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TESTIMONY

JUNE 29, 2010

TESTIMONY BEFORE THE SAINT LOUIS COUNTY COUNCIL COMMITTEE OF THE WHOLE REGARDING THE NEW LICENSING REQUIREMENTS INCLUDED IN THE MECHANICAL CODE UPDATE

By David Stokes

To the members of the Saint Louis
County Council:

Thank you for the opportunity to testify regarding Bill No. 173, which would expand the licensing requirements for heating and air conditioning contractors in Saint Louis County. Often, the worst examples of government intrusion occur when no one is looking. The issues advocated by “rent seekers” — those who seek personal economic benefits through government intervention — are often of little immediate interest to the public. But this should not be confused with a lack of importance.

A decade ago, when restrictive HVAC licensing rules were first passed in the county, they only applied to commercial work. Since that time, there has not been any rash of explosions or deaths stemming from unlicensed HVAC work in homes, so one might suspect that industry practitioners have invented public safety concerns as an

excuse to limit their competition through legislation.

Approximately 50 years ago, economist Simon Rottenberg made a few observations and projections about licensing laws: 1) requests for licensing will always come from current practitioners of the trade, not from the public; 2) licensing standards will be established by boards of people within the occupation, who have a vested interest in restricting their own competition; and, 3) when licensing is instituted, current practitioners will be grandfathered in and future entrants into the trade will later seek their own benefits by attempting to impose newer and tighter requirements on those who follow.¹

Each of these projections applies perfectly to the proposals now under consideration. Let me be clear: The HVAC industry is the **only party** pushing for this legislation. There is absolutely no public demand for this type of licensing. Furthermore, the

*David Stokes is a
policy analyst for the
Show-Me Institute.*

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4512 WEST PINE BOULEVARD
SAINT LOUIS, MO 63108
314-454-0647

WWW.SHOWMEINSTITUTE.ORG

standards boards are made up of people who will benefit economically from limiting HVAC competition. Finally, practitioners who were opposed to and burdened by licensing requirements a decade ago are now looking to increase the restrictions on their future competitors so that they can improve the gains on their own investments. In fact, back in 2000, a current supporter of licensing requirements stood before this council and said (I am quoting directly from the council journal), "... licensing is unfair, does not protect the public, and is an attempt to monopolize the business."² Obviously, his opinion has changed, but he was correct then, and those observations are still correct now.

A letter in support of HVAC licensing from the head of the county's Board of Examiners for Mechanical Licensing directly confronts critics like me, stating that there is "absolutely no evidence" that the county's current licensing code has restricted competition and increased prices. He is correct that there has been no precise study of Saint Louis County HVAC licensing, but there are certainly studies documenting the harmful effects of restrictive licensing elsewhere. One study found that dentists' incomes and dental prices were 12 to 15 percent higher in states with more restrictive dental licensing.³ Perhaps the most famous study in this field determined that jurisdictions with more restrictive licensing of electricians had higher rates of electrocution among the general public.⁴

The reason is straightforward: Restrictive licensing leads to higher prices, higher prices lead to more do-it-yourself electrical work, and that leads to

more accidents — sometimes with fatal consequences. Other studies have also observed economic harms, and I would be pleased to recommend those studies to the committee, if you would like.

Nobody disputes the demanding, technical nature of HVAC work. Few people are handy enough to do it on their own. Hence, licensing requirements that increase prices by limiting supply will not significantly affect demand. If your mid-winter heating fails, you will hire someone to repair it no matter the cost. It is exactly that lack of alternatives that gives the industry pricing power.

There is no demonstrated safety imperative for HVAC licensing in Saint Louis. Expanding the rules to include residential work serves no purpose other than increasing the profits and limiting the competition of current practitioners. When government coercion favors one business group over another, the rest of us lose.

NOTES

- ¹ Rottenberg, Simon, "The Economics of Occupational Licensing," *Aspects of Labor Economics*, Princeton, Princeton University Press, 1962, pp. 3–20.
- ² *Journal of the Saint Louis County Council*, October 12, 2000.
- ³ Shepard, Lawrence, "Licensing Restrictions and the Cost of Dental Care," *The Journal of Law and Economics*, vol. 21, no. 1, April 1978, pp. 187–201.
- ⁴ Carroll, Sidney L., and Robert J. Gaston, "Occupational Restrictions and the Quality of Service Received: Some Evidence," *Southern Economic Journal*, vol. 47, no. 4, April 1981, pp. 959–976.

For more of the Show-Me Institute's research about industry licensing, visit www.showmeinstitute.org