The Tiebout Hypothesis

In 1956, Charles Tiebout proposed a hypothesis that people would naturally sort themselves into their best possible community if communities competed, offering different baskets of public goods and services at various prices (taxes).

Land-based capitalism is the first political economy where the assumptions of the Tiebout hypothesis are all met, and the limitations are all resolved. Assumptions and limitations are taken from the Wikipedia article.

Assumptions

Assumption: Mobile consumers, who are free to choose where they live. There are no costs associated with moving.

All borders are open. There are no financial or political roadblocks to crossing a dominion border, no matter the level of dominion. While there are always some costs associated with moving, only in land-based capitalism do people carry their Earth Dividend distributions wherever they go. For this reason alone, they are welcome in almost any community they choose. There is always full employment.

Assumption: Complete information.

The cellular democracy is entirely transparent. Because the Earth Dividend pays for police and fire protection, transportation, streets, sanitation, and local government, communities advertise for people, promoting their infrastructure, innovations, and strengths.

Assumption: There are many communities to choose from.

A level-1 community averages 100 people, with about 1,700 people at level 2. The number of different communities in the nine levels of Worldwide Federation is about 100 million. Each community attempts to distinguish itself in order to grow.

Assumption: Commuting is not an issue.

The mixed-use voluntary collective will tend to replace legacy corporations due to Earth Dividend economies of scale, the availability of citizen investor loans, and the ability to use the Earth Dividend to pay rent on business property that is also residential. Most mixed-use collectives will be actively seeking new members to grow.

Assumption: Public goods do not spill over in terms of benefits/costs from one community to the next.

All taxes passed by a 2/3 plurality of the community for a specific purpose are consumption taxes. These are paid only by community members wherever they shop and have nothing to do with the merchant's location. Money from the community goes to the community.

The same applies to parallel cells, which can serve as community-owned businesses. They primarily benefit the dominion that made the original investment. The Elsie Toolkit allows communities to charge outsiders a fee for the use of services that are free to community members.

Assumption: An optimal city size exists: economies of scale.

This assumption is unnecessary. In a cellular democracy, the community can exist at level 1, level 2, or level 3 of dominion or higher. As the community grows, so does its land area and level of dominion. A thriving community can become the world. Those benefits that prove successful everywhere will rise to the top level of dominion. Two competing costs/benefits might each rise to level 4 or even higher if geography allows.

Assumption: Communities try to achieve "optimal size".

Generally, growth is optimal, and communities will attempt to grow, particularly with density in the center of the community. Optimal size results more from the Tiebout hypothesis than a factor in achieving the hypothesis.

Assumption: Communities are rational and try to keep the public "bad" consumers away.

At 100 people, a 2/3 plurality in a level-1 dominion can pass any ordinance, edict, or injunction violating objective rights that serve their subjective needs and desires, provided that legislation stops what a reasonable person would consider a negative externality. The same holds with direct democracies at every level of dominion. I believe that people only behave “irrationally” in politics when they are forced to choose between two reprehensible human beings running for public office.

Assumption: Any differences in the fiscal attractiveness of a town will be capitalized into house prices. The price of any house reflects the cost (including local property taxes) and benefits (including local public goods) of living in that house.

This assumption is the very basis of land-based capitalism. Substitute ground rent for local property taxes, and the assumption is always valid in a rapidly reached equilibrium.

Limitations

Limitation: Requires equal financing of the public good by all the residents (a lump sum tax), which is viewed as highly inequitable.

Essential public services are financed by the Earth Dividend, with cellular councils having some leeway on how those distributions are spent. Additional funding, approved by a 2/3 plurality of the dominion, is through a consumption tax. Earth Dividend distributions for food and housing are not taxed, making any consumption tax progressive.

Limitation: Towns typically finance their public goods instead through a property tax levied in proportion to the value of homes. The problem that this property taxation causes is that the poor chase the rich. Richer people pay a larger share of the public goods bill than poorer people, so people who value those goods would like to live in a community with more affluent people.

Public goods are financed through the Earth Dividend and paid by the ground rents at the federation level. Every person in the federation receives the same amount for private and public goods and services. Rich people voluntarily pay for location value. Additional consumption taxes for better public goods and services are highly progressive if they increase land value.

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