



Why Occupational Licensing Requirements Are Harmful

Posted on September 19, 2014

http://informationstation.org/kitchen_table_econ/why-occupational-licensing-requirements-are-harmful/

The debate over the ride and room sharing services Uber and Airbnb has renewed interest in occupational licensing, that is, when you need a government permit so you can work in a given profession. Essentially, opponents of Uber and Airbnb argue that these services should not be allowed to exist in their current form because their operators are not adequately licensed. While this may be true, the underlying premise – that government permission is required in order to work – is increasingly being challenged.

In 1950, one in 20 occupations required a license; today, one in three do. And while few would argue against licensing for extremely specialized professions like doctors and pilots, who hold your life in their hands, many economists and onlookers believe that licensing requirements for unspecialized professions like hair braiding, cosmetology, landscaping, and horse massage only hurt the poor, kill

jobs, and raise prices.

Occupational licensing requirements often mean that aspiring professionals must go through years of training and pay thousands of dollars in fees before being allowed to work in the profession of their choice. Such costs pose big hurdles for those who want to make a living in such fields, slowing job and business creation. The poor and unskilled are even less able to leap these high hurdles, and thus see their already limited work options diminish further. How many aspiring entrepreneurs would be able to even start a hair-braiding business after spending a great deal of money on government-required classes and license fees?

Even if you're not an aspiring professional in a licensed field, occupational licensing still affects you because it drives up the prices of your goods and services. The costs of obtaining a license prevents new

workers from entering a given industry, so – because of the laws of supply and demand – they allow existing professionals to charge higher prices for their products. Economists have found that prices in states with less stringent occupational licensing requirements are lower than in those with more stringent ones.

This dynamic hints at why occupational licensing has flourished in the first place. Existing professionals have a strong incentive to keep new competition out of the marketplace in order to enjoy artificially high profits. Licensing requirements offer them a great way to do this. So, they often lobby their state governments to impose such requirements on new workers. This is happening with the taxi and hotel industries. They are now lobbying for licensing requirements to apply to Uber and Airbnb. Hopefully this case will bring greater attention to these negative effects of occupational licensing.