2
Feeling of safety	61	38	1
Social environment	53	45	2

Source: Author's survey (n = 120)

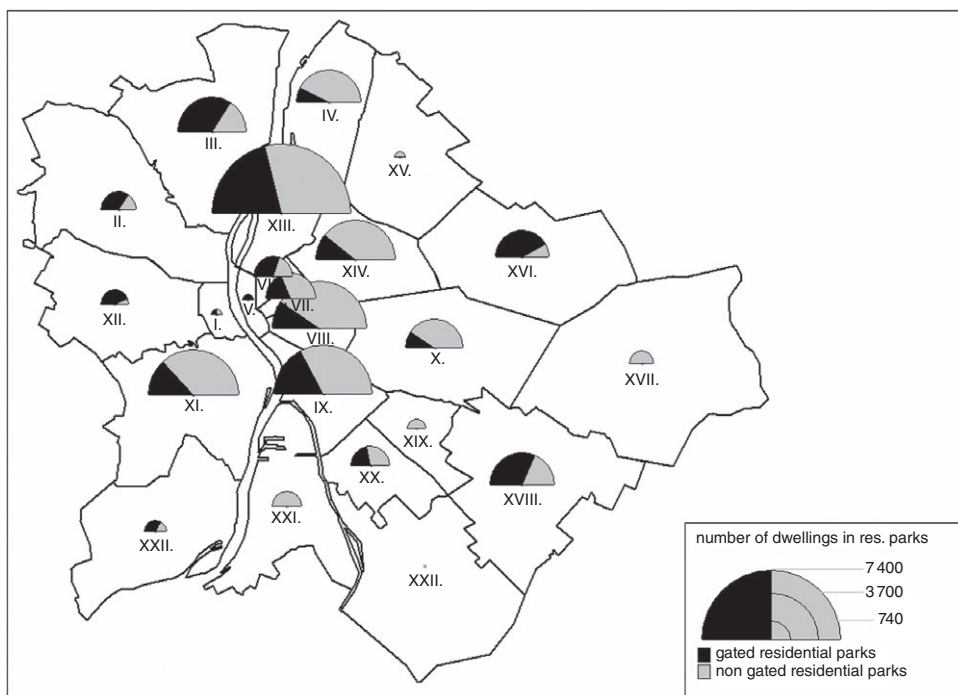
questioned households have a university degree, 43% are working in some leading position and 35% have qualified administrative jobs). The opinions of the households surveyed regarding the living conditions in gated residential parks compared to their previous living areas show that security considerations were important but not the most decisive factor in their move to a gated community. While 80% of the questioned households responded that the physical environment is better than that of their previous residence, only 61% of the households indicated that they felt safer in the gated residential parks than in their previous residence (see Table 2).

The main factor on the demand side appears rather to be the eagerness of the affluent upper middle classes to escape from environmentally unfavourable and overcrowded areas of downtown Budapest. The Hungarian capital lost over 200,000 inhabitants in the last decade to migration to suburban areas because of environmental problems, such as crowds, traffic jams and air pollution. Their destination: mostly newly built residential parks in Budapest's suburban belt (e.g. Magdolna-völgy, see Figure 4), creating an urban sprawl with no border and limit in sight. Those who stayed within the city moved to residential parks on the edge of inner city areas (e.g. Marina Part, see Figure 3), as these could offer a more favourable environment to live in than other overcrowded parts of Budapest.

### Security versus prestige

Traditionally, the socio-spatial pattern of the Hungarian capital is characterized by a striking east–west divide. As far as housing prices are concerned, the highest prices can be found in the western, the lowest in the peripheral eastern districts. In the famously most prestigious western greenbelt of Budapest, so-called 'Rosehill' (II and XII districts), housing prices are on average double those in the eastern districts. The river Danube is not only a physical obstacle but also marks an almost impassable social borderline. By contrast, however, the spatial picture of the crime rate measured by criminal offences per 100,000 inhabitants indicates a remarkable centre-periphery structure in Budapest. In the inner-city districts (V, VI, VII and VIII districts) the crime rates are three to four times higher than in the peripheral districts and twice as high as in the traditionally prestigious western districts. The crime rates are also slightly above average in the southeastern part of the inner city (IX district) — the urban renewal zone of Budapest — and in the northeastern part of the inner city (XIII district) — the recently gentrified zone of the Hungarian capital.

Lastly, the spatial structure of the newly built dwellings in gated residential parks with permanent access control offers a small-scale territorial pattern in Budapest (see Figure 5). There are dwellings in gated residential parks in nearly every district of Budapest but they concentrate in a relatively small number of areas. Districts lying on the eastern edge of the city have considerable large free spaces and are therefore very suitable locations for residential parks; in the gated communities of the XVI and XVIII districts 1,173 dwellings (8%) and 1,341 apartments (10% of the total) respectively were built over the past decade. The largest concentrations of newly built apartments in gated



**Figure 5** Number of dwellings in the newly built residential parks in Budapest 2002-07, distribution by districts (source: author's research database; map designed by László Csordás)

enclaves, however, are in the XIII district, the gentrified zone of Budapest, with 3,106 apartments (22% of the total) and in the IX district, the urban renewal zone of the city, with 1,433 flats (10%). These four districts concentrate in all 7,000 apartments, and that means 50% of all newly built dwellings in gated communities in Budapest.

A comparison of the housing status, the crime rate and the number of apartments in gated communities shows a fairly prominent relationship between housing status and crime rate: the higher the housing status of a given district, the higher the crime rate in the area, and, even more markedly, districts with low housing status are characterized by a low crime rate too (see Table 3). The overwhelming majority of the dwellings in gated communities are, nevertheless, concentrated in districts with an average crime rate, while in districts with a low crime rate the number of dwellings in gated communities remains significantly low. Similarly, there is only a weak relationship between housing status in different districts and the number of apartments in gated communities there. The highest figures for dwellings in gated communities were registered in districts with apparently modest or average housing status; while the number of apartments in gated communities remained relatively low both in districts with high or low housing status. In Budapest the geographical location of gated communities predominantly follows the socio-spatial structure of the given areas; high-quality, upmarket gated communities with a wide range of amenities are situated mostly in upper-middle-class districts, while low-end gated enclaves with poor services are to be found in lower-middle-class districts.

These figures indicate that fear of crime on the part of the affluent classes plays an important, but not the pivotal role in the rise of gated communities in Budapest — a finding which is also strongly supported by research evidence from different Eastern and Central European cities (Smigiel, 2009) and on US American developments (Sanchez *et al.*, 2005). Likewise, the self-segregation of the upper middle classes seems to be a

**Table 3** Relationship between the housing status, the crime rate and the number of apartments in gated communities in Budapest, 2008, distribution by districts

Crime Rate <sup>a</sup>	District	Number of Dwellings in Gated Communities			Housing Status <sup>b</sup>		
		High (935-3,106)	Average (468-934)	Low (67-467)	High (381-500)	Average (281-380)	Low (199-280)
High (7,286-16,900)							
	IX.	+					+
	XIII.	+				+	
	VI.		+			+	
	VIII.		+				+
	II.		+		+		
	I.			+	+		
	V.			+	+		
Average (4,425-7,285)							
	VII.		+			+	
	XI.		+			+	
	XIV.		+			+	
	XX.			+			+
	X.			+			+
	XIX.			0			+
	XXIII.			0			+
	XXI.			0			+
Low (3,078-4,424)							
	XVI.	+				+	
	III.	+				+	
	XVIII.	+					+
	XII.		+		+		
	XXII.			+		+	
	IV.			+			+
	XV.			0			+
	XVII.			0			+

<sup>a</sup>Criminal offences per 100,000 inhabitants<sup>b</sup>Housing price per m<sup>2</sup> in thousand Hungarian Forints

**Sources:** data for number of dwellings in gated communities: author's research database, current prices, December 2008; data for crime rate: Igazságügyi és Rendészeti Minisztérium (2008); data for housing status, current prices, 24 November 2008, Ingatlan.com (Realestatehungary.hu; <http://www.ingatlan.com/index.php?page=statisztika>)

precarious notion possessing relatively weak explanatory value, since in the Hungarian capital the bulk of the dwellings in gated residential parks are clustered in districts with modest or average housing status — a finding which is attested by research evidence from the USA too (Goix, 2005).

The research evidence suggests that in Budapest's gated communities security measures are implemented to express prestige rather than to prevent crime or segregate the upper middle classes from the lower socio-economic classes. Particularly in districts with both a relatively modest housing status and a modest crime rate, security measures,

such as doorman services and guardhouses staffed 24 hours a day, signal higher prestige in comparison to the status of the rest of a given area. In Budapest at least, their overall aim is to indicate a clear physical distinction between the gated communities and the other housing classes. Similarly, the gates have become a symbol of prestige and a visible manifestation of the social divide, especially in the social ontology of the upper middle class, setting them apart from the working class who mostly inhabit large prefabricated high-rise housing estates built in the heyday of communism.

### Half-hearted decentralization and its consequences

While in Budapest eagerness for prestige seems to surpass both fear of crime and the self-segregating urge of the affluent, local municipalities' inability to cater for the needs of citizens appears as the most significant trigger factor in the boom in gated residential parks. Despite the turbulent transformation from command planning and dictatorship to a free market economy and democracy in the early 1990s, the empowerment of local municipalities and the decentralization of government have moved forward only very slowly during the past two decades. Local municipalities have become legally independent and self-determining, but they largely lack the independent financial resources to fulfil their responsibilities and deal with this autonomy. The situation is particularly precarious in Budapest, since the city is constitutionally divided into 23 districts that have the legal status of local municipalities and hence a very high degree of discretion in public service provision and planning issues, although they are in their budgeting extremely dependent on state grants.

Hungarian local municipalities possess very little autonomy in raising taxes, since as a proportion of GDP their tax revenues amount to only 2.3%, whereas the unweighted average of the 30 OECD countries is at 4.5% (Blöchliger and Rabesona, 2009). Similarly, the tax revenues of local governments as a share of the total tax revenues of general government stands at 6.3%, though the unweighted average of the OECD countries is significantly higher at 11.9%. Furthermore, their fiscal powers, which include discretion over tax revenues, such as introducing and abolishing local taxes, setting tax rates, defining the tax base, and granting tax relief, appear equally weak too, since nearly 90% of the tax revenues raised by local municipalities are restricted by central government in some ways. Consequently, in Hungary, as Rodden (2003) puts it, a huge vertical fiscal imbalance has developed at the level of local municipalities between the revenues that they have at their own disposal and the expenditures needed to finance public goods and services. To close this gap, local governments in Hungary receive a wide array of intergovernmental transfers, which amount to 6.4% of GDP, and 17.1% of the total tax revenues of general government. In other words, Hungarian local municipalities possess significantly less fiscal autonomy and tax-raising power but characteristically higher exposure to central government subsidies than the OECD countries on average.

The weak fiscal autonomy and taxing power of the local municipalities in tandem with their extremely high dependency on state transfers have an enormous influence on the power relationships between the most important actors with pre-eminent roles in the development of gated communities. According to McKenzie (2003) and Goix (2005), at local level the proliferation of gated enclaves can be explained by the bizarre but in the short run mutually advantageous triangle of developers, local governments and homeowners, each having its own interests to promote. Developers want to produce high-density dwellings to make a profit, offering homes in a package with some commonly owned and used goods and services in exchange. Local governments aspire to attract affluent taxpayers, without the need for local infrastructure expenditure. Homeowners want to live in a safe environment with a wide range of amenities and exclusive access. In Hungary, however, because of the very tense financial situation of local governments, the private property developers have succeeded in acquiring the strongest position in the triangle of stakeholders. As a consequence they can now build gated enclaves without

severe planning restraints being imposed by local municipalities — on the contrary, developers are encouraged to build residential parks and the infrastructure needed — while citizens grasp the opportunity to move to residential areas with a favorable living environment and services that underfinanced local governments are unable to provide.

## Concluding remarks

In contrast to the mainstream approaches, which put the emphasis on social factors (e.g. fear of crime, the exclusionary behavior of the affluent) or economic considerations encapsulated in the public–private dichotomy (e.g. market provision of public goods via a club), this article has argued that the driving force of paramount importance behind the rise of gated communities is to be seen in the distinction between local municipalities and gated enclaves with regard to the forms and rules of government. In particular, gated residential developments can constitute an exit option when local municipalities fail to meet the requirements of their citizens to deploy vital governmental rules, such as fiscal exchange, and instruments, such as benefit taxation. This exit option becomes extraordinarily attractive if local governments are simply and solely unable to provide the public goods and services required. On the basis of public choice and fiscal federalism theory, it may be presumed that in centralized countries local governments possess very weak fiscal autonomy and taxing power and find it difficult to meet the specific preferences of their residents, who are thus encouraged to search for alternative solutions, among them gated communities.

The case of Budapest reveals that despite the widespread creation of defensible and defended spaces, the fear of crime does not constitute a central incentive for people to move to gated communities. Similarly, self-segregation of the affluent seems to have relatively low explanatory value in the development of gated residential parks, since their spatial pattern predominantly follows the existing socio-spatial structure of Budapest. On the contrary, the desire of those belonging to the upper middle classes to indicate their social status, a desire that had to be repressed during the communist era, appears to be a significantly stronger driver than concerns of security and self-segregation. This search for prestige is particularly intense in Budapest, where the local governments are, because of the weak fiscal autonomy and strong dependence on state grants, barely able to cope with the challenges of providing public goods and services in the quantity and of the quality citizens require. In that way, and to some extent ironically, gated communities, which are in the literature widely regarded as ‘socially problematic’ (Atkinson, 2008), in Budapest have become a manifestation of the revolt of the upper middle classes against centralized government.

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## Résumé

*Alors que, dans le courant explicatif dominant, les communautés privées sécurisées apparaissent comme des évolutions accessoires ou biaisées, ce travail propose, en s'appuyant sur la théorie des choix publics, une autre réponse à la question fondamentale: pourquoi s'installer dans des quartiers résidentiels protégés? À partir du cas de Budapest, les thèses principales sont analysées. Concernant la motivation première de la population aisée, le souci du prestige surpasse, semble-t-il, la crainte de la criminalité et l'envie d'autoségrégation. La quête de prestige est particulièrement présente à Budapest où les autorités locales, dont l'autonomie fiscale est très faible, dépendent beaucoup du financement d'État, ce qui ne leur permet guère de procurer les services et biens publics qui répondent aux préférences des habitants. à Budapest, l'essor des communautés privées sécurisées, vivement contesté dans la littérature comme étant un processus problématique sur le plan social, constitue donc plutôt paradoxalement une manifestation de la révolte de la classe moyenne supérieure à l'encontre d'un gouvernement excessivement centralisé.*

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# Searching for Economic Rationale behind Gated Communities: A Public Choice Approach

Zoltán Cséfalvay

*[Paper first received, April 2009; in final form, January 2010]*

## Abstract

As millions of people world-wide now live in residential areas with restricted access to the public, the ascent of gated communities can no longer be attributed to incidental or deviant development. Hence this paper makes an attempt to discover the economic rationale behind the gated community phenomenon; it discusses the mainstream theses and outlines 10 theorems for an alternative proposition based on theories of public choice and fiscal federalism. The core theorem asserts that a centrally featured system of government diminishes the ability of local municipalities properly to reflect citizens' demands for local public goods and services, and that this constitutes a strong incentive for people to move into gated communities. In particular, gated and guarded residential developments represent an exit option when local municipalities fail to deploy vital governmental rules and instruments, such as fiscal equivalence and benefit taxation.

## 1. Introduction: Some Unanswered Questions of the Debate on Gated Communities

### Virtues of the Club

The dominant economic explanation for the rise of gated communities draws on the club theory developed by Buchanan (1965) and applied by Foldvary (1994) and Webster (2001) to gated residential areas. Gated communities operate like clubs because residents privately finance the commonly owned and

used goods and services via ownership-linked user fees and only they have the right to consume exclusively in exchange. By doing this, gated enclaves can effectively overcome market failure since market organisations are, as a rule, unable to produce public goods and services when the market price can not be attained and free-riders can not be excluded (Bator, 1958). The assumption is that people with similar social status and interests are

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more willing to pay for goods and services in common use than they are in a community with a heterogeneous social structure and that the segregation of people is a logical consequence of the club-like working mechanism. Residents of gated communities are, however, taxed twice: first, by paying local taxes to the appropriate local municipalities to provide public goods and services which they do not normally consume; and, secondly, by paying user fees and residents' contributions to the micro-governments of gated communities to maintain the commonly used and owned goods and services they consume behind the gates. Needless to say, it is easier for the affluent classes to cope with this handicap than it is for the lower classes. In return for segregation of the upper middle class, the market provision behind fences and walls is coupled with a number of economic and social benefits, such as improved economic efficiency, increased responsibility, greater self-government and better accountability.

This club theory reveals many important features of gated developments and clearly indicates their obvious advantages. Moreover, recently extensive research has discovered their robust legacy in very different parts of the world (Bagaeen and Uduku, 2009), notably the country clubs in South America (Borsdorf, 2002), the legal traditions in the UK (Blandy, 2006) and the far-reaching historical roots in China (Wu, 2005). However, the club theory begs the fundamental question: if gated communities are economically efficient and successful

Why is it that they have only become a global phenomenon over the past two decades?

### Flight from Blight

One of the answers highlights the fact that gated enclaves constitute an exit option from over-regulated and overcrowded cities and that flight from blight can be regarded as the main motivation for living behind

gates (Mieszkowski and Mills, 1993; Barton and Silvermann, 1994). Similarly, McKenzie (2003) and le Goix (2005) point out that the emergence of gated housing can be described by the bizarre and, in the short term, mutually advantageous tripartite game among developers, local governments and homeowners, who each have their own interests to advance. Developers want to produce housing developments of high density to make a profit and they thus offer homes in a package with some commonly owned and used goods and services in exchange. Local governments aspire to attract affluent taxpayers, without the need of financing local infrastructure expenditure, while homeowners want to live in a safe environment with exclusive access to a wide range of amenities. Borrowing Molotch's (1976) term, the 'city as a growth machine', Vesselinov *et al.* identify a 'gating machine' in American cities, noting that

the combination between the interests of local governments and developers, together with the private fear of urbanities, produces a permanent 'gating coalition' (Vesselinov *et al.*, 2007, p. 123).

Evidently, these actors are deeply embedded in a particular legal framework, a regulatory planning system, debates about housing policy, as well as the cultural context and institutional setting of the given countries, factors that impact considerably on their decisions for or against gated housing. It is, however, worth considering the 'virtuous' critique recently expressed by Kenna and Dunn (2009, p. 812), that the mainstream explanations 'remain largely theoretical and speculative, and much of the literature could be characterised as essay and/or commentaries'. First and foremost the 'flight from blight' thesis leaves us with the question

Why are some countries highly affected and other entirely untouched by gated and guarded developments?

## Crime Drives the Market

In addition to the exit option, scholars emphasise the very strong link between the segregation of the affluent and their fear of crime, arguing that gated enclaves are both a physical manifestation of the culture of fear and an expression of self-segregation (Low, 2003). Because of the fear of crime, gated residential developments are built with a number of security measures such as walls, gates and guards, and these measures straightforwardly exacerbate segregation. Bauman (2001, pp. 116–117) suggests that gated communities are voluntary ghettos, pointing out that “real ghettos are places from which their insiders cannot get out” and that “the prime purpose of voluntary ghettos, on the contrary, is to bar outsiders from going in”. Atkinson asserts that

gated developments reinforce a social and spatial split between the ‘have lots’ and ‘have nots’ and that the latter are excluded from such spaces both physically and by their lack of resources to access security (Atkinson, 2008, p. 7).

In a broader sense, Glasze *et al.* (2005) suggest that the rise of gated communities can be seen as part of the on-going shift of the crime prevention tasks away from central and local governments to the neighbourhood level through the creation of physical and environmental barriers, an approach known as ‘crime prevention through environmental design’ (Jeffery, 1971; Newman, 1972).

This thesis is, to some extent, omnipresent in almost every study on gated communities, although empirical findings indicate that the fear of crime as the ultimate driving factor is often overstated. Drawing on data from more than 100 million households gathered by the US Census Bureau, Sanchez *et al.* conclude that

while it was expected that gated households would feel safer with respect to crime, there was no significant difference between gated and nongated homeowners (Sanchez *et al.*, 2005, p. 288).

Questionnaires conducted with residents of gated communities in various eastern and central European cities, such as in Budapest (Cséfalvay, 2009a), Vilnius (Pociūtė and Krupickaitė, 2007) and Wrocław (Kajdaneck, 2009) also reveal that security considerations, although important, are not the most decisive motivation for people moving to gated communities; the argument here is that security measures are often implemented to express prestige rather than to prevent crime. In direct contrast, in some parts of the world—and particularly in Europe—gated enclaves are widespread in metropolitan areas with apparently very low crime rates; a situation that raises a question similar to that posed earlier

Why are gated communities prevalent in countries with significantly diverse economic and social circumstances?

## 2. Model, Rules and Instruments of the Self-government in Gated Communities

### The Superficiality of Focusing on Visible Features

In contrast to their striking visibility, it is not their physical appearance—the walls, gates, fences or security devices—that draws most attention to gated communities. Similarly, it is not the self-segregation of the affluent and the club-like provision of commonly owned and used goods and services that make gated housing unique. Nor do the privatisation of public spaces, the private provision of local public goods and services or control over the behaviour of residents distinctively characterise and distinguish gated communities from other residential developments.

While these are all important, well reported and widely discussed features (Atkinson and Blandy, 2005a; Glasze *et al.*, 2007; Cséfalvay, 2009b), they do not draw a sharp distinction between gated and non-gated housing. Walls, fences, gates and guards have a long history

in urban development and even today they have a very visible presence not only in gated communities, but in a wide range of public spaces. Segregation has been an elementary rule of spatial organisation since the first cities appeared and the club-like provision of local public goods also has its precursors in the urban movements of the past two centuries. The private provision of public goods as a distinctive feature of gated communities has also lost its importance since the boundary between private and public became fuzzy, practically by the on-going trend of public–private partnership, and theoretically through the critique of public goods and market failure (Holcombe, 1997; Zerbe and McCurdy, 1999).

### **The Self-government of Gated Communities**

This paper argues that the most distinctive feature of gated communities is their self-government; in particular, the question of paramount importance is not whether self-government with a particular legal status exists in gated communities, as posed by Atkinson and Blandy (2005b), but whether self-government will be achieved and whether gated communities are governed effectively. There are three main points that highlight the sharp distinction between local municipalities and gated communities: the model, the rules and the instruments of government.

Gated communities deploy the fiscal exchange government model, pursue the rules of fiscal equivalence and impose benefit taxes as their main vehicle.

### **Model: Fiscal Exchange**

Taking into account the taxonomy of governments invented by Bailey, gated communities and local municipalities can be sub-divided in two distinct government models. Gated communities refer to the *fiscal exchange model* where the “government provides services solely in accordance with voters’ willingness

to pay taxes” (Bailey, 1999, p. 13). In contrast, local municipalities constitute the *fiscal transfer model* in which “the provision of public sector services is used to pursue social policy objectives” (Bailey, 1999, p. 14). Deploying the theoretical notion of government failures (Dollery and Wallis, 2001), local municipalities in some extreme cases can be described by the Leviathan model (Brennan and Buchanan, 1977) within which “despotic self-serving bureaucrats and politicians maximize their own welfare, rather than those of national and local citizens” (Bailey, 1999, p. 14). Adopting a theory of market failure (Bator, 1958), local municipalities can to some degree be considered through the benevolent dictator model, where only the government possesses the power and knowledge to act, its actions being justified by the attempt to correct market failures.

As the different tiers of government often combine these models, gated communities with their fully fledged fiscal exchange governance schemes constitute an incomparable entity. There is, however, in practice a flip side to this, in that the micro-governments of gated communities frequently impose very restrictive regulations on the lifestyle of their inhabitants (McKenzie, 1994; Judd, 1995), with regulations often handed over ‘from above’—particularly from the developers, who often create extremely complicated bundles of rights (McKenzie, 1994; Blandy *et al.*, 2006).

### **Rule: Fiscal Equivalence**

In a debate on the division of responsibilities among diverse levels of government Olson (1969, p. 483) asserts the principle of fiscal equivalence, in particular the “match between those who receive the benefits of a collective good and those who pay for it”. While this rule seems to be almost self-evident, it comprises a crucial geographical problem, in that the territory of jurisdictions and the spatial radius of various collective goods determined by

economically efficient provision can be very divergent. To quote Olson

only if there are several levels of government and a large number of governments can immense disparities between the boundaries of jurisdictions and the boundaries of collective goods be avoided (Olson, 1969, p. 483).

In this sense, gated communities can be seen as providers of collective goods with their own micro-government, a situation that can help to overcome the geographical problem indicated by Olson. On the one hand, gated enclaves fully match the territory of the government to the territory of collective goods and services provided and, since free-riders are thoroughly excluded, gated communities completely match the beneficiaries to those who cover the costs. On the other hand, behind gates, fences and walls, residents enforce the simple rule: you get what you pay for. On this account, gated communities merely provide goods and services if their residents are willing to pay for them and they can therefore overcome government failure, including bureaucracy capture (Tullock, 1965; Niskanen, 1971) and the rent-seeking mentality (Krueger, 1974; Rowley *et al.*, 1988).

### **Vehicle: Benefit Taxation**

The benefit principle of taxation emphasises the point that people's taxes should only be equated with the amount of public goods and services received in exchange. In a similar way to the market for private goods and services, people 'pay' for public goods and services through taxation. Benefit taxation enforces therefore the equation that the marginal cost should equal the marginal benefit.

The powerful theorem of Lindahl (1919/1958) suggests that, if individuals are taxed according to benefits they receive from the provision of public goods and services, the bargaining among individuals leads to a Pareto optimum, where no one could be made better off by making someone worse off. This

Lindahl equilibrium is theoretically feasible, although it raises some practical concerns over the measurement of individual benefits and the preference revelation problem (Hines, 2000). Since the utility evaluation of a given public good or service is highly subjective and individuals often have strong incentives not to reveal their own preferences in order to pay lower taxes, the scope and size of benefit taxation remain limited in practice. Gated communities are, however, able to overcome this problem as long as the equation in benefit taxation that the marginal cost should equal the marginal benefit will not be enforced on individuals but on groups of individuals living behind the gates. The problem of the preference revelation is delegated to the micro-government of the gated communities and they can therefore, as entities, fully deploy the benefit taxation.

The second concern related of Lindahl pricing highlights the fact that many public goods, such as national defence or price stability, can hardly be divided amongst people according to their levels of individual consumption. The benefit taxation has its own inherent assumption that the benefit resulting from the provision of public goods and services can clearly be matched to individual consumers/taxpayers and this proposition strongly restricts the scale and scope of public goods to the locally bounded public goods. As gated communities supply solely local public goods and services, such as well-manicured green parks, leisure facilities, security devices and so on, they can also solve this problem.

Similarly, the working mechanism of gated communities following the rules of club economy limits the scale and scope of public goods and services offered. Buchanan states that

the optimal club size, for any quantity of good, will tend to become smaller as the real income of an individual is increased. Goods that exhibit some 'publicness' at low income levels will, therefore, tend to become 'private' as income levels advance (Buchanan, 1965, p. 12).

Taking some typical goods and services in gated residential developments, such as swimming pools, leisure parks and security measures, they can be provided for the high-income group privately and the low-income group publicly, while the upper middle class is able to access these in a residential club. Consequently, gated communities can only be seen as alternative providers for a particular range of local public goods and services. The provision of bulk services which benefit from the advantages accrued by economies of scale (sewage disposal, water and electricity supply, etc.), which often incorporate natural monopolies disrupting the equation between the marginal cost and the marginal benefit, remain the responsibility of local municipalities.

### Central Propositions

Since both local municipalities and gated communities are providing local public goods and services, the ascent of gated residential developments has provoked fierce competition. In this rivalry, gated communities refer to the fiscal exchange model with benefit taxation, while local municipalities pursue the fiscal transfer model with inherent redistributive functions. The central proposition of this paper asserts that

The distinction with respect to government models constitutes a strong incentive 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 often represent an alternative choice.

Local municipalities and gated communities do not, however, entirely contradict government models, since local governments often try to combine both the elements of the fiscal transfer and the fiscal exchange government pattern in practice. At the level of local municipalities, the emphasis is on the balance

between redistribution and benefit taxation. Consequently, the second main proposition of this paper is that

Residents have a strong incentive to move into gated communities if local municipalities are unable to meet a minimum level of fiscal exchange and benefit taxation in provision of public goods and services.

## 3. Exit, Voice and Gated Communities

### Exit, Voice and Local Governments

In his influential work on exit and voice, Hirschman (1970) distinguishes two main ways in which people can express their disaffection. The exit option refers to a rational response in the market for goods and services as people turn from a particular producer to another. By contrast, people in the political market often employ the exit option solely as the last feasible alternative if the potentials for negotiation—the voice option—are fully exhausted. As a convention, the distinction between exit and voice is explained through the nature of market structures. While the market for goods and services is entirely decentralised and hence the costs of exit are very low, the political market is seen as an oligopoly—the number of providers of ‘political goods and services’ is limited to very few parties—and that increases the costs of the exit on the one hand and bolsters the incentives to voice on the other.

At the level of local governments, both exit and voice are widely prevalent (Bailey, 1999; Dollery and Wallis, 2001). Exit indicates the ability of citizens to choose freely among local governments, who impose local taxes and provide local public goods and services in return. If people are dissatisfied with a particular package of taxes and public services in a given municipality, their disaffection can be denoted by moving away to another. As Tiebout (1956, p. 422) notes “spatial mobility

provides the local public-goods counterpart to the private market's shopping trip" so that citizens "vote with their feet". Hence, people sort themselves into groups which are homogeneous in their demand for local public goods and services, and that process, commonly known as Tiebout sorting, leads to the development of municipalities with relatively homogeneous social structures. The substantial precondition, however, is that "there are a large number of communities in which the consumer-voters may choose to live" (Tiebout, 1956, p. 419). 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 to suit their preferences.

The voice option, by contrast, reflects the capacity of citizens to express their preferences by deploying political mechanisms without migrating from their appropriate municipal jurisdictions. These mechanisms vary considerably: electoral voting, public hearing, petitions and complaints to public service managers, customer surveys and many other forms of citizen bargaining for their specific needs from the public goods and services provided by local governments (Dollery and Wallis, 2001). Nevertheless, the feasibility of the voice option strongly depends on how functions, financial resources and discretions are to be assigned among the different tiers of government. In this regard, Oates sketches a normative model

in which the Allocation Branch at the central government level provides the efficient output of the national public good, and in which this Branch at the local level produces a wide variety of levels of output of the local public good (Oates, 1968, p. 51).

Deploying this approach, we can assume that the more decentralised is a given system of government the more room exists for the voice option at the local government level.

Both exit and voice have their own costs and the choice between them is determined by these costs. If the move to other municipality is to be achieved by lower costs than the bargaining with local governments on the provision of public goods and services to citizens needs, residents will prefer exit to voice. If the negotiation with local governments costs less than the move to another municipality, citizens will embrace voice rather than the exit option. Conclusively, there is a *trade-off* between exit and voice: a higher cost for one particular option will undermine the incentive to the given option, and *vice versa*.

### Exit, Voice and Gated Communities

Tiebout states a profound rule that

the greater the number of communities and the greater the variance among them, the closer the consumer will come to fully realizing his preference position (Tiebout, 1956, p. 419).

In this respect, gated communities can be seen as new elements of increasing competition amongst providers of locally bounded public goods and we can therefore state the first theorem

The more gated communities provide special packages of fees and local public goods and services (in other words, the more room exists for the exit option), the more choices residents have to express their individual preferences.

In light of the trade-off between exit and voice, one can, however, suppose in a reverse way that the absence of gated communities has to be seen as a proof of the proper functioning of local governments, as far as they are able to provide packages of local taxes and public goods and services that meet the demands of residents. Therefore, we can highlight the second and converse proposition based on voice

The more decentralised is the system of government in terms of providing public

goods and services (the more room exists for the voice option), the fewer are the incentives for citizens to move into gated communities.

The crucial point at this trade-off is the cost because the gated community as an exit option is coupled with a number of cost factors. The *immediate costs* are concerned with fees paid for commonly owned goods and services, among them exclusionary and security measures. Consequently, if the direct costs for exclusion are relatively low, this will encourage citizens to move behind the walls. Equally important are the *indirect costs* which are related mostly to planning and administrative issues of the given real estate development. For example, if changes in zoning and other pertinent regulations are to be achieved at low costs, this bolsters the incentives for residents to move into gated enclaves. However, if both direct and indirect costs for movement into gated communities are set very high, citizens will turn rather to the voice option and try to find new ways to negotiate with local governments on provision of public goods and services more suited to their preferences. The comparatively high costs may explain why gated communities have remained in some regions, particularly in central Europe, a very marginal phenomenon.

#### 4. Control over Exclusion

##### Gated Communities as Response to Insufficient Provision of Public Goods

Conventionally, the fundamental argument for public provision lies in the very nature of public goods as long as they are understood, in the classic sense of Samuelson (1954, p. 387), in a way that “each individual’s consumption of such a good leads to no subtraction from any other individual’s consumption”. These goods have two main characteristics. The first is the non-rivalry that their consumption by one individual does not diminish the amount available to other individuals (the marginal

cost of extending consumption to additional consumer equals zero). The second feature of public goods asserts non-excludability, that if the good is available to one individual then it is without any restrictions available to all other individuals (the marginal cost of excluding any individual from consumption equals infinity).

Hence, the crucial questions are why and how state and local governments impose control over excludability in regard to certain goods and services they provide. Economic considerations underline that in some cases the exclusion of free-riders is technically impossible and/or economically inefficient because of the high costs involved. Expected gains from positive externalities by employing non-excludability (for example, compulsory elementary school) and benefits from providing, in Musgrave’s (1959) term, merit goods—goods featured by underconsumption despite their social or welfare importance—can also justify the conversion of a given good into a public good.

These economic arguments are, however, very precarious because they are traced back to political and social considerations; therefore, there is no such thing as a convincingly identifiable cluster of goods which can be attributed *per se* to non-excludability (Snidal, 1979; Holcombe, 1997; Zerbe and McCurdy, 1999). The control over exclusion is a political construct and it is a political decision whether or not to turn a given good into a public good. Thus the conversion of a given good into a public good can be regarded, in Hirschman’s term, as a voice option.

According to the most frequently quoted definition stated by Blakely and Snyder (1997, p. 2) “gated communities are residential areas with restricted access in which normally public spaces are privatized”. Hence gated and guarded residential developments represent not only contender entities to the state and local municipalities in the provision of public goods and services, but also constitute an exit

option. If state and local governments are unable to provide goods considered public (for instance, a green and safe residential environment)—in other words, if the voice option fails—people can turn to gated communities. The third theorem can therefore be stated

The less local municipalities are able to provide the public goods and services desired (the less room exists for the voice option), the more incentives there are for residents to move into gated communities.

### Control over Inclusion and Exclusion

Imposing control on the accessibility of commonly used goods and services is also a decisive feature of gated communities, although this is something of a double-edged sword which attempts to control the behaviour of both non-residents (a function of exclusion) and residents within the gates (a function of inclusion). Setting rules for homeowners and free-riders through spontaneous arrangements represents the softest form of control. Legal instruments, such as property rights and planning regulations to exclude free-riders, and legally binding regulation of the behaviour of homeowners to include them (for example, condition, covenant and restriction (CC&R)) can tighten control. Equally, physical and environmental barriers do not only create defensible space, which can prevent trespass by non-residents, they can also be used as identification features for residents. In this regard, gated communities with gates, fences, walls and security guards constitute the strongest and most institutionalised and privatised forms on the control mechanisms continuum.

These control mechanisms are, however, different not only because of their capability to coerce behaviour, but also because of the costs involved; walls, gates and security guards are coupled with the highest costs, while spontaneous social arrangements are aligned with the lowest costs. Taking the public choice assumption that individuals

are utility-maximisers who act to calculate between costs and benefits, they will commit themselves, as a rule, to the less expensive option matched to their preferences. It is likely that residents will only take the strongest, most institutionalised and privatised form of control over excludability—the exit option of gated communities—if the softer and less expensive control mechanisms are seen to have failed. For example, while in the eastern European transformation countries people are, in the absence of a sophisticated legal system, encouraged to move into residential areas with stronger control mechanisms over exclusion (for example, walls and guards), in western Europe the emphasis lies on the rule of law rather than physical and security barriers. This can be expressed in the fourth thesis that

The fewer are the capacities for social and legal control mechanisms over the residential areas, the greater are the incentives for people to move into gated communities.

## 5. Flight from Congestion

### The Role of Congestion Costs

Because they meet only one of the features required to be regarded as public, most of the public goods provided at local level can be seen as semi-public. Common-pool goods, such as public libraries or hospitals, are non-excludable but rivalrous, while toll (club) goods, such as congested roads or public parks, are excludable but non-rivalrous in consumption. Since semi-public goods represent mixed forms in the taxonomy of goods, they greatly enhance the room for political decision-making; they can either be turned into public goods with an eminent feature of non-excludability, or they can be provided in a club with an exclusive right to consume.

In a general sense, club is defined

as a voluntary group deriving mutual benefit from sharing one or more of the following:

production costs, the members' characteristics, or a good characterized by excludable benefits (Sandler and Tschirhart, 1980, p. 1482).

Costs and goods sharing clubs emerged to gain benefits from deploying the economies of scale with their simple rule: the more members there are in the club, the less given goods cost per member. With an increase in the number of the club members, however, the congestion cost also increases (and as a result the utility decreases), which in turn lowers the benefit that results from sharing the production costs amongst the club members.

As Buchanan asserts, the ultimate rule

for any goods 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 (Buchanan, 1965, p. 3).

The size of the club is conclusively determined by two factors, which tend to change in line with increases in the number of club members: on the one hand, it is determined by the growing benefit of costs in the financing of the commonly used goods and services and, on the other hand, determined by the decreasing benefit of utility that results from increasing congestion costs. As a result, the numbers of club members are always limited and clubs will appear to be self-regulating and self-sustaining systems as long as they limit growth and hedge in the congestion costs.

### **Control over Density and Gated Communities**

The limitation of growth and congestion is a vital function of gated communities. While cities are dynamic, ever-expanding entities, with suburban areas sprawling outwards in an almost limitless fashion, gated communities are restricted in their growth. Moreover, there is a significant distinction between local municipalities and gated communities with regard to the ability of residents to limit

and control growth. Despite the on-going tendency to increase people's involvement, urban planning remains a centralised task carried out in a top-down manner by central authorities, with residents having a narrowing influence on decisions relating to the growth and crowding of residential areas. In direct contrast, in gated communities, density and hence congestion costs are set and fixed in time by developers. When people move to gated communities, they choose not only homes but also living environments with specified densities. Fences, gates and walls not only exclude free-riders; they can also prevent future changes relating to growth and congestion. Consequently, the fifth exposition can be stated

The more congested local municipalities become, in particular, the suburban areas (the less room exists for the voice option), the greater are the incentives for residents to move into gated communities.

## **6. User Choice and Gated Communities**

### **Challenging the Tiebout Model**

Since its publication in 1956, the Tiebout model has frequently been criticised for its inherent assumptions, that it exists in a perfect competition, individuals are fully mobile and have superior knowledge of differences among local municipalities' revenues and expenditure pattern. The idea of Tiebout was, however, more forcefully affected by the shift towards market mechanisms in the financing of local governments in developed countries over the past two decades. Similarly, the recent changes of assignment of power, finance and discretion between central and local governments, and particularly the on-going decentralisation, have greatly influenced the relevance of Tiebout sorting. Tiebout's underlying proposition is that citizens only have free choice in the market of local governments; only local

governments provide a fixed package of taxes and public services, and the assignment of power, finance and discretion between central and local governments is fixed in time. Both the shift towards market mechanisms and the upward trend of decentralisation have, however, significantly challenged the appropriateness of the Tiebout model.

The term market mechanisms used in relation to local governments “covers the set of rules and institutions of a market economy applied to public sector” (Blöchlinger, 2008, p. 7). Their implementation involves a number of anticipated advantages, such as increased efficiency in production (because of market providers and the competition between them), more welfare (because of increased responsiveness to local needs) and greater efficiency through better budget management (because of reduced fiscal illusions). On the supply side, local governments render market access for private initiatives deploying mechanisms such as private provision, outsourcing, tendering, public–private partnership and public funding for private providers, which can enhance the freedom of choice for the residents. On the demand side, local authorities try to set price signals in the funding of public goods and services via market mechanisms like user fees and user-related funding mechanisms that link the benefits with the costs in a direct way.

### **Exit, Market Mechanisms and Gated Communities**

One of the main conclusions of enquiries in developed countries reveals that “competition among providers is a much stronger driver than private provision itself” (Blöchlinger, 2008, p. 12). As a further matter, local governments in the majority of the OECD countries foster competition amongst private providers of public goods and services in an attempt to put residents in a position to choose among alternative providers. Because of their political

implications, market mechanisms are, however, far less favoured on the demand side and local governments often employ spare user fees which directly equal benefits and costs.

As a result, the widespread implementation of market mechanisms, among them the stronger competition of providers and the user choice, reduces enormously the incentives for the exit option. With the implementation of market mechanisms, citizens have sufficiently greater choice within the municipalities where they live and that implicitly mitigates the incentives for residents to move away to other municipalities or even to gated communities. The option of ‘voting with the feet’ is less reasonable if residents have a real choice within the given municipality. The sixth theorem thus emphasises that

The fewer market mechanisms local governments employ in the provision of local public goods and services, the greater are the incentives for residents to move into gated communities.

Market mechanisms, such as user choice and user fees, are more responsive to residents’ needs and effectively subdue the incentives to use the exit option, but their fully fledged implementation at the level of municipalities is rigidly limited by equity considerations. First and foremost, there is a risk that private providers of public goods and services filter the residents in line with their ability to pay the full costs. Local governments therefore prescribe, as a rule, that private providers should set a minimum standard of access to public goods and services, accept any users (in order not to pick them according to preference) and, in some cases, employ different user contributions (for example, lower fees for special social groups). As a consequence, the seventh theorem suggests that

The more the exploitation of the efficiency gains resulting from market mechanisms is limited by equity considerations at the

level of local governments, the greater are the incentives for people to move into gated communities.

The second factor that restricts the full exploitation of the gains accrued by market mechanisms is related to budgeting, because local governments generally use the revenues from market mechanisms (particularly user fees) as a substitute for the funding of other expenditures. It is also very common for municipalities to impose user fees instead of raising local taxes. As a result, market mechanisms in the budget of local governments sometimes constitute a substitute for those revenue sources, not least because they are often considered politically sensitive (for example, council tax). By contrast, in gated communities, the principle of benefit taxation—marginal benefit equals marginal costs—is seen as the overall rule and additional fees are rigidly coupled with the provision of additional services. We can hence formulate the eighth theorem that

The more municipalities employ market mechanisms as a substitute for other expenditures, the greater are the incentives for residents to move into gated communities.

## 7. Decentralisation and Gated Communities

### Functional Decentralisation and Gated Communities

With respect to the assignment of power, finance and discretion between central and local governments, Oates (1972) normatively asserts that central governments should focus on macroeconomic stabilisation policy, income redistribution and national public goods provision. This is because the high mobility of factors (capital, firms and people) involved requires a centralised policy effort. Local governments should deal, in turn, primarily with local public goods (goods whose consumption is restricted to the own jurisdiction). The theoretical insights of thinkers such

as von Hayek (1945) and Tiebout (1965) also support the common-sense notion that only a decentralised system of government can effectively match the provision of local public goods to the diverse preferences of residents.

Although this normative assignment of functions is theoretically very convincing, it is hard to find it in practice in such a crystal clear form. In the real world, central government attempts to offer local public goods and services, while local governments very often pursue redistributive tasks and this confusion of functions can enhance the take-up of the exit options, in particular at the level of local municipalities. As Oates recognises

an aggressive local government program, for example, to redistribute income from rich to poor establishes undesired incentives for outmigration of the well-to-do and immigration of low-income households (Oates, 2005, p. 351).

Since gated communities do not practise the redistributive function at all, we can highlight a ninth theorem that

The more local governments focus on (welfare) redistribution, the greater are the incentives for residents to move into gated communities.

### Financial Decentralisation and Gated Communities

There is, however, an essential precondition for an efficient assignment of functions, in that local governments should have a significant share of autonomous resources within their revenues to be *de facto* independent and able to provide local public goods and services that meet the demands of citizens (Oates, 2005; Rodden, 2003). Moreover, drawing on the assumptions of the self-utility-maximiser state (Brennan and Buchanan, 1977) and its equally self-utility-seeker bureaucracy (Niskanen, 1971), adherents of the public choice theory suggest that local governments should impose effective and indispensable constraints on the state, so that it does not

become a brutish Leviathan. Oates (1968, 1972) thus emphasises the normative assignment of taxes (revenues) between the central and the local governments. The central government shall rely primarily on a mobile tax-base (for example, capital, firms, households, final goods) imposing non-benefit taxes (for example, VAT) and source-based taxes (for example, progressive income tax) because centralised policy efforts and administrative capacities need to be efficient with compliance and redistribution. By contrast, local governments have to build their revenues on a immobile tax-base (for example, property) imposing benefit taxes (for example, property tax, user fees) and resident-based taxes (for example, council tax), since they can more effectively communicate to residents the costs of public goods and services consumed than central governments.

As Oates and Schwab (2004, p. 24) note, “there is a visibility issue here”. Taxation on mobile factors, such as imposing taxes on income of households or turnover of companies, creates revenues which are typically shared among different tiers of government, a situation that “may well weaken the link between local spending and local taxes”. Pursuing this chain of thought, Oates also stresses the fact that the

extensive application of non-benefit taxes on mobile factors at decentralised levels of government can result in distortions in the location and levels of economic activity (Oates, 2005, p. 352).

Again, by way of contrast, taxation on immobile factors—for example, levying taxes on property at the level of local municipalities—makes this link not only more visible, but accumulates revenues sharply separated from central government, and hence

local government has its own tax-base, distinct from state and federal levels, and households and local business know that their local tax bills are going to finance local services (Oates and Schwab, 2004, p. 25).

In the absence of these preconditions, however, local municipalities are likely to become rent-seekers encapsulated in a dependency culture that considerably restricts their ability to provide effectively the public goods and services required (Rowley *et al.*, 1988).

This ‘visibility issue’ is of vital importance in gated communities since their budgeting is rigidly aligned with benefit taxation with hard budget constraints: their revenues are limited to a few user fees, which cover fully the cost of the goods and services provided, and they do not receive external funding. The tenth theorem thus presumes that

The weaker the taxing power of local municipalities (in particular, the less is the share of local government tax revenues in general government tax revenues) and the less local governments rely on benefit taxes, the greater are the incentives for residents to move into gated communities.

## 8. Concluding Remarks

In contrast to the mainstream explanations for the rise of gated communities, which put the emphasis on social factors (for example, exclusionary behaviour of the affluent, fear of crime) or economic considerations encapsulated in the public–private dichotomy (for example, market provision of public goods via a club), this paper has argued that the paramount driving-force behind this development lies in the distinction between local municipalities and gated enclaves regarding forms and rules of government. The profound analysis of this distinction has revealed that there are a wide variety of economically rooted incentives for people to move into gated communities and that gated and guarded residential areas could become an exit option for a number of reasons.

They represent an exit option when a centrally featured system of government diminishes the ability of local municipalities to reflect properly the demands of citizens for local public goods and services. Gated

housing is an exit option when soft forms of control over exclusion are exhausted in residential areas. Gated enclaves constitute an exit option when local municipalities fail to meet the requirements of citizens that they deploy vital governmental rules and instruments, above all fiscal exchange and benefit taxation. This exit option is particularly strong when local governments are simply unable to provide the public goods and services required; in many parts of the world, gated residential developments have become a manifestation of the revolt of the upper middle class against local municipalities (Cséfalvay, 2009c).

In a recent debate on gated communities Atkinson (2008, p. 18) asserted that “if concentrations of poverty are problematic then we must also ask what problems concentrated affluence generates for our urban areas”. Contra Atkinson, this paper states that: if housing segregation by walls, gates and security guards matters, policy concerns should perhaps not be addressed by highly anonymous and abstract factors, such as the fear of crime or the segregation of the affluent, but should rather question the more decisive issue regarding the assignment of power, finance and discretion between central governments and local municipalities.

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