

POLICYMAKER'S GUIDE TO CORPORATE WELFARE

Occupational Licensing

The Issue

Occupational licensing is currently required for 29 percent of U.S. jobs, a dramatic increase from the 5 percent figure of the 1950s. Texas itself mandates licensing for roughly 142 different professions. Of these, 34 commonly serve as stepping stones into the middle class for inexperienced, low-skilled Texans. Although other states cover many more occupations under their licensing regimes, Texas levies more stringent requirements than most. On average, the Lone Star State demands \$304 in fees, 326 days spent in training, and two successfully completed exams from Texans seeking to work in a licensed field. Practitioners must meet stipulations such as these or incur a Class A misdemeanor charge under section 165.151 of the Occupations Code, the penalty for which is up to a year spent behind bars.

In addition to the implications that occupational licensing has for workers in Texas' 142 licensed lines of work, it also significantly affects the economy as a whole. Studies have shown that licensing, while it pushes up the salaries of licensed workers, reduces job growth by 20 percent and results in an estimated economic loss of \$34.8 billion to \$41.7 billion each year. The average household can expect to fork over an additional \$1,033 each year to pay the inflated prices of licensed services. Occupational licensing's impact, whether on the personal or macroeconomic level, is difficult to ignore.

The Arguments

The stated purpose of occupational licensing laws is to protect the health, safety, and pocketbooks of allegedly unwary consumers. By requiring practitioners to meet certain minimum standards, the government in theory ensures that the likelihood of a customer encountering a poor—or worse, injurious—service is low. Otherwise, the information asymmetry existing between the server and the served could allow dangerous and duplicitous enterprises to flourish, or so the reasoning goes.

However, the rise of business-reviewing websites such as Yelp and Angie's List has narrowed the knowledge gap by a considerable amount in recent years. Prospective customers can now receive testimonies of a company's service almost instantly, preventing businesses from escaping the consequences of bad practices. Indeed, by virtue of the power they place in the average consumer's hands, online reviews render the benefits of most licensing null.

Even if occupational licensing's supposed advantages had not been sapped by innovation, it would still pose a series of difficulties worth reckoning with. The larger economic costs associated with licensing—reduced job growth and deadweight loss—negatively

affect the living standards of all Texans. Low-income residents find themselves hit especially hard. The sometimes onerous licensing requirements provide an additional burden for them—not only are licensed services more expensive, licensed professions become too costly to enter in terms of both time and money. As a result, entrepreneurship loses some of its long-standing power as a path out of poverty.

While would-be entrepreneurs seeking a gateway to the middle class are adversely affected by occupational licensing laws, there is one group that profits from the existing legal structure—established businesses. In fact, business lobbies represent some of the most enthusiastic supporters of occupational licensing legislation. Legally blocking would-be competitors artificially inflates prices, giving entrenched players in the marketplace incentive to keep them out. Now that technological advances have severely undercut the traditional benefits of occupational licensing, its tendencies towards cronyism and its other potent disadvantages bear greater consideration in the debate surrounding the issue.

Recommendations

- Review every occupational license in Texas and eliminate all but those that demonstrate the highest level of need to protect public health and safety.
- Reduce education and experience requirements or convert licensing to certification or registration where appropriate.
- Subject all new occupational license proposals to the following three-step process:
 - 1) the Legislature must pass a law authorizing an agency to review the need for a license;
 - 2) the agency must review the need and report its assessment to the Legislature;
 - 3) following the agency's report, the Legislature may pass a law establishing the new license.
- Mandate a review, conducted every ten years, to assess the utility, appropriateness, and proportionality of existing occupational licensure. ★

Resources

[*The Realities of Occupational Licensing*](#) by Bill Peacock and Samuel Barr, Texas Public Policy Foundation (Sept. 2015).

[*Scream for Yelp: Senate Bill 1185*](#) by Kathleen Hunker, Texas Public Policy Foundation (April 2015).

[*Costly Mistakes: How Bad Policy Raises the Cost of Living*](#) by Salim Furth, Heritage Foundation (Nov. 2015).

