Occupational Licensing in Wisconsin: Who Are We Really Protecting?

Licensure is often more about reducing competition than safeguarding consumers

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Introduction

When the government creates a skill test or some sort of minimum qualification for occupations, it is ostensibly for two reasons: either to protect the public from a potential health hazard or to help the public navigate a marketplace that is unavoidably tilted against the consumer.

However, we suggest that the steady increase in professional licensing in most states is being driven by a third motivation: to protect incumbents from competition.

Wisconsin has experienced just such an increase: Over the past few decades more and more workers in the state toil in a job that requires a license of some sort. A portion of this increase has to do with an economy that's moving away from manufacturing and toward services, of course. But a key driver of this change has been that the breadth of licensing itself has expanded.

These days, a greater proportion of all occupations requires its practitioners to have a license issued by the state, and they include numerous jobs where the need for government licensing is not readily apparent.

We believe that the state's regulation of various professions has gone too far and that it would behoove us to examine the myriad occupations that require some sort of license from the state and ask whether the current constraints to enter the profession still make sense today. A state that imposes unnecessary barriers to people wishing to enter a multitude of occupations runs the risk of imposing an inadvertent cost on the economy, by boosting the cost of these services — and the prices paid by Wisconsin consumers — as well as limiting the ability of otherwise qualified people to obtain the necessary licenses to move up the economic ladder.

We look at occupational licensing writ large and then examine some of the potential issues it creates. We discuss some of the literature already written on occupational licensing, as well as some previous work done on the situation in Wisconsin, along with a description of the occupational licensing regime in place here.

The State of Licensing in America

In order to practice certain occupations, state or local governments commonly require some form of license or certification. At one time, the number of occupations requiring a license was comparatively small. In 1950, licensed professions made up only 5 percent of the workforce,[1] but from these minimalist beginnings, the range of occupations covered by professional licensure has expanded at a remarkable rate.

Today, it is estimated that around 30 percent of Americans require some sort of license in order to legally do their jobs,[2] and the range of occupations covered has expanded to include such unlikely candidates as florist, interior designer, hypnotist, landscaper, barber and funeral director.[3]

Most people today would expect government to hold doctors or architects to some sort of uniform standard. These professions in the hands of untrained and unskilled practitioners could wreak great, sometimes irreparable, harm on their customers. Allowing a surgeon to plunge a scalpel without first obtaining some guarantee of professional training would be insanity.

But what is the risk that befalls someone who hires an unlicensed interior designer, or florist, who has not received state-specified training?

The practice of government licensing has changed radically in the past 65 years, and it bears examining. Have we made vast advances in consumer protection, or is there something else at work? To find out, we first must understand what goes into the decision to license a profession in the first place.

Why Do States License Occupations?

Consumers generally lack perfect *a priori* knowledge of the quality of any service and know less about the market than the professionals they entrust. That means the professionals potentially can use this informational imbalance to take advantage of customers. A license is, in effect, an effort to correct the knowledge asymmetry in favor of the consumer, as to not be duped by an unscrupulous or simply incompetent practitioner.

Economist Phillip Nelson deals with this issue in detail in his seminal paper, "Information and Consumer Behavior."[4] For some services, it is possible to get a modicum of information on the quality of an offer before money changes hands. Nelson uses the example of a used car, where the consumer can take a test drive and review the vehicle history in order to make some determination of quality (albeit imperfect) before making a purchase. Nelson calls these goods "search goods," since the consumer can search out high-quality goods and services before buying them.

Other services are difficult to assess until they have actually been purchased. The skill of a barber is not easily determined until the appointed task has been performed. Nelson calls these "experience goods" — those that must be experienced to discern quality, at least in times predating the Internet.

Most problematic are services that defy analysis even after they have been rendered. Consider the experience of taking a car to a mechanic, only to be told that some mysterious problem has been discovered and must be repaired before the car can be driven again. The layperson is generally helpless in this situation and has little way of knowing whether the problem actually exists or if this is merely extortion. Having paid for repair of an alleged problem, the driver will never know if the car runs well because of the mechanic's expertise or would have run just fine without intervention. Nelson calls these "credence goods," since the consumer must take their quality largely on faith. These latter cases are the ones in which Nelson urges licensure.

Of course, it is also easy to identify a different reason for licensure altogether: the desire of current practitioners to use the power of the state to limit competitors.

The Unintended Consequences of Licensure

While occupational licensing may appear to be an unmitigated benefit for consumers, it invariably results in a number of unintended and undesirable consequences that may not protect consumers at all, contrarily worsening their position and imposing unnecessary costs to the American economy.

Barriers to entry

The most obvious effect of licensing requirements is the difficulty for a newcomer to enter a profession. Most occupational licenses are not only costly but time-consuming to acquire, often requiring months or years of education of questionable value. For example, in order to cut hair in Wisconsin, the government requires 1,550 hours of training for a cosmetologist, with associated costs approaching $20,000.[5] A cosmetologist who is ambitious and would like to be a manager needs either 2,000 hours of practical training at a salon and 150 hours of coursework, or 4,000 hours of practice as a licensed cosmetologist under the supervision of a licensed cosmetology manager.[6] On top of that, he or she also must pass the state's cosmetology manager exam.

While the intended purpose of these requirements might be to screen out the incapable and unskilled, the lack of competition that occurs when it is needlessly difficult and costly to enter an occupation is bad for consumers, as well as for aspiring professionals who possess the skill and desire but lack the means to acquire the license.

A licensed profession predominantly has fewer practitioners than an unlicensed one, meaning that those who seek the service have fewer options. This inevitably translates into higher prices. Furthermore, the lack of competitive pressure can engender complacency in incumbents, who will invest less effort into innovation and customer satisfaction than they otherwise would, in the knowledge that customers have fewer alternatives even if they are dissatisfied.

The economic costs of monopoly and oligopoly are well-understood, and restricted entry into a profession creates these same costs, albeit on a smaller scale.