A Brief Introduction to Schäfer and Singh (2016)

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1 Main Ideas

1.1 *What is the question?*

Takings, one of the important roles of governments, in order to increase social benefits by *forcing* individuals to sell their properties. Several questions are discussed in this article, mainly the followings.

What are the differences between takings through *eminent domain* and *private liabilities*?[1] How much should we compensate the original owners, or say, how would be *fair*? Could we achieve an efficient result? Do we have to regulate this power of governments? If yes, how strict?

1.2 *Why should we care about it?*

According to development economics, if there are externalities, there would be a room to improve social welfare through government intervention, mainly by building infrastructure. However, to protect the rights of people to own private properties is the necessity for market economy. A very fundamental question is that should governments own such kind of power?

1.3 *What is your (or the author's) answer?*

Since these are open and very fundamental questions, the article does not offer an simple answer, rather discussions, such as what are advantages and disadvantages of takings and of different types of legal regulations on takings. Since there is no ideal *social planner*, a loose regulation on takings might be abused by bureaucrats to pursue their own interest. The articles provides a proof and explanations that compensation usually would be less by eminent domain than private liabilities.

1.4 *How did you (or the author's) get there?*

The authors use a model which based on optimisation problems of the original owners, courts and the governments, and how they interact, to capture the important characteristics of takings. Uncertainty is considered as well. Different currently used laws across countries are discussed. One interesting thing is that the article does consider what might happen if governments do not really enforce the power legally.

[1] The two terms refer to takings directly by the governments or authorise the power to some private companies, respectively.

2 Notations Used

Notations	Meanings
m	The unit of properties taken by governments.
V	The function of value created by the properties to the original owners.
x	The investment of the original owners, where x^* denotes the efficient level.
B	The net benefits to the public, assumed to be greater than zero.
E	The external cost, e.g., protests, if governments violate the law while using the power of takings.
θ	A random variable denotes the different state of nature, which affect B and E.
$[\underline{\theta}, \bar{\theta}]$	The support of θ.
Θ^*	The set of net gain from takings, depending on x.
$\tilde{\Theta}^*$	The complement, or say, alternatives of Θ^*.
Z	The expected (ex-post) social benefits gained, depending on x and $\Theta^*(x)$.
C	The compensation the original owners received after takings, depending on x.
Θ^{FC}	The decision rule of doing takings or not, decided by the government. $\Theta^{FC} \subseteq [\underline{\theta}, \bar{\theta}]$.
$\hat{\Theta}_i$	The set observed by the court, $i = 1, 2, 3$, denotes the different information set of the court.
γ	A positive constant denotes the proportion of the value,$V(x)$, paid to compensate the owners.