

RESEARCH SUMMARY

Land Assembly without Eminent Domain: Laboratory Experiments of Two Tax Mechanisms

Eminent domain, the power given to governments to take property for public use for just compensation, can be viewed as a necessary evil. It allows socially valuable projects such as highways to move forward, but it comes at the cost of forcing landowners to accept a price that is lower than their subjective value. The expanding definition of “public use” has also meant that sometimes the property acquired through eminent domain fails to increase the overall social welfare, that is, the transfer of the property does not result in a use that creates a greater value overall to society.

Motivated by this failure, in “[Land Assembly without Eminent Domain: Laboratory Experiments of Two Tax Mechanisms](#),” authors Mark DeSantis, Matthew W. McCarter, and Abel M. Winn find, based on controlled experiments, that there are at least two tax based alternatives to eminent domain that increase the rate of land assembly, that is, acquiring the package of property necessary for the project under consideration.

Tax Mechanisms and Findings

1. *Revealed assessment taxation*: If the property owner does not accept the price offered by a developer, the government reassesses the property for taxation, with the developer’s offer as the lower bound. Knowing that the declined offer may come with an increased property tax bill discourages sellers from holding out for higher offer, thus speeding up the transaction.
 - Revealed assessment did not reduce the frequency of property owners holding out, and refusing to sell, but it did reduce the dollar value of the holdout by 33.7 percent.
 - Greater success in assembling land.
2. *Declared assessment taxation* – The property owner is required to declare a price at which she would voluntarily sell the property. If a developer offers that price, she must sell the property. Further, the property is taxed at this “declared” value. Choosing a selling price that is higher than the property owner’s “true” value may keep developers away, but it comes with a higher tax bill. Choosing one that is lower than the true value will come with a lower tax bill, but makes the property more vulnerable to sale to developers.
 - Declared assessment, contrary to the predicted theory, increased the frequency at which sellers hold out against selling but didn’t reduce the dollar value of the holdout.
 - Greater success in assembling land.

All the treatments increased social welfare, but it was highest for participants in the declared assessment treatment—more than twice (124 percent higher) those in the baseline treatment.

The Experiment Design

For the experiment, the authors conducted experiments for one control, or baseline, treatment and two experimental treatments, one for each of the tax mechanisms. For each treatment, facilitated by graphical software where buyers and sellers could negotiate with their properties, 30 negotiations were played.

The experiments seek to answer these main questions:

- Do the tax policies discourage sellers from holding out against selling for any amount?
- If sellers do hold out under both tax mechanisms, will they hold out for smaller amounts of money?
- Does the reduction in seller holdouts make it easier for buyers assemble the property needed to develop when it becomes profitable for them?
- Do the higher rates of land assembly increase social welfare under both tax mechanisms?

Policy Implications

Though the declared assessment is superior in terms of outcome, the revealed assessment is much easier to implement, making it an attractive alternative for policymaking.