

OCCUPATIONAL LICENSING

INTRODUCTION

Simply put, an occupational license is a government's permission for an individual to work in a particular field. Such certification can serve as necessary consumer protection for jobs that require a great amount of training or have high risks like doctors, lawyers, and teachers. But in recent decades, many states have strayed away from the public safety purpose of occupational licensing by requiring low-risk professions like interior designers, hair braiders, and funeral attendants to receive permission to work. Considering that occupational licenses come with great tradeoffs in economic growth it is imperative that citizens closely examine these burdens that their state and local governments place on local workers.

EFFECTS ON WORKERS: UNEMPLOYMENT AND THE INFORMAL ECONOMY

Occupational licensing requirements act as barriers to entry in a labor market, requiring workers to undergo extensive training and pay significant fees to legally work in a given field. Licenses for lower-income professions such as cosmetologists on average require \$209 in fees and 275 days of education and training (3). As a result of these high costs in time and money, many workers either fail licensing requirements or become discouraged by them and refrain from even trying to legally enter the field.

Two effects usually follow from occupational licensing's exclusions. First, unemployment rises as some excluded workers fail to find work. Secondly, the informal economy (or "black market") grows as other excluded workers seek to provide their services free from government oversight. Unsurprisingly, these excluded workers are disproportionately low-income minorities, lacking the time and resources to jump through the legal hoops.

These negative effects can be seen in a recent example from Mississippi. For years, the Magnolia State required hair braiders to obtain a cosmetology license to enter the profession, involving months of training and hundreds of dollars. But, after replacing the costly requirement with a simple registration process a few years ago, 300 new hair braiders registered with the state shortly thereafter (4). Some of these new braiders were previously unemployed, while others likely emerged from the shadows of the informal economy to finally operate in a legal capacity.

EFFECTS ON CONSUMERS: HIGHER COSTS AND LESS CHOICE

As if raising low-income unemployment and expanding the black market isn't bad enough, occupational licensing's negative effects bleed onto consumers as well. As potential workers become discouraged from entering the market, the supply of laborers in their licensed field falls. But since consumer demand for the regulated good or service is usually unaffected by the licensing regime, licensed producers raise their prices since there is less competition.

QUICK FACTS

- Occupational licenses for lower-income professions on average require \$209 in fees and nine months of education and training to acquire (1).

NOTABLE & QUOTABLE

"The overthrow of the medieval guild system was an indispensable step in the rise of freedom in the Western world.... [M]en could pursue whatever trade or occupation they wished without the by-your-leave of any governmental or quasigovernmental authority. In more recent decades, there has been a retrogression, an increasing tendency for particular occupations to be restricted to individuals licensed to practice them by the state."

- **Milton Friedman**

As evidence, there are many cases where specific goods and services in states that license their producers are more expensive than in those that don't. For example, interior designer firms in states like Louisiana where their services are licensed make \$72,000 per 10,000 people more than firms in unregulated states (5).

EFFECTS ON COMPANIES: RENT-SEEKING BEHAVIOR

Of course, the one group of people who benefit from the economic effects of occupational licenses is the licensed professionals themselves. Higher prices and lower competition translates into greater profit and job security to them. These crony incentives explain why repealing ridiculous licensing requirements has been so difficult. For example, Florida attempted to end licensing for 20 occupations in 2011, including interior designers and hair braiders, but the effort collapsed under industry pressure (6).

CONCLUSION

Often passed under the guise of public safety, occupational licensing requirements are often thinly veiled schemes for companies to distort the market to maximize their profits. While certification is a necessary function of government for high-risk jobs, occupational licenses requirements should be saved only for professions that require such a great degree of consumer protection. After all, the effect of occupational licensing on low-risk, lower-income occupations like hair braiders and interior designers are tremendously negative: raising prices, reducing choice, and increasing unemployment.

As a country that prides itself on opportunity, American states should minimize the obstacles they put in front of their residents that prevent them from engaging in the hard work and entrepreneurship that sustains a prosperous society. We should not need a permission slip to provide for ourselves and our families.

Endnotes:

1. "License to Work: A National Study of Burdens from Occupational Licensing," INSTITUTE FOR JUSTICE (May 2012) (online at <http://www.ij.org/licensetowork>)
2. Milton Friedman, *Capitalism and Freedom* (1982)
3. Supra note 1
4. Ibid.
5. "Designed to Exclude: How Interior Design Insiders Use Government Power to Exclude Minorities & Burden Consumers," Institute for Justice (February 2009) (online at <http://www.ij.org/how-government-imposed-interior-design-cartels-exclude-minorities-a-burden-consumers>)
6. Supra note 1

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