The effect of occupational licensing on costs

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The rules that govern people's ability to work, and companies' ability to hire employees have been a topic of contention since the dawn of economics. From modern day discussions about minimum raising the minimum wage to regulating the age when people are allowed to start working duringing the industrial revolution, these laws have a massive impact on individuals lives and the economy as a whole. However there is one type of these regulations which doesn't seem to be in the public eye, the need for occupational licensing.

It seems obvious to many that if doctors, lawyers and hairdressers were allowed to practice without a license then there would be massive problems. No one would want to go into surgery with a doctor who learned everything he knows about medicine from house, and no one would want to be defended in a court of law by someone who's only legal education is from Judge Judy. So we as a society collectively agree that in order for someone to practice some trades they need the government's blessing first. However that might not be the case.

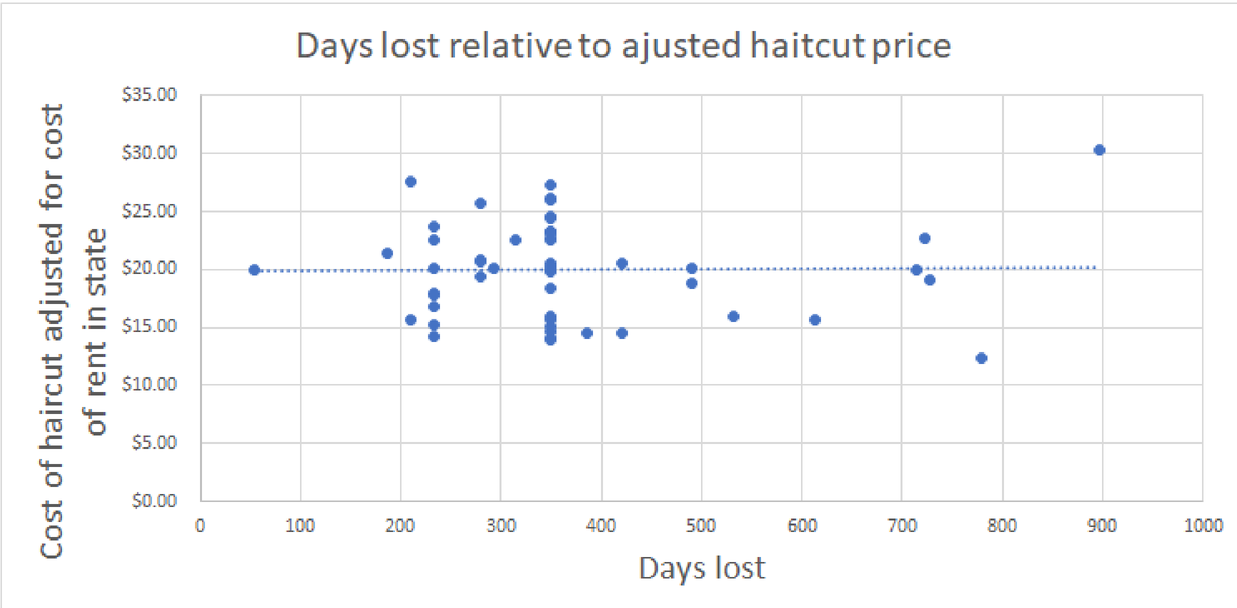
The market can do a great job preventing unqualified people from working in the field. The main argument for occupational licensing could also be used against it with some elaboration. Obviously if I knew I needed surgery I wouldn't trust a doctor who had no qualifications or training. So a doctor who didn't know much about medicine wouldn't get many customers so they would go out of business. Doctors who did have training and experience would get more business so they would continue to work. Hospitals would only hire doctors who had some training so when you went to your local hospital there would be no research required, since any hospital that didn't would get very few customers. However there are some industries that people might not be so concerned about.

There are many people who don't care if their hair looks impressive. The only reason some people get their hair cut is to keep it out of their face. So they don't really need the services of someone who is trained in making people's hair looks stylish, and they certainly don't need someone who is incredibly experienced. All they need is someone with a pair of scissors and some time. However it is required by law that anyone who wants to charge money to cut hair must have training, in some cases a lot of it.

According to the institute of justice in some states it could take an individual as many as 867 days to become a barber. As economists know the higher the barrier to entry to work in a field the lower the supply. Meaning the price is higher. However when it comes to hairdressing that's not what we actually see.

The “Hours lost relative to adjusted cost of haircut” graph represents the cost of a haircut adjusted for the cost of living by state, on the X access it shows the hours required, and we see no correlation. This doesn't make sense, even supporters of occupational licensing agree that if we require stricter licenses fewer people will work in the field and as all economists know if supply is decreased then price must increased.

However we can see that there is almost no correlation between the higher regulatory burden and the price. We can also see the same neutral trend when we look at days instead of hours.



This is what this paper will be investigating, this paper will look into the notion that as prices decrease the demand for regulation increases. That large firms that have a vested interest in keeping haircut prices high will lobby for more regulation to suppress competition, in turn driving up prices. This would mean that prices that would normally have a lower cost of haircut relative to the cost of living would see more regulatory burden placed on potential hairdressers.

This paper will investigate when regulations were put in place and what affect those regulations had on price. It will also try to find how public these changes were, I.E did politicians have press coverage of the bills they were passing to increase regulation or were they slipped in so that fewer people would notice.

This paper will also look at the stock prices of the larger hairdresser companies and see how much competition those companies have. If the stock prices rise and competition falls after a major change in the regulatory burden it's more likely those major firms wanted the regulation to be put in place.

Finally this paper will examine whether states with higher regulatory burden have more or less big name hairdressers relative to small family owned shops. Smaller shops won't have the ability to support prospect hairdressers as they go through training whereas larger firms will. On top of that as regulations get more complex larger firms will be able to hire layers to help the company navigate those complexities while the smaller business might not be able to navigate them at all. This is called the bottleneck effect and can cause many small businesses to close or face large fines that bigger firms wouldn't have to deal with.

All of the aforementioned factors should help determine whether large businesses are using the law to reduce competition or if the prices are caused by something else. It is possible that for some reason the barrier to entry has less of an impact on supply in this case. It is also possible that some of this data is flawed, which is why this paper will attempt to secure more sources.

In the end the most challenging thing and perhaps the most important thing will be seeing why these changes were put in place, if these laws were put in put in place for the sole purpose of reducing the ability of small firms to do business then they are clearly wrong and should be removed. It would be best for the individual and for the economy if the government let the market run instead of trying to control it with the law.

https://ij.org/report/license-work-2/ltw-occupation-profiles/ltw2-barber/

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