

Who's Holding Out? An Experimental Study of the Benefits and Burdens of Eminent Domain[#]

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Abstract

A substantial literature identifies seller holdout as a serious obstacle to land assembly, implying that eminent domain is an appropriate policy response. We conduct a series of laboratory experiments to test this view. We find that when there is no competition and no eminent domain, land assembly suffers from costly delay and failed assembly; participants lose 18.1% of the available surplus. Much of the inefficiency is due to low offers from the buyers (“buyer holdout”) rather than strategic holdout among sellers. When buyers can exercise eminent domain the participants lose 18.6% of the surplus. This loss comes from spending money to influence the fair market price and forcing sellers to sell even when the sellers value the property more than the buyer. Introducing weak competition in the form of a less valuable substitute parcel of land reduces delay by 35.7% and virtually eliminates assembly failure, so that only 11.5% of the surplus is lost.

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