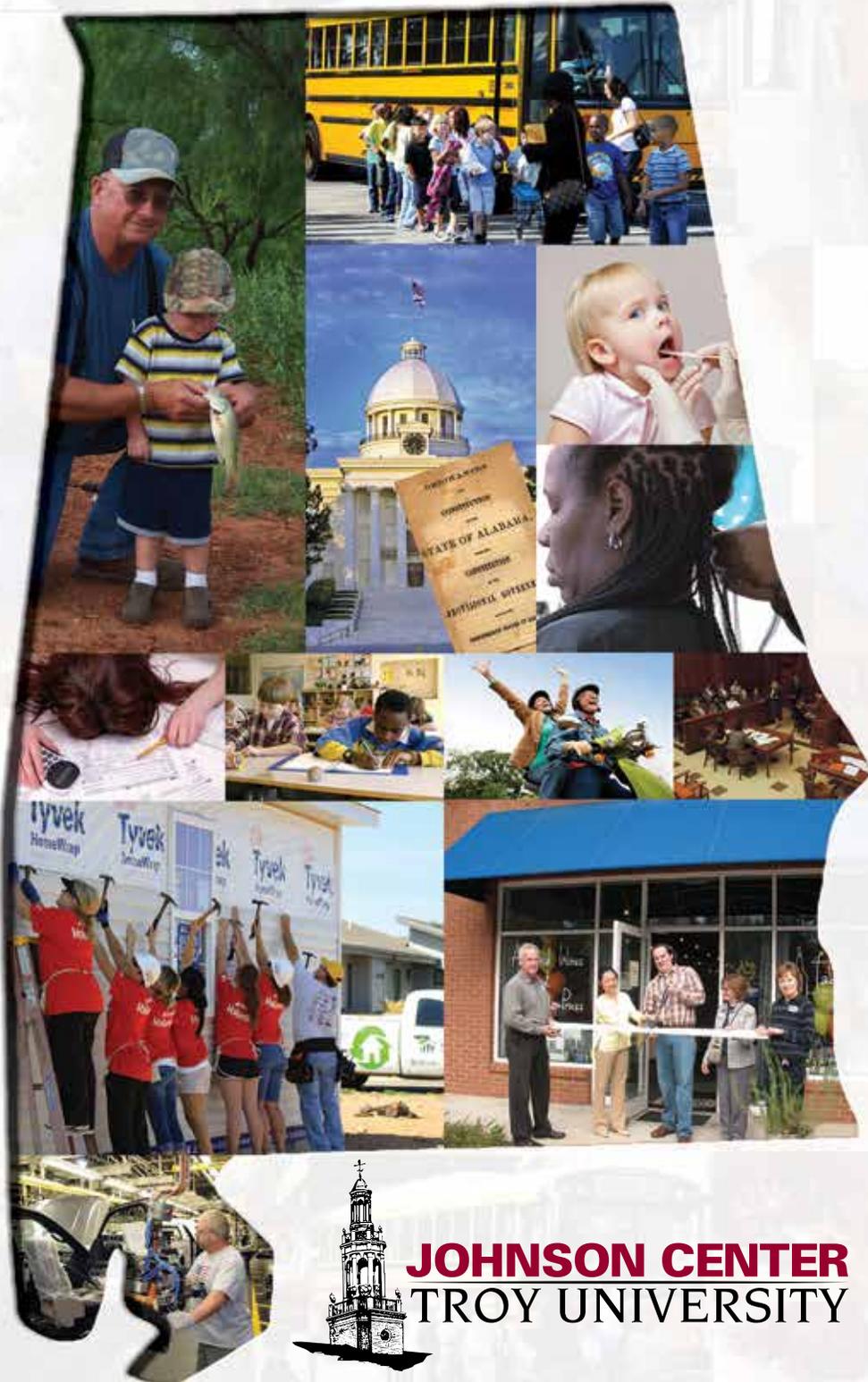


# IMPROVING LIVES IN ALABAMA

A Vision for Economic Freedom and Prosperity



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9

## Reforming Occupational Licensing in Alabama

Daniel J. Smith



# Reforming Occupational Licensing in Alabama

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## Summary Points

- Occupational licensing undermines consumer sovereignty and restricts occupational freedom in Alabama. Professional groups use the goal of protecting consumers from unqualified practitioners as cover to restrict access into the profession and artificially raise wages.
- Alabama currently licenses over 140 different occupations, affecting over 1/4th of the state's workforce.
- The costs of occupational licensing fall disproportionately on low-income and minority Alabamians.
- Policy-makers can better protect consumer interest and economic growth in Alabama by transitioning from occupation licensing to occupational certification.

## 1. Introduction

Occupational licensing is the exclusive and compulsory government certification and registry of the qualified practitioners in a specific industry. To enter the profession, potential practitioners must meet requirements specified by a board of active industry practitioners. These requirements can range from simply registering with the state board, all the way to examinations, or even hundreds of hours of classroom or practical experience. These requirements also often include an assortment of substantial application, licensing, licensing renewal, background investigation, change of address, and examination fees.

The intended purpose of occupational licensing is to ensure quality and reputability in specified professions by restricting unqualified or unscrupulous personnel from practicing. This protection helps foster consumer confidence in the profession, especially for complex goods and services for which consumers have difficulty accurately gauging quality and reliability. The providers of complex services typically have more information than consumers and thus could conceivably exploit the ignorance of consumers. For example, a conniving auto mechanic may take advantage of a poorly informed customer by recommending the purchase of unnecessary services. Similarly, unscrupulous physicians, with their superior medical knowledge, could diagnose patients with nonexistent diseases in order to charge them for additional treatments and visits. Additionally, with consumers having little knowledge of a complex good or service, providers may enter into the field on falsified credentials, providing fraudulent goods and services to unknowing consumers.

Economists refer to this problem as the asymmetric information problem.<sup>1</sup> Governmental licensing, most often carried out at the state level, addresses this potential asymmetric information problem by giving practicing professionals the ability to regulate and monitor their colleagues. Consumer complaints can be reviewed by other professionals, and practitioners found to engage in crooked practices could be censured, suspended, or even barred from practicing. With licensing in place to prevent unqualified or unethical practitioners from entering a field, consumers can have a high level of trust in the active industry practitioners.

However, occupational licensing does not always work like this in practice. Industry groups can lobby for occupational licensing under the pretense of advancing the public interest, and then use licensing to artificially and unnecessarily restrict entry into the profession in order to increase industry wages.

Occupational licensing requirements, including training, fees, and exams, can be used to unnecessarily restrict access to the profession, especially for low-income or minority groups, decreasing economic mobility and occupational choice. Rather than an assurance of quality care and professionalism, occupational licensing can allow practitioners to fleece consumers, prevent competition, and restrict labor freedom.

Most occupational licensing is carried out at the state level, leaving each state to decide what occupations to license, as well as the extent of the licensing requirements. Many states have experienced a surge in occupational licensing in recent years.<sup>2</sup> In the 1950s only one in twenty U.S. workers needed a license to work, compared with about one in three today.<sup>3</sup> Occupations that traditionally required no licensure, such as florists, and home entertainment installers, are beginning to require licensure across the U.S.

Alabama currently licenses over 140 different occupations.<sup>4</sup> While the total number of licensed occupations appears small, this represents a substantial portion of the total Alabamian workforce. Over a fourth of Alabama's workforce requires express permission from an industry board in order to practice in their chosen occupation.<sup>5</sup> The expansion of occupational licensing suggest that Alabama policymakers should examine licensing's potentially significant costs, which include reduced labor mobility for professionals, higher cost of service, and decreased access to goods and services for low-income consumers. These costs should be carefully weighed against the perceived benefits of occupational licensing. In particular, Alabama policymakers should carefully monitor the expansion of occupational licensing requirements as well as the growth of occupational licensing to new industries, in particular industries with no evidential need for licensure. Furthermore, Alabama policymakers can examine alternatives to occupational licensure, such as voluntary certification, which offer an assurance of quality to consumers without enabling industry professionals to unfairly restrict entry into the profession.

Carefully monitoring the scope and power of licensed occupations, and especially transitioning to certification will substantially improve labor freedom and mobility in Alabama, especially for low-income and minority groups. Certification would also make it substantially easier to attract out-of-state professionals to Alabama. Consumers would benefit from generally lower prices as well as a wider range of quality and price options to better suit their particular circumstances and needs. Certification would particularly expand the access of low-income Alabamians to services they desire.

## 2 The Theoretical Case for Occupational Licensing

The justification for government-sponsored occupational licensing laws rests on the potential for practitioners to exploit the ignorance of consumers. When quality is costly to discern, consumers may not have the ability or necessary information to gauge the quality of a good or service, leading to a situation where the practitioner in the field has more information than the average consumer about the good or service they are offering, a situation referred to as information asymmetry.

Information asymmetries emerge whenever practitioners hold information that their average consumer cannot cost-effectively obtain.<sup>6</sup> Through education, training, and experience, practitioners in complex fields often acquire information about their goods and services that is not readily available to their average consumer, creating the potential for practitioners to exploit their consumer's relative ignorance. If a practitioner's average consumer is not in a situation to gauge either the qualifications of the practitioner or the quality of a service or good, especially even after the service was allegedly performed, the potential for two types of abuse emerges. First, unqualified practitioners can deceive consumers with falsified, substandard, or even non-existent qualifications, leading to the potential for low-quality or even harmful goods, services, or treatments.<sup>7</sup> Second, qualified practitioners, from their position of expertise, can recommend costly product upgrades, services, or treatments that are unnecessary.<sup>8</sup>

A classic example of a market with asymmetric information leading to the first problem, that of low-quality goods or services, is the lemon problem in used car markets.<sup>9</sup> Sellers of used cars often have more complete information on the condition of a car than potential customers. While some aspects, such as the condition of the interior and exterior, may be readily visible to potential customers, the condition of the motor and other components are difficult for the average consumer to accurately assess. Without a way to evaluate the true quality of used car, consumers would be unwilling to purchase used cars at the high-quality price, instead only offering the low-quality price, leading sellers of high-quality vehicles to drop out of the used car market.

An example of a market with asymmetric information leading to the second problem, that of a practitioner recommending costly services that are unnecessary or charging for services that aren't actually performed, is the market for car repairs. Car mechanics, including regular service-providers such

as oil-change companies, often have more knowledge than the average consumer on the mechanical condition of an car, as well as the costs of parts and labor. This puts consumers potentially at risk for being sold services and repairs that are unnecessary, or even services, such as transmission flushes, that may not even be performed.

Occupational licensing is one of the most common solutions implemented by federal, state, and local governments to protect consumers in markets with information asymmetries.<sup>10</sup> By ensuring the credentials and professional practice of practitioners, occupational licensing offers assurance for consumers against potential abuse. Occupational licensing is often implemented through the creation of a board of practitioners that is granted the task of regulating entry into the field through the imposition of registration and education requirements, testing, and professional standards. In order to operate within licensed occupations, all practitioners must be properly licensed through the board of practitioners by meeting all the standards set forth by the board. The board monitors practitioners for false credentials or unscrupulous practice, with the threat of fees, license suspension, or even license revocation for violators.

### 3 Occupational Licensing in Practice

By restricting entry to the profession, the licensing requirements set forth by a board of practitioners can be used to artificially inflate industry wages. Rather than solving the potential asymmetric information problem, occupational licensing can enable industry professionals to more systematically exploit any existing information asymmetries. Consumers who do not have the information or experience to accurately assess practitioner qualification and product or service quality, will also not have the necessary information and experience to judge whether a government-sanctioned board of practitioners is mandating licensing requirements that are necessary and proper to ensuring quality service or actually operating to reduce competition and raise industry wages. Ill-equipped lawmakers and voters often do not have the information to judge whether licensing requirements mandated by occupational licensing are intended to promote the public interest and protect consumers, or to restrict entry into the profession and benefit industry practitioners.

Many empirical studies have found that many professions have successfully used occupational licensing legislation to artificially inflate wages without a discernible increase in quality for consumers.<sup>11</sup> Even more troubling, poor quality practitioners who may be able to meet the entry requirements may still be

able to secure a license to practice. Licensing boards can often restrict private forms of professional evaluation that could more effectively regulate industry practitioners. For example, state medical boards often make it very difficult to compare the records of healthcare professionals.<sup>12</sup> Additionally, despite being one of the most powerful industry boards, state medical boards have notoriously been unable, or unwilling, to discipline doctors who have clinical privileging actions against them.<sup>13</sup> Because of this, studies find that even in the medical profession, a profession where the potential asymmetric information problem is likely the greatest, occupational licensing tends not to increase quality in practice.<sup>14</sup>

While overall quality may very well increase in some professions, the quality increases likely exceed a cost-benefit analysis. This means that the cost of a new mandated quality increase may exceed the benefits of that quality improvement to consumers. In other words, with asymmetric information, the profession may require quality improvements that operate to restrict entry into the profession and raise industry wages, but are nonessential to consumer safety.

Particularly disconcerting, the costs of occupational licensing fall disproportionately on low-income households and minorities.<sup>15</sup> This occurs for three reasons. First, when occupational licensing is expanded to more and more professions, low-income households are denied the occupational choice to enter into what should be low-startup cost professions. The increased costs of filing paperwork, fees, and burdensome education requirements with dubious impact on professional quality, all increase the costs of entering the licensed profession. Relatively, those people entering a profession from a lower-income bracket will find these burdens more inhibitive than those entering a profession with higher-income. Minority groups, such as females and blacks, can especially be hurt by licensing laws.<sup>16</sup> For example, Alabama extending occupational licensing to barbers, natural hair stylists, and eyebrow threaders in 2013 will likely deny access to what would otherwise be a low-skill and low-startup-cost occupation that poses no serious health threats to the population. It is difficult to envision any type of an asymmetric information problem when it comes to getting haircuts; barbers that provide bad haircuts will lose customers and go out of business. Yet, every state in the nation now licenses barbershops.<sup>17</sup>

The second reason the costs of occupational licensing fall disproportionately on the poor are that those industries with financial resources and political connections are more likely to become occupationally licensed in the first place.<sup>18</sup> Thus, most of

the artificial wage inflation brought about through occupational licensing occurs in industries already comfortably receiving higher incomes. In addition, the fees and exam costs associated with licensing requirements are likely passed on to consumers in the form of higher prices. As a portion of their budget, low-income consumers can expect to face higher costs for the services they need when those services have occupational licensing.

The third reason occupational licensing falls disproportionately on low-income and minority groups is that occupational licensing laws prevent low-income households from trading off quality for price when it comes to licensed occupations, instead forcing consumers to purchase exclusively from the highest quality providers at an inflated price, or, to do without that service. This third effect is known as the ‘Cadillac effect.’ With restricted supply and inflated wages spawned by the unrealistically high requirements to enter the profession, low-income households are faced with the dilemma of scrounging around for the money to buy Cadillac-quality service, go without, or to do it themselves. Sidney Carroll and Robert Gaston found that electrical occupational licensing actually resulted in more accidental deaths from electrocution. This was because the restricted supply of electricians, and thus higher cost of employing electricians, forced many low-income households to attempt to do the electrical wiring themselves.<sup>19</sup> In a separate study by the same authors, they found that there were higher rates of rabies in domestic animals where veterinary occupational licensing was in effect, presumably because the higher costs of Cadillac-quality veterinary care forced low-income pet owners to go without veterinary services.<sup>20</sup> Similar effects have been found in occupationally licensed plumbers and real estate brokers. Even more troubling, these results have also been found to hold in occupationally licensed medical fields such as medical doctors, dental care, optometrists, and pharmacists.<sup>21</sup>

Across the country, active practitioners are seeking to artificially inflate their profession’s wages by restricting entry through occupational licensing. Petitions for occupational licensing are typically brought by active practitioners in the field with the stated purpose of protecting consumers from unqualified practitioners. Yet, occupational licensing in practice tends to be used by industry professionals to undermine consumer sovereignty and restrict occupational choice for millions of Americans, especially low-income and minority Americans. Even professions that have dubious claims for the need for occupational licensing, such as fortune-tellers, reptile catchers, florists, and sheep dealers, are being licensed across the nation.<sup>22</sup>

## 4 Occupational Licensing in Alabama

Using the Alabama Department of Labor 2013 Licensed Occupation Guide (LOG) and the Alabama Department of Revenue Occupational Licenses, Alabama has over 140 different categories of licensed occupations and internships. **Figure 9.1** lists all the licensed occupations in Alabama. The newest profession added is barbers, who were incorporated under the Alabama Board of Cosmetology in 2013. Barbers have operated for about 30 years without any licensing in Alabama.<sup>23</sup>

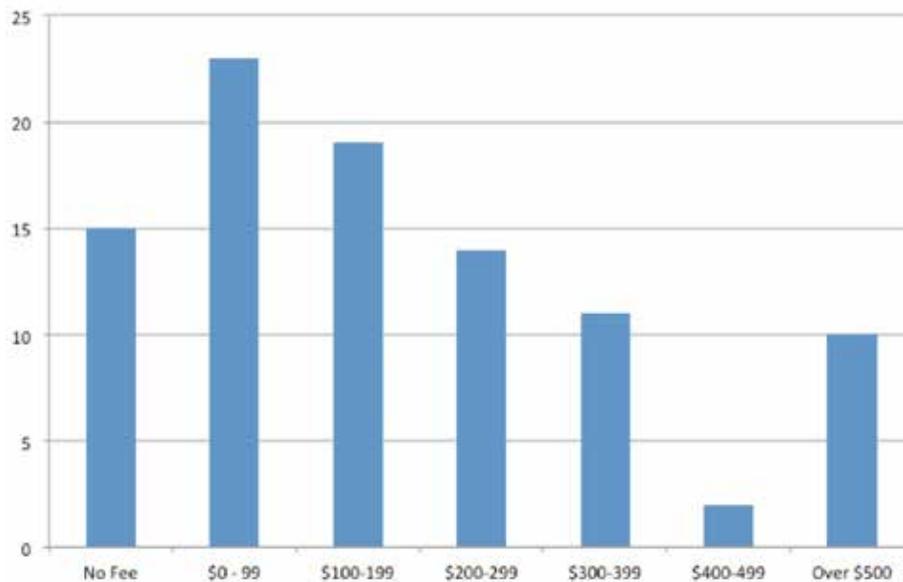
In order to receive a license to practice in their field within in the state of Alabama, members of these licensed industries must pay for licensing applications, fees, exams, inspections, training, and in a few cases, background checks. These initial fees are substantial, especially for someone just entering the profession. Using the 2013 fees listed in the LOG, and the current total active practitioners in each licensed occupation, the total initial fees paid in Alabama are estimated to be over \$81.6 million. This is a conservative estimate for several reasons. This figure excludes fees paid by non-resident practitioners as well as inactive practitioners, which can be quite substantial for the Alabama economy. For instance, Alabama has 1,805 non-resident licensed architects. When submitting bids, out-of-state architects likely factor in the licensing fee costs into higher cost estimates for Alabamians. This estimate also excludes separate site incorporation or inspection fees and surety bond requirements. For example, in addition to their \$250 application fee and \$200 renewal fee, veterinarians must also pay a \$150 new premise inspection fee and a \$150 annual premise renewal fee. Massage Therapists, in addition to their \$100 initial license fee, \$25 application fee, and their \$100 biannual renewal fees, must also pay \$100 establishment fees and then \$50 biennial establishment renewal fees. It also excludes the Alabama Controlled Substance Certificate fee, which ranges from \$150 for a medical doctor to \$35 for a veterinarian.<sup>24</sup> These initial costs also exclude the cost of initial classroom education or training which are substantial in some cases. Cosmetologists (including manicurists and estheticians) in Alabama require 1,200 credit hours or 3,000 hours of training to receive their license. Barbers, now managed by the cosmetology board, require only slightly less; 1,000 hours in barbering school or 2,000 hours under the immediate supervision of a licensed barber. In Alabama, commercial interior designers, are required to have 48 semester hours of interior design education and have a combined six years of education and practical experience.<sup>25</sup> Additionally, some fees, such as the fees for Alabama’s over 15,000 law enforcement personnel are not included because they vary drastically across the state and are not readily

FIGURE 9.1: LICENSED OCCUPATIONS IN ALABAMA (2013)

Accountant, Certified Public • Mastectomy Fitter • Aircraft Flight Instructor • Mine Electrician • Aircraft Mechanic • Mine Fireboss • Aircraft Pilot • Mine Foreman - Surface Mine • Anesthesiology Assistant • Mine Foreman - Underground Mine • Architect • Motor Vehicle Dealers - Used • Athletic Trainer • Motor Vehicle Rebuilders • Auctioneer • Motor Vehicle Reconditioners • Auctioneer Apprentice • Motor Vehicle Wholesalers • Audiologist • Natural Hair Stylist • Automotive Dismantler • Motor Vehicle Dealer - New • Barber • Nurse Anesthetist • Bar Pilot • Nurse, Clinical Specialist • Chiropractor • Nurse, Licensed Practical • Cosmetologist • Nurse, Midwife • Cosmetologist Apprentice • Nurse, Practitioner • Cosmetology Instructor • Nurse, Registered • Counselor • Nursing Home Administrator • Counselor, School • Occupational Therapist • Court Reporting • Occupational Therapist Assistant • Dental Hygienist • Onsite Wastewater Treatment Operator • Dentist • Optometrist • Dietician • Podiatrist, Prosthetists, and Orthotists • Doctor of Medicine • Podiatrist, Prosthetists, and Orthotists Licensed Assistant • Electrical Contractor • Orthotics Supplier • Electrical Journeyman • Pest Control Operator - Ornamental & Turf • Elevator Contractor • Pest Control Operator - Household • Limited Elevator Contractor • Pest Control Operator - Wood Destruction • Elevator Mechanic • Pest Control Operator - Structural Fumigation • Limited Elevator Mechanic • Pharmacist • Elevator Inspector • Pharmacy Technician • Embalmer • Physical Therapist • Embalmer Apprentice • Physical Therapy Assistants • Emergency Medical Technician • Physician Assistant • Engineer, Professional • Plumber and Gas Fitter Journeyman • Estheticians • Plumber and Gas Fitter Master • Eyebrow Threader • Plumber and Gas Fitter Apprentice • Fire Fighter • Podiatrist • Forester • Polygraph Examiner • Funeral Director • Polygraph Examiner Internship License • Funeral Director Apprentice • Psychological Technician • General Contractor • Psychologist • General Contractor - Subcontractor • Real Estate Appraiser Trainee • Geologist • Real Estate Appraiser Certified General Real Property • Harbor Pilot • Real Estate Appraiser State Registered Real Property • Hearing Instrument Dealer • Real Estate Appraiser Licensed Real Property • Hearing Instrument Fitter • Real Estate Appraiser Certified Residential Real Property • Hearing Instrument Dealer Apprentice • Real Estate Broker • Heating and Air Conditioning Contractor • Real Estate Salesperson • Heating and Air Conditioning Contractor-Refrigeration • Respiratory Therapy • Home Builder • Restricted Agent (Securities) • Home Medical Equipment Service Provider • Sale of Checks • Insurance Sales Agent • School Bus Driver • Interior Designer • Securities Broker/Dealer Investment Advisor • Securities Broker/Dealer Agent • Investment Advisor Representative • Security Alarm Installer • Landscape Architect • Shampoo Assistant • Landscape Occupations • Sign Language Interpreter and Translator • Law Enforcement Personnel • Social Worker • Lawyer - Regular Members • Soil Classifier, Professional • Lawyer - Special Membership • Speech Pathologist • Liquefied Petroleum Gas Dealer - A, B • Surveyors - Engineer Intern • Liquefied Petroleum Gas Dealer - B-1, C-2, F, F-1 • Surveyors - Professional • Liquefied Petroleum Gas Dealer - D • Surveyors - Land Surveyor Intern • Liquefied Petroleum Gas Dealer - C, C-1, E • Surveyors - Land Surveyor Professional • Manicurist • Teacher, Classroom • Manufactured Housing Installer • Tree Surgeon • Manufactured Housing Salesperson • Veterinarian • Marriage and Family Therapist • Veterinarian Technician • Marriage and Family Therapist Associate • Water Transportation Personnel • Massage Therapist • Water Treatment



**FIGURE 9.2: DISTRIBUTION OF TOTAL INITIAL COSTS FOR LICENSED PRACTITIONERS IN ALABAMA (2013)**



reported. Finally, the number of active practitioners for twenty-six licensed occupations was unavailable, including the newly licensed barbers, eyebrow threaders, and natural hair stylists.

**Figure 9.2** provides a distribution of the licensed professions in Alabama ranked according to their initial entry costs. Architects have the highest entry costs, being required to pay \$1,630. Pharmacists and certified public accountants come in second (\$950), followed by psychologists (\$800), home medical equipment providers (\$750), psychological technicians (\$730), and counselors (\$710). **Figure 9.3** shows the frequency distribution of the estimated total revenue brought in through initial startup fees by each licensed profession. Lawyers, registered nurses, certified public accountants, pharmacists, securities brokers and dealer agents, and medical doctors initial licensing entry fees brought in more than an estimated \$5 million each. Classroom teachers initial fees came to an estimated total of \$3.78 million, and cosmetologists brought in an estimated \$2.84 million. The estimated total entry costs for Alabama social workers was an astounding \$2.14 million.

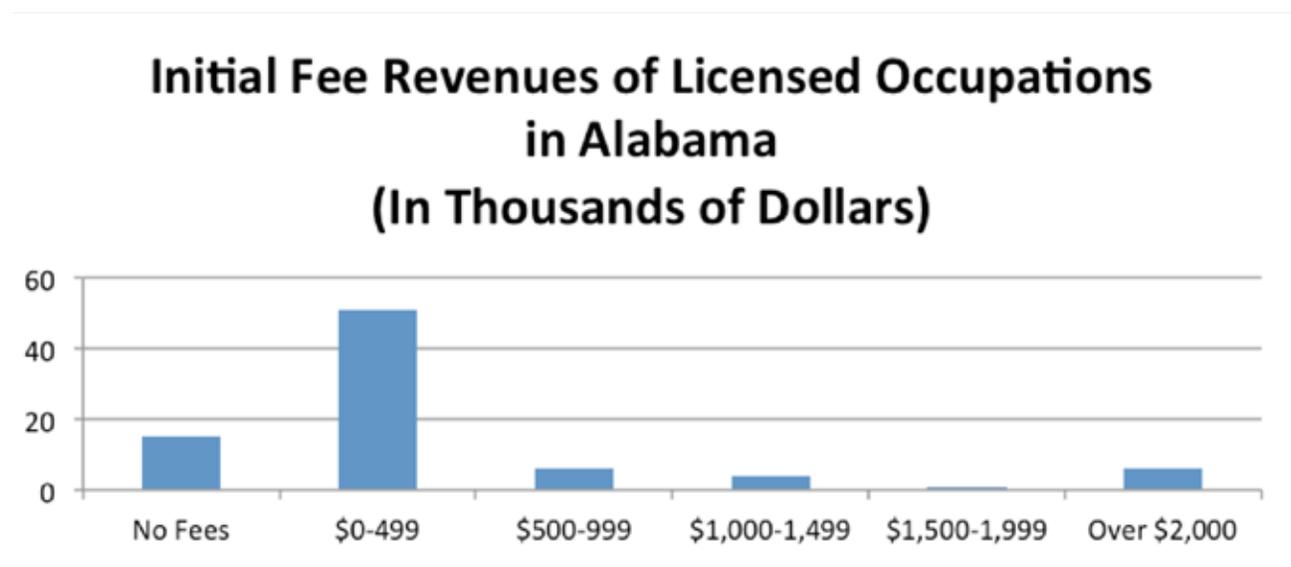
In addition to initial licensing and examination fees, practitioners in licensed occupations in Alabama also must pay an estimated \$30.84 million in annual licensing renewal fees. For example, podiatrists pay the highest annual fees (\$400), followed by home medical equipment providers (\$325), and medical doctors, lawyers, chiropractors, and marriage and family therapists (\$300). Veterinarians pay a \$200 renewal fee and a \$150 annual premise renewal fee. Massage therapists pay \$100 biannually to renew their license and an additional \$50 biannually to renew their establishment (compare this to emergency medical technicians who pay a simple \$10 renewal fee annually). In

total, medical doctors, lawyers, registered nurses, home builders, general contractors, classroom teachers, cosmetologists, real estate brokers, and insurance sales agents across Alabama pay more than \$1 million each in annual licensing fees. These figures exclude additional fees such as those required by some occupations such as for address changes (court reporting requires \$25 for a change of information), late fees (dietitians are charged \$125), inactivity fees (veterinarians are charged \$100), or surety bond requirements. It also doesn't include the cost of ongoing education requirements (psychologist pay \$50 annually for continuing education).

These entry costs represent a substantial burden for those seeking to enter into a licensed profession in Alabama, especially if they involve training or education programs that oftentimes require student debt or on-going fees. For high-skilled services, these costs are likely passed onto consumers. For low-skilled services, these entry costs represent steep barriers for access to the profession.

The Institute for Justice, in their 2012 *License to Work* national study, ranked Alabama as being the 24th most extensively and onerously licensed state, having the 38th most burdensome licensing laws, and having licensed 47 of the 102 moderate-income occupations they studied.<sup>26</sup> Part of the reason for Alabama's showing in these rankings is that Alabama regulates several professions that aren't widely licensed in other states. For example, Alabama has licensing requirements for auctioneers, locksmiths, hair shampoo assistants, massage therapists, and tree surgeons. Funeral Directors (not embalmers, who are licensed separately) are licensed in Alabama, requiring that they served as an apprentice (which itself involves annual licensing fees)

FIGURE 9.3: TOTAL INITIAL STARTUP REVENUE BY LICENSED PROFESSION



for two years, become certified through the Moratory School, and pass an exam. After that, the entry costs are only \$50 and an annual renewal fee of \$50. Tree surgeons in Alabama must submit a written statement of their training and experience, pass an examination that costs \$75, receive a Professional Services Permit, and pay an annual licensing permit fee of \$175.

Not only does occupational licensing impose significant hurdles to those seeking to enter into licensed occupations, and harm Alabama consumers, it also raises the costs for professionals to move to Alabama. Reciprocity requirements and hurdles needlessly restrict and prolong professionals licensed in other states from coming to Alabama to meet consumer needs. For instance, a licensed practitioner from another state coming to Alabama – either temporarily or permanently – must often get re-licensed. This process may involve meeting new requirements, needlessly repeating requirements, or paying additional fees, unnecessarily delaying and raising the cost of out-of-state practitioners practicing in Alabama despite being licensed in another state. This is particularly troublesome, and deterring, for professionals interested in moving with spouses to military bases or for other jobs in Alabama. Even more troubling, these reciprocity hurdles can be particularly harmful during natural disasters, when professionals registered in nearby states are needed to quickly come to affected Alabama communities for response and recovery as well as debris removal and rebuilding.

## 5 Reforming Occupational Licensing in Alabama

Given the strong tendency for licensed occupations to undermine consumer sovereignty and to restrict occupational choice, without increasing quality along dimensions relevant to consumers, Alabama legislators should consider reforming

occupational licensing. Reforming occupational licensing would promote economic growth, job growth and substantially reduce unnecessary fees and training requirements.

There are potentially two ways for Alabama legislators to reform occupational licensing. The first would be a complete transition away from occupational licensing towards voluntary certification. This would offer the most relief from unnecessary labor restrictions, providing Alabama job growth while allowing voluntary certification to ensure consumer safety and quality. The second path offers a more gradual and experimental approach, which takes into account the extreme political difficulty of removing privileges from entrenched special industry groups. Alabama legislators could reform the existing occupational licensing system to reduce the potential for industry abuse, bringing licensure requirements and licensed occupations back in line with those of other states to ensure Alabama's competitiveness. Alabama legislators could also sharply restrict the spread of occupational licensing to new industries. This section explores both of these options separately.

### 5.1 *Alternatives to Occupational Licensing: Voluntary Certification*

Competitive markets offer many alternatives to occupational licensing that operate to ensure consumer safety and quality, without undermining occupational choice and consumer sovereignty. Institutional mechanisms emerge in markets to reduce the potential for exploitation on the basis of asymmetric information.<sup>27</sup> Rather than asymmetric information being a problem that the market cannot handle, asymmetric information is a profit opportunity for alert entrepreneurs that see the need for a market for assurance.<sup>28</sup> Such mechanisms include

advertising, contracting, liability clauses, insurance, brand names, chain stores, leasing, warranties and guarantees, reputation, pre-purchase inspections or second opinions, performance or maintenance history reports, and consumer reviews.<sup>29</sup> Modern technology, with the ability for consumers to rate their post-transaction satisfaction or dissatisfaction with a good or service provider, further enhances the ability for consumers to avoid practitioners that exploit information asymmetries, and punish those good or service providers that do exploit information asymmetries with unfavorable reviews. Additionally, the internet provides consumers with readily available, and fairly accurate, information on how to better discern the quality of goods and services as well as a forum to seek second-opinions.<sup>30</sup> Additionally, the legal system and even investigative reporting can play a large role in ensuring consumer safety and quality.

In addition to the above-mentioned institutional mechanisms that have emerged in markets to help protect consumers in markets with information asymmetries, there will also be a profit opportunity for third-party certifiers to provide voluntary assurances of practitioner quality. Where there is consumer demand for certification, due to information asymmetries, private certification agencies will have the market incentive to provide independent certification of industry practitioners. Certifiers would be able to set requirements that industry practitioners could elect to meet for certification, seek certification through an alternative agency, or remain uncertified and rely on other forms of ensuring consumer quality and safety such as guarantees and reputation. Voluntary certification has many benefits for both consumers and workers over occupational licensing.

Consumers are better served by voluntary certification for three reasons. First, third-party certifiers earn profits only by ensuring consumers a consistent, and clearly defined, level of quality. The opportunity for alternative certifiers to enter the market and compete for consumers by offering better certification helps ensure the honesty of certifiers. For example, private certification agencies, such as the Institute for Highway Safety and Consumer Laboratories, already exist and operate effectively for many professional occupations.<sup>31</sup> In addition, consumers can employ or demand the alternative institutional mechanisms detailed above to ensure quality as well, such as guarantees and reputation, offering another form of competition. Independent third-party certifiers also are under far more pressure to remain objective when evaluating potential unscrupulous or questionable behavior and to quickly revoke the certification of practitioners who violate the certification requirements. Private certification agencies are also liable to civil action if they fraudulently certified practitioners.

The second reason consumers benefit from voluntary certification is that consumers are given the sovereignty to determine the level of price and quality that best meets their need. Voluntary certification avoids the Cadillac effect by allowing consumers a wide-range of choices depending upon their economic circumstances and quality preferences.<sup>32</sup> When buying goods online at stores like Amazon, buyers have the ability to choose which level of price and quality they are comfortable with by examining the prices offered and the customer (and expert) reviews. Certification would allow similar institutions to work for other goods and services because certification agencies that attempted to require unnecessary or costly requirements, especially costs that are passed on to consumers, would lose out to more honest certification agencies.

The third way in which consumers benefit from voluntary certification is that consumers get the discretion to decide which industries are plagued by information asymmetries enough to warrant the cost of certification. For instance, it is unlikely that most consumers would demand, if given the choice, certification for industries such as auctioneers, hair shampooers, locksmiths, massage therapists, and barbers. If consumers did demand it, they would be willing to pay for it, creating the incentives for a private certification agency to emerge.

Voluntary certification also helps protect workers. While occupational licensing boards hold a government-granted monopoly, independent certifiers cannot restrict entry into the profession. This provides an avenue for especially entry-level and low-income workers to enter a field, gain experience, and build a reputation with customers that will know they have to rely on alternative mechanisms, such as advertising, guarantees, reputation, and family and friend networks, for ensuring quality and safety. Additionally, voluntary certification will help eliminate unnecessary demands on practitioners such as fees and other requirements that do not impact consumer safety and quality.

Voluntary certification would also not impede the ability of legislators to continue to maintain, and monitor, certain bonding and insurance requirements for designated occupations. However, private certification agencies would likely monitor this to some extent, and the burden of inquiring (and verifying) practitioners about bonding and insurance would fall on consumers. Asking for and verifying the existence and validity of bonding and insurance for practitioners does not suffer from the information asymmetry problem described earlier.

## 5.2 *Occupational Licensing Reform*

There is a second option for reforming occupational licensing laws. A more gradual reform of occupational licensing would be more politically viable given that special interest groups would likely adamantly protect their existing occupational licensing privileges. While a complete reform to voluntary certification offers the most benefits to Alabama consumers and workers, gradual reforms could still provide some benefits. Such gradual reforms could include limiting the extension of occupational licensing to new occupations, removing occupational licensing for those occupations that few other states require licensing for, and by ensuring that occupational licensing requirements in Alabama are competitive with other states.

As occupational licensing spreads to more and more fields, it is increasingly being mandated in occupations that have no discernable need for occupational licensing, allowing industry groups with no evident justification for occupational licensing to enjoy the privileges of restricting entry into the profession. Occupational licensing can only be justified if a measurable information asymmetry is found to exist and if existing private mechanisms such as reputation, private certification, and guarantees are found to be insufficient. It is difficult to find any information asymmetries when it comes to auctioneers, shampooers, and barbers, for example. Further, it is difficult to see why money-back guarantees, reputation, and the legal system would be insufficient to address any information asymmetries in these fields if they did exist.

To limit the potential for abuse, Alabama lawmakers should consider strictly restricting the expansion of occupational licensing to new industries, and should remove occupational licensing in fields with no demonstrable need for occupational licensing. Alabama policy-makers should also look at the licensing laws of other states to examine Alabama's competitiveness in terms of licensing requirements. If the cost or time requirements of licensing are higher than the average of other states for each occupation, Alabama politicians should consider lowering the licensing requirements to prevent industry abuse.

State politicians should also consider reducing the cost of relocating to Alabama for practitioners licensed in other states. While this chapter addresses the costs of active practitioners in Alabama, substantial fees and licensing requirements are necessary even for practitioners coming to Alabama that were previously licensed in other states.<sup>33</sup> This is particularly troublesome for Alabama, uniquely situated in both Hurricane Alley and Tornado Alley. In times of natural disaster, occupational licensing laws become particularly harmful, both in the immediate response and in the debris removal and rebuilding phases. Immediately, doctors, nurses, and other medical professionals, licensed in nearby states, are oftentimes prohibited by occupational laws from coming to assist. In the debris and rebuilding stages, when construction workers, electricians, and plumbers are desperately needed, occupational licensing laws inhibit licensed out-of-state workers from coming and assisting in the clean-up and rebuilding.

## 6 Conclusion

Occupational licensing, while promoted as a means to protect consumer interests, in practice, tends only to empower professional groups to undermine consumer sovereignty and occupational freedom. Low-income and minority groups are hit the hardest, both as consumers and as potential entrants into a licensed profession. By raising the cost and requirements to enter a profession, a professional group can restrict entry and thus artificially inflate wages.

Turning to private certification rather than compulsory licensing would protect consumer sovereignty and occupational freedom in Alabama. This would help Alabama retain and attract new professionals and better protect consumers.

## Notes

- 1 There is some disagreement in the economics profession as to whether asymmetric information is, in fact, a market failure that government is capable of correcting. For example, see: Pennington, Mark (2011). *Robust Political Economy: Classical Liberalism and the Future of Public Policy*. Northampton, MA: Edward Elgar.  
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- 4 The total number of licensed occupations in Alabama was taken from the Alabama Department of Labor's *2013 Licensed Occupation Guide*, which is available online: <http://www2.dir.state.al.us/WorkforceDev/LOG/LOG.pdf> Alabama's Department of Revenue list of Individuals/Entities Requiring Permits/Certificates was also included in this study, where applicable, available online: [http://revenue.alabama.gov/licenses/pdf/Occupations\\_Entities.pdf](http://revenue.alabama.gov/licenses/pdf/Occupations_Entities.pdf).
- 5 The total number of Alabamians in licensed occupations was taken from the Alabama Department of Labor *2013 Licensed Occupation Guide* (<http://www2.dir.state.al.us/WorkforceDev/LOG/LOG.pdf>) and the relevant licensing boards or licensee lists for those occupations that did not have the information contained in the LOG. Licensed occupations in Alabama that did not report the number of professionals in their field and thus are excluded include: Automotive Dismantler, Barbers, Elevator Contractors, Limited Elevator Contractor, Elevator Mechanics, Limited Elevator Mechanics, Eyebrow Threaders, General Contractor – Subcontractor, Motor Vehicle Rebuilders, Motor Vehicle Reconditioners, Motor Vehicle Wholesalers, Motor Vehicle Dealer – New, Natural Hair Stylist, Pedorthist, Prosthetists, and Orthotists Licensed Assistants, Polygraphy Examiner Internship, Real Estate Appraiser Trainee, Real Estate Appraiser State Registered Real Property, Real Estate Appraiser Licensed Real Property, Real Estate Appraiser Certified Residential Real Property, Sale of Checks, Surveyors – Engineer Intern, Surveyors – Land Surveyor Intern, and Water Transportation Personnel. Aircraft Flight Operators were also excluded because the LOG reported number includes Northwest Florida licensees. The data for Alabama's Civilian Workforce (employed and unemployed) was taken from the Alabama Labor Market News (<http://www2.dir.state.al.us/Newsletter/LMI%20newsletter.pdf>) for December 2013 (seasonally adjusted).
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- 24 The aggregate cost calculations utilize the number of practitioners listed in the LOG. In some instances, the number of practitioners was unavailable, the fees were unavailable, or they included unusual fees or additional complexities. The researcher was forced to make occasional judgment calls in cataloguing these fees and the numbers of practitioners accordingly. In all uncertain cases, the researcher utilized the figures that minimized the licensing fees. For instance, Social Workers were listed as having a \$230 or a \$260 examination fee; the \$230 fee was assumed for all social workers for this analysis. Water Treatment Operators have an annual fee of \$40 if they register online, but \$55 if they register by mail; this analysis utilized \$40 for all water treatment operators. Heating and Air Conditioning Contracting listed 3,900 HVAC specialists statewide but 2,200 refrigeration specialists. It was unclear if the refrigeration specialists were a subset of the 3,900 HVAC specialists, so only the 3,900 number was utilized in this study. Additionally, some licensed professions listed in Alabama's Department of Revenue list of Individuals/Entities Requiring Permits/Certificates did not report the number of practitioners. When available, the number of practitioners was taken from the official licensed occupations websites.
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