

From <https://www.overcomingbias.com/2019/01/fine-grain-futarchy-zoning-via-harberger-taxes.html> :

Added 11pm:

One complaint people have about a Harberger tax is that owners would feel stressed to know that their property could be taken at any time. Here's a simple fix. When someone takes your property at your declared value, you can pay 1% of that value to get it back, if you do so quickly. But then you'd better raise your declared value or someone else could do the same thing the next day or week. You pay 1% for a fair warning that your value is too low. Under this system, people only lose their property when someone else actually values it more highly, even after considering the transaction costs of switching property.

There's many different ways to implement similar ideas that have slightly different user experience. One possibility is to set up a system where users pay the Harberger tax by prepaying funds into a contract, and there exists a separate mechanism where users can submit bids for any item of property; each bid must be fully collateralized. The tax rate that the current owner pays is computed based on the value of the highest bid. The owner has the ability to sell to the highest bidder at the bid price at any time (or the sale happens automatically if the prepaid tax contract runs out of money). This system is more favoring because sales are owner-initiated rather than buyer-initiated. One can also provide owners a further measure of stability by limiting the rate at which their tax can go up (eg. to one doubling per week).

This kind of owner-forgiving Harberger tax is not very useful for the "market-based eminent domain" use case: if Elon Musk suddenly puts up bids for an entire strip of houses going through a city to build a hyperloop there, then once some owners sell the other owners will know they can extract high prices and would be able to raise their prices (whereas with the traditional harberger tax everything would get snapped up at once). However, it seems very useful in cases where you're not expecting buyers to want to buy a large set of items at the same time, eg. ENS domains.