



Saint Joseph's Licensing Laws Construct Barriers to the Free Market

By David Stokes

A bill before the Saint Joseph City Council would license construction contractors within the city. Although it is trumpeted as a way to guarantee quality and improve safety, the proposal will accomplish neither. Instead, it will decrease competition among contractors in Saint Joseph — its true objective. This will increase consumer prices and profits for existing contractors, not through a voluntary free-market exchange but through legislative coercion.

Summary

Saint Joseph is considering licensing contractors who work within the city. However, occupational licensing adds costs and decreases competition without improving quality or safety. The free market is best served by competition, not by restricting how somebody can make a living.

Main text word count: 585

Decades of economic analysis have demonstrated that occupational licensing reduces competition and increases costs with little or no demonstrable improvement to service or safety. The Nobel-laureate economist Milton Friedman dedicated an entire chapter in his book *Capitalism and Freedom* to the economic harm caused by using occupational licensing to restrict someone's right to work. As for improved safety, a 1981 study by Sidney Carroll and Robert Gaston in the *Southern Economic Journal* found that electrocution rates were higher in places that had strict electrician licensing. The reason is simple: Stricter licensing leads to higher costs, higher costs provide an incentive for property owners to do more electrical work themselves, and increased do-it-yourself work leads to more accidents.

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Saint Joseph currently licenses the plumbing, electrical, and mechanical trades, as well as a few other occupations. A June 3 intergovernmental memorandum clearly states that residents of the city pay more for plumbing services than do residents of other areas. The memo, authored by city employee Sam Barber, admits that in many instances the public is required to “pay for this Cadillac when a Ford Taurus will do.” This forthright memo makes many admissions about the harm of occupational licensing, demonstrating that officials understand how it increases costs, reduces competition, and restricts innovation. With all those admissions, it astounds me that the point of the memo is to debate changes to the overall structure of the boards, and the addition of contractor licensing, instead of arguing for the reduction of licensing within Saint Joseph as much as legally possible.

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The current proposal, as always, grandfathers in current contractors. These contractors will benefit immediately from the decreased competition caused by higher costs of entry into the field for

future competitors. In order to obtain the same benefits as the grandfathered contractors, future contractors will have to constantly seek to adjust and tighten the licensing restrictions so that they, too, can benefit from limited competition and increased entry costs. As economist Simon Rottenberg has written, “Each generation of entrants will seek to make entry more costly for succeeding generations.” A quick review of the bills introduced in Jefferson City each year, intended to tighten restrictions to existing state licensing laws, proves this point should you doubt it.

That same paper by Rottenberg states that pleas for licensing are “invariably made by practitioners of those trades, not by consumers of their services,” who are the supposed beneficiaries. So, why is licensing being considered for contractors in Saint Joseph? The aforementioned city memo explains, “In November 2006, our building community expressed a desire to expand and improve our current licensing program.” Existing businesses and professionals favor licensing because it limits their competition.

Instead of adding more occupations to the ranks of those licensed by the city, Saint Joseph should consider reducing or lifting the requirements for the occupations it currently licenses. The fact that other large Missouri cities license numerous occupations is not a reason for Saint Joseph to do so. Competition between businesses, rather than a government license, provides the incentives for quality service and cost controls that benefit the people of Saint Joseph.

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