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It's Time To Review and Repeal Occupational Licensing Laws

By Edward Timmons

Summary

Legislators should undo laws that require one-quarter of all workers to obtain a government license before they can work.

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Republicans and Democrats routinely focus on issues where there is a clear distinction between the parties. In the realm of labor policy, unions and the minimum wage have been the most popular differentiating issues in recent decades. But with union membership in the private sector steadily declining and minimum wages only affecting a tiny portion of the labor market, these issues have little impact on the typical worker. Occupational licensing, on the other hand, affects a significant share of the workforce and the economy more broadly.

Occupational licensing refers to the government policy — typically at the state level — of requiring certain workers in certain industries to obtain a permit, or license, before they can legally perform their trade. Most people are familiar with these requirements for doctors, dentists, child care providers and teachers, but in some states, licenses are also required for massage therapists, bartenders, tree trimmers, hair braiders and painters, too. In fact, data from the U.S. Bureau of Labor Statistics suggests that about a quarter of all workers today are required to get an official license.

Some states requires painters to be licensed by the government before they can work.

Policy experts from across the political spectrum are starting to take notice. The Institute for Justice, a libertarian public interest law firm, has been a leader in shining a light on the impact licensing can have on workers, and the Obama administration's Council of Economic Advisors released a detailed study on the issue. The Mackinac Center produced a report last year showing how licensing works in Michigan.

Occupational licensing is ripe for review. According to Beth Redbird, a professor at Northwestern University, states have created about 2,000 new licensing laws since 1970 — just shy of an average of one new licensing requirement every year for every state. And only a handful of states, according to a review that I co-authored for the Bureau of Labor Statistics, have ever removed previously established licensing requirements.

Economic theory on licensing, largely developed by legends Milton Friedman and George Stigler, is pretty straightforward. Based on standard supply and demand impacts, licensing reduces competition in a profession by raising the cost of entry, leading to increased prices for consumers. While it's theoretically possible that licensing could improve service quality and consumer safety — leading to overall better results despite the increased prices it brings — this is difficult to define and test empirically.

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In fact, it's challenging to test even the more clear-cut economic effects of licensing. State economies are so complex and unique that just comparing competition or prices in one state to another is not very revealing. Instead, economists have to study "natural experiments," opportunities that allow for a comparison of the same state before a license existed and after it went into effect.

Alabama provided such a natural experiment recently by creating a new licensing requirement for barbers in 2013. In a report just published by the Mackinac Center, I reviewed data from the U.S. Census Bureau to analyze what impact, if any, this new license had on barbers and consumers in Alabama. What I found matched solidly with the established economic theory: Competition was restricted by a limitation in supply, and existing barbers — who were licensed for a nominal fee under a "grandfather" provision — earned larger revenues.

State lawmakers need to review the licensing requirements they impose on the labor supply. Some licenses are no doubt worth the additional costs, especially if they actually make consumers better off in the long run. But there's growing evidence, mine just being one of the more recent examples, that occupational licensing laws are needlessly harming consumers and making it more difficult, especially for underprivileged individuals, to find gainful employment.

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