



Q&A

OCCUPATIONAL LICENSURE REFORM: WHY IT MATTERS

Q: WHAT IS OCCUPATIONAL LICENSURE?

Occupational licensure is a form of government regulation requiring a license to pursue a particular profession or vocation for compensation.

Q: WHY ARE THE ADMINISTRATIVE BURDENS RELATED TO OCCUPATIONAL LICENSING AN ISSUE?

In order to get a license, applicants typically need to pass an exam, have a certain level of education, and meet other qualifications of the profession as required by professional standards, state requirements and requirements of any regulatory authorities. In other words, the requirements to work can pile up quickly. These types of barriers to entry into a profession can provide a level of safety and quality for consumers, but many professions have exceedingly irrational requirements for a license.

ULTIMATELY, EXCESSIVE LICENSING HARMS BOTH CONSUMERS AND WORKERS.

CONSUMERS - Licensing leads to higher costs and reduced consumer choice. Economists Morris Kleiner and Alan Krueger, at the University of Minnesota and Princeton University, have found that licensing is associated with 18% higher wages on average, with those higher costs often passed on to consumers. (*Survey of Income and Program Participation data estimates 7.5%). Economists have estimated that entry restrictions on non-physician healthcare workers cost consumers over \$100 billion per year. With higher fees, consumers can access fewer services which can lead to poorer health. Restrictive licensing can also slow the adoption of new technologies and reduce incentives for innovators.

WORKERS - Occupational licensure grows wages for existing workers, but fewer jobs are created and prospective workers are harmed. Licensing boards manipulate exam pass rates, control the accreditation of training institutes, impose waiting periods and fees, and work to keep out-of-state practitioners from moving in state, severely stifling competition. Although the wage increases for existing workers may seem significant, regulation may boost wages for only the already most highly paid occupations. The wages of mid-skill occupations are influenced by regulations controlling what tasks workers are allowed to perform.

Q: WHAT ARE THE ECONOMIC AND/OR EMPLOYMENT ISSUES RELATED TO OCCUPATIONAL LICENSURE?

The labor market consequences of licensing are explained below:

ACCESS TO JOBS AND A FAIR LABOR MARKET ARE VITAL TO ECONOMIC OPPORTUNITY.

WAGES

Licensed workers enjoy wage gains while unlicensed workers suffer wage penalties. The two groups are not necessarily comparable, but after controlling for observable differences, the overall wage difference is only about 4%. Although this varies considerably by occupation.

UNEMPLOYMENT

Unlicensed workers bear a greater burden of unemployment. Licensing creates “crowding” in unlicensed occupations and labor scarcity in licensed occupations, driving a wedge between the unemployment rates in the two sectors. Consistent with wage premiums, unemployment differences are also large in healthcare, construction, and education.

MIGRATION

The free movement of workers is extremely important for economic success and better matches between workers and firms. Our state-based occupational licensing system impedes worker mobility. If a worker has spent time and money to obtain a license in a particular state, they are far less likely to move states even if a job or working condition is better elsewhere.

Q: WHY IS THIS BECOMING AN ISSUE NATIONALLY?

Inconsistency and variability between states has made this a national issue as workers move and state reciprocity laws, or lack thereof, become an additional barrier to work. Further, across many professions, the regulatory structure needed to manage licensure requirements is often seen as a money-making enterprise rather than necessary quality control.

Q: ARE THERE ANY STUDIES ON OCCUPATIONAL LICENSURE RESTRUCTURING IN ARIZONA OR NATIONALLY?

There are several states and research groups that have produced informative pieces on the impacts of occupational licensure for both individual workers and the economy.

- The Goldwater Institute developed model legislation called the Right to Earn a Living Act. The proposed law recognizes that the right of individuals to pursue a chosen business or profession, free from arbitrary or excessive government interference, is a fundamental civil right.
<https://goldwaterinstitute.org/article/right-to-earn-a-living-act/>
- The Hamilton Project focused on developing a rational approach within contemporary political constraints that moves the U.S. labor market toward more-reasoned regulation of occupations.
https://www.brookings.edu/wp-content/uploads/2016/06/THP_KleinerDiscPaper_final.pdf
- The Institute for Justice in Arizona’s 2012 “License to Work” report, which studied specific licenses in all 50 states, found Arizona to have the fifth most burdensome licensing laws and called Arizona the “most extensively and onerously licensed state.”
<https://ij.org/report/license-to-work/lw-state-data/?state=az>
- Arizona lawmakers have been working to delicense and deregulate some industries.
<https://azcapitoltimes.com/news/2018/02/16/arizona-doug-ducey-licenses-deregulate-professions/>
- Governor Ducey has worked to alleviate occupational licensure burdens and help Arizonans that want to work. In 2017, Governor Ducey signed HB 2372, a bill requiring state licensing boards to waive any initial