

THE Standard

John Hood: Licensing Hurts Consumers More than it Helps

John Hood

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Although North Carolina has become a demonstrably freer place to live and work over the past 10 years, our state remains grossly out of step with the rest of America in a key respect: we unnecessarily restrict the freedom of workers to enter new occupations and the freedom of consumers to purchase goods and services from whomever they wish.

According to the latest Cato Institute ratings, North Carolina ranks 40th in the nation in occupational freedom. In most of the country, states require fewer occupations to be licensed, the requirements they do impose are less stringent, and the cost to enter those licensed professions — in cash and time — is much lower.

Why do we erect such high regulatory barriers to entering so many careers? Defenders of occupational licensing argue that consumer welfare is at stake. Without the quality control that licensing boards represent, unqualified or unscrupulous providers would take advantage of consumers. They'd do shoddy work. They'd cheat. They'd endanger consumers.

Advocates of licensing reform don't deny the presence of incompetence and corruption in the marketplace. Rather, they offer three interrelated reasons to reject strict licensing laws as the proper response.

First, the stakes involved vary widely depending on the occupation. No state allows doctors to perform brain surgery without rigorous licensure. But occupational regulations extend far, far beyond such obvious cases. In North Carolina, you must be licensed to run auctions, cut hair, install irrigation systems, or give massages.

Of some 1,100 separate occupations regulated by at least one state, only 60 are regulated by all states. In other words, what gets regulated and what doesn't is largely a matter of economic interest and local politics, rather than anything approaching a serious assessment of significant risks and likely rewards.

Second, while it is certainly true that you might be swindled by a dishonest auctioneer or rubbed the wrong way, so to speak, by a masseuse, licensure is hardly the only way to deter such behavior. Locke Foundation analyst Jon Sanders observes there are many less-restrictive remedies such as disclosure rules, bonding requirements, and voluntary certification (which provides useful information that consumers can take into account but aren't legally required to). Licensing is the most extreme option, says Sanders, and should be reserved "for use only in extreme cases."

In my view, the third argument against excessive occupational licensing is the strongest one: it doesn't work. It doesn't accomplish its stated goal of protecting consumer safety and welfare. Although there are some exceptions, most of the studies I've seen demonstrate that places with more-stringent licensing do not exhibit lower rates of accidents, injuries, fraud, or customer dissatisfaction than do places where occupational freedom is better protected.

Here are a couple of recent examples. In 2011, the state of Illinois toughened its licensing rules for real-estate agents. Both prospective and current agents were required to obtain more hours of training to be licensed, although the latter were allowed a one-year grace period before their licenses expired. Illinois also has a robust system for collecting misconduct complaints from homebuyers and sellers. A study of the policy change, just published in the journal *Labour Economics*, found that it reduced the number of agents and the number of homes sold in Illinois but did "not find strong evidence that the reform reduced new misconduct incidents."

Similarly, a new study in the *Journal of Accounting Research* examined an increase in the number of instructional hours required to become a certified public accountant. The new rule clearly reduced the number of people who became CPAs but found no effect on the quality of services provided.

I think North Carolina ought to eliminate licensing altogether for most of the 319 occupations for which we require it. Even if the state continues such regulations, however, it should at least streamline the process. All too often, licensure is simply a politicized mechanism for restricting access and raising prices, thus harming rather than helping consumers. Let's change that.