UCF DR. P. PHILLIPS SCHOOL OF REAL ESTATE

Dr. P. Phillips Institute
for Research and Education in Real Estate

Using Eminent Domain for Private Economic Development: Effects on Private Sector Employment,
***Real Estate Notes*, No. 1601, January, 2016.**

Robert F. Salvino, Associate Professor and Research Economist, BB&T Center for Economic and Community Development, Coastal Carolina University

Ten years since the U.S. Supreme Court ruled in favor of state and local governments in *Kelo v. New London*, the controversial decision's economic impact remains uncertain. Does using eminent domain to stimulate economic development actually do so? Simply put, do states that allow local governments to use eminent domain for private economic development actually have greater job growth than states that do not allow such uses of eminent domain? While active government policies may directly create jobs and can generate significant multiplier effects on local economies, development policies relying on eminent domain to underpin public-private development partnerships run the risk of undermining broader confidence in government respect for private property, possibly adversely affecting economic development in the longer run.

Even before the U.S. housing crisis and the ensuing tepid recovery, state and local governments' attempts to stimulate economic activity highlighted debate concerning the proper role of government power over private property and economic activity. Industry groups historically supportive of economic development policies have recognized the long-term threat to an important principle underpinning economic vitality, that of secure private property rights. The National Association of Home Builders (NAHB) and the National Association of Realtors (NAR) together filed a brief of amici curiae in support of homeowners defending their private property rights against the City of New London, CT in *Kelo*. Perhaps more than any other argument, the collective stance of industry groups like the NAHB and the NAR highlights the difference between relying on government policies that actively target specific economic development projects and an institutional framework broadly conducive to long-run economic growth.

Even before the U.S. housing crisis and the ensuing tepid recovery, state and local governments' attempts to stimulate economic activity highlighted debate concerning the proper role of government power over private property and economic activity. Industry groups historically supportive of economic development policies have recognized the long-term threat to an important principle underpinning economic vitality, that of secure private property rights. The National Association of Home Builders (NAHB) and the National Association of Realtors (NAR) together filed a brief of amici curiae in support of homeowners defending their private property rights against the City of New London, CT in *Kelo*. Perhaps more than any other argument, the collective stance of industry groups like the NAHB and the NAR highlights the difference between relying on government policies that actively target specific economic development projects and an institutional framework broadly conducive to long-run economic growth.

A recent paper by Geoffrey K. Turnbull (UCF), Robert F. Salvino (Coastal Carolina University), and Michael T. Tasto (Southern New Hampshire University), addresses the fundamental question: Do states that grant local governments liberal eminent domain powers actually enjoy greater economic growth? Relying on a modeling approach known as shift-share analysis, the study estimates how liberal eminent domain laws affect private sector employment growth across states while controlling for national trend growth and the mix of industries in the state. Understanding the effect of policy decisions on employment growth requires that the authors isolate the employment growth in the region that would occur naturally (or based on national trends) from employment growth that might occurs as a result of existing institutions or policies undertaken in the region. Shift-share analysis provides a straightforward method to separate these effects, controlling for the fact that some observed employment growth is attributable to the national trend and some is attributable to the state's mix of faster and slower growing industries during the period of analysis. The technique separates out a local competitive employment effect, which represents the growth or decline in jobs relative to the national trend and other states with the same industry mix. The empirical model estimates how much of this unexplained state employment growth can be attributed to allowing liberal use of eminent domain for economic development purposes.

Turnbull, G.K., Salvino, R.F., and Tasto, M.T. "Using Eminent Domain for Private Economic Development: Does it Increase Private Sector Employment?" *Working Paper No.1501*, Dr. P. Phillips School of Real Estate, University of Central Florida

Previous research shows that allowing eminent domain for economic development stimulates public sector growth. This is, however, not the case for the private sector. The empirical results provide absolutely no evidence that expressly allowing local governments to use eminent domain for economic development accomplishes that goal. Allowing eminent domain for economic development does not increase private employment as measured by the local competitive effect or the export base local competitive effect, a conclusion consistent with that for total private sector employment where the empirical evidence clearly shows that allowing eminent domain for economic development leads to slower job growth overall.

The study also finds that even those industries that we expect to be primary targets of state and local economic development policies are adversely affected by the property rights regime. Perhaps as a consequence of weakening property rights and passing more control over privately owned resources to state and local governments, it turns out that one of the fundamental concerns of state and local governments—promoting job creation—does not appear to be well served by broad eminent domain powers.

About the Author: Dr. Salvino is Associate Professor of Economic and Research Economist for the BB&T Center for Economic and Community Development in the Wall College of Business at Coastal Carolina University . He teaches advanced courses in economics and entrepreneurship. His academic research has been published in the *Review of Law and Economics*, *Applied Economics* and other journals. He is editor of *Policy Watch*, a quarterly publication of the BB&T Center that brings economic policy analysis to a mainstream audience, and is co-editor with Greg Randolph and Michael Tasto of multiple book volumes under the collective title: *The Impact of Public Policy on Entrepreneurial Outcomes*, from Edward Elgar Publishing, in Peter Boettke's series *New Thinking in Political Economy.* He completed his PhD in economics at Georgia State University in 2007 and lives in Murrells Inlet, SC with his wife and two daughters.

Real Estate Notes is a publication of the Dr. P. Phillips Institute of Research and Education in Real Estate at the University of Central Florida. The purpose of this publication is to present timely summaries of current relevant research in the fields of real estate, finance, and urban land economics to the professional and academic communities to aid decision making and understanding the marketplace. The conclusions and opinions expressed in *Real Estate Notes* are not necessarily those of the Dr. P. Phillips Institute of Research and Education in Real Estate, the Dr. P. Phillips School of Real Estate, or the University of Central Florida.