



Crabs in a holding pen after being harvested from the Chesapeake Bay (Baltimore Sun photo by Glenn Fawcett / October 10, 2008)

The Washington Post has a [fascinating story](#) today about Maryland abandoning its reverse auction strategy to buy up small crabbing licenses. The scheme was cooked up by a bunch of economists, and apparently neither they nor state officials thought to talk to any of its targets before implementing it.

According to the story, there are currently 3,676 “limited crab catcher” licenses in Maryland, which allow the holder to set up to 50 pots. Most of the holders of those licenses don’t make a living at it, and many of them haven’t caught a crab in years. But they complicate harvest forecasts, because their holders *could* decide to set out their pots. So the state decided that it would buy out about 2000 of those licenses. It decided to do so through a reverse auction, asking license holders to submit bids setting their sales price. The idea, of course, was that the state would buy at the lowest offered prices. That should be good for everyone — crabbers who valued their licenses more highly would keep them, and the state would spend no more than necessary to achieve its goal of reducing the number of outstanding licenses.

But a funny thing happened on the way to that happy outcome — less than 500 bids came in, and about half of those set a selling price far above what the state is prepared to pay. One “protest bidder” offered to sell for \$425 million.

The economists (and apparently state officials) were surprised. Asked why it didn’t work, one of them told Post reporter David Farenthold:

I don’t know why yet. . . . People are just reluctant to participate, even if we think they could benefit from it.

There’s no mystery about what happened. In fact, it’s a typical result when the government tries to pay people to change their way of life. Had they done a little homework first, the auction designers would have learned, as Farenthold did, that crab licenses have value to many of their holders far beyond what the market recognizes. A crab license is a marker of their identity, a heritage passed down from their forebears, and a legacy for future generations. That’s not something to be sold to the state for a few thousand dollars.

My one quibble with the article is that Farenthold makes it sound like the reverse auction format is the problem. It's not. The problem is that many crabbers see their license as priceless. If that's true, voluntary sales at plausible prices are never going to remove those licenses from the rolls. If that needs to be done, some form of involuntary regulatory mandate is going to be needed. Of course, the state may still want to offer some kind of compensation, but it won't be able to pretend that the transition is a win for all involved. That, in turn, compounds the political difficulties.

No wonder transitions from extractive economies are difficult. They invariably create winners and losers, and the injuries they create can't be fixed with mere money. Only an economist would be surprised to learn that persuading people to change who they are is not as simple as offering a price.