Licensing to Kill

A new study shows how city regulations harm small business.

When most people think of occupations requiring fingerprints and police reports, corner bookshop owners don't spring to mind. Try telling that to Los Angeles, where many used booksellers are required by law to get a police permit and take a thumbprint from every 40-something trying to offload his collection of French poetry.

That's one scene from a study to be released this week by the Institute for Justice, which has collected dozens of examples of regulations choking economic growth by taxing and over-licensing small businesses. In a survey of eight major cities, the study found that entrepreneurs routinely face obstacles of bureaucracy and red tape that deter them from otherwise promising opportunities.

The City of Angels, which had a 13.7% unemployment rate in September, has licensing mandates for every profession under its permanent sun. Anyone wishing to make a living by hanging wallpaper, building fences or trimming trees must first get a by-your-leave from the city in the form of a "specialty contractor" license and a background check that can take years. The same goes for L.A.'s aspiring fashionistas (garment manufacturer license), Washington D.C.'s sightseeing guides (tour guide license), and Miami flower vendors.

In many cases, the regulations were promoted by existing business owners who want barriers to new competition. In Washington, D.C., an interior designers guild succeeded in lobbying the city to require that all new designers take a 13-hour test and get a special license merely to reorganize your living room. In Newark, New Jersey, would-be barber shop owners must prove they've spent three years working in someone else's hair cuttery before they can start their own. Even then, the city's laws bar them from serving customers on Sunday and restrict working hours on other days of the week.

In addition to the economic cost of such inanity, the regulations take a personal toll on many aspiring small business owners, often immigrants who thought America was still a land of opportunity. Consider the case of Muhammed Nasir Khan, who lost most of his family's savings thanks to Milwaukee's messy regulations and the whim of a local alderman.

According to the Institute for Justice, Mr. Khan, who once headed Pakistan's antiterrorist operations, sought political asylum in the U.S. in 1995. By working in restaurants and selling the jewelry in his wife's wedding dowry, he and his family saved enough money to open a hot dog stand in a fixer-upper building on a promising corner of downtown. But after hundreds of hours getting everything ready, his shop was closed by the city on its first day of business.

Despite following all the rules, his food license was retracted at the request of Alderman Robert Bauman, who suggested he would rather see a place "with a little class" in the location, instead of Mr. Khan's restaurant. Reopening Judy's Red Hots, he argued, would somehow encourage crime and disorder and stall the redevelopment of the community. The real crime is how easily an entrepreneur's dream was destroyed by the caprice of a politician and the regulations that empower him.

Politicians of all stripes like to celebrate "small business" while running for office, but the reality is that they often strangle entrepreneurs once they get in power. Read the Institute for Justice study and you'll better understand why the business of America is no longer business. It's bureaucracy.

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