

# Bloomberg

## America's Red-Tape Machine Ensnares Millions of Young Have-Nots

Sho Chandra

May 16, 2016

At the Suffolk Beauty Academy in the suburbs of central Virginia, Jasmine Cumbo was schooled on the ins and outs of hair styling. Basic course work included shampooing and conditioning; intermediate classes focused on subjects like braiding and braid extension. Ten months after enrolling in 2013, she walked out with a diploma in incosmetology. Ready to start cutting hair for a living? Not even close.

Cumbo still needed a state license. And that, it turned out, would take her another two years to earn. "I feel like I lost out on a lot of things," the 22-year-old says -- time, and money, and clients. The license needs to be renewed every two years and only allows her to cut hair within the confines of Virginia. Neighboring Maryland and Washington D.C., for instance, need separate permits.

So do many states, for many professions. Licensing has spread inexorably through the U.S. labor market -- a trend in some ways the direct opposite of the freelancing, anything-goes economy exemplified by Uber. In the 1950s, only about 5 percent of workers needed permission from federal, state or local authorities to practice their occupation. Now it's almost a third -- not just doctors or airline pilots, but florists, exotic dancers, tour guides, auctioneers and bartenders.

From the Obama administration to conservative-leaning think-tanks, a rare consensus is emerging on the need to fix a system originally intended to protect consumers and ensure public safety. Critics say it's turned into something less benign, draining the job market's dynamism and shielding well-off workers from competition while blocking the prospects of those lower down the wage scale.

### 'High Fences'

"These are very high fences," said Morris Kleiner, a professor of labor economics at the University of Minnesota who's studied the issue for more than four decades. "It's good for the people who become licensed," but for society overall, "the costs are greater than the benefits." Among those costs, he says, are 2.8 million missing jobs, as well as higher prices.

While President Barack Obama ordered up a report and set aside money in last year's budget to address the problem, it's not one that can be solved in Washington alone: The restrictions are mostly imposed at the state level with the encouragement of the licensed workers themselves, who vigorously defend the system they helped create.

The result is a "weird patchwork quilt of licenses," said Brink Lindsey of the Cato Institute, a pro-market research center in Washington. Many rules have never undergone detailed scrutiny, and the authorities are "all over the map in terms of what they regulate and how they regulate," he said.

There have been a few recent attempts to halt the licensing creep. The Supreme Court effectively ruled last year that it wasn't necessary to be a licensed dentist in order to sell teeth-whitening services in North Carolina. Idaho's governor vetoed a bill that would have required permits for sign-language interpreters, and Louisiana courts overturned a ban on Benedictine monks selling coffins, imposed because they weren't official funeral directors.

That monastic victory was won with help from the Institute for Justice, a Virginia-based nonprofit libertarian law firm at the forefront of many such efforts. In the past two months it's successfully defended the rights of casket sellers in Alabama and hair-braiders in Kentucky to operate without licenses. But the institute was less successful in a 2012 attempt to eliminate licenses for interior designers in Florida, one of only three states where such paperwork is necessary. If the American Society of Interior Designers gets its way, the other 47 will require it too.

"By and large, it is protectionism," said Cato's Lindsey.

That protection helps lift earnings for licensed workers by about 15 percent, according to research by Kleiner and Princeton University economist Alan Krueger. It's typically an expensive journey with plenty of obstacles. Would-be licensees must pass final tests within a specified period, so many Americans who invest the time and money upfront could still miss out on the reward.

That's what almost happened to Cumbo. After spending more than \$18,000 and clocking 1,500 hours of lessons at the beauty academy, financial constraints and family problems -- including her father's death -- delayed her efforts to then acquire the license, which costs \$300 and involves written and practical tests. She got it just days before the two-year deadline. Many classmates still aren't licensed, she says: Students often take a breather after the academy training, and "when they take that little break, things happen."

Cumbo spent the intervening two years working various jobs -- cleaning at campgrounds, helping out at a center for disabled children. Now, fully qualified, she's finding that prospective employers prefer candidates who bring their own customers. Cumbo used to have some, from the on-the-job training at the end of her course, but no longer: "I pretty much have to rebuild my contacts."

## **‘Putting a Brake’**

Under one of the fixes advocated by Kleiner, she could have enjoyed a much smoother transition into a career. The economist, the leading researcher in the licensing field, recommends easing requirements for some professions, so that certificates issued by training bodies -- like Cumbo’s diploma from the academy -- would be enough to start work straightaway.

To be sure, some of the growth in licensing reflects a shift from manufacturing, where more workers had unions to protect their interests, into services. What’s important is to strike a “balance between protecting consumers against incompetent, negligent or corrupt professionals, and the need to have a competitive market,” said Richard Reeves, a senior fellow at the Brookings Institution in Washington. And he thinks the balance is out of whack now: For people trying to move up, licensing is “effectively putting a brake on the escalator.”

As for consumers, innovative technologies may offer new safeguards, Cato’s Lindsey said, citing websites like Yelp and Angie’s List that provide feedback on the quality of services. Businesses like Uber are set to give a new twist to the debate. Uber drivers are rated by customers and peers and can often get by with personal licenses rather than the occupational ones that taxis need, though that’s changing in some cities.

## **‘Ticked Off’**

Whatever the hi-tech future holds, Kleiner says that for now the permit system is more reminiscent of medieval guilds -- gatekeepers for their professions, who wielded plenty of political clout. That’s the case today too, another reason why authorities are unwilling to cut back on the licenses.

Ultimately, the resistance to change comes from the licensed employees themselves, according to Dick Carpenter, the Institute for Justice’s director of strategic research. In defending their exclusive status, and the investment they’ve made to get it, they “want to push the fence out further and further.”

Like Cumbo. If anyone’s thinking about scrapping licenses in her field, “they’d better cut me a check,” she says. “I went through so much to get this license. Now if they told me they were going to end it, I’d be really ticked off.”