

How Occupational Licensing Hurts State and Local Tax Revenues:

The Public Finance Case for Occupational Licensing Reform

By Alex Muresianu



Pioneer's Mission

Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to improve the quality of life in Massachusetts through civic discourse and intellectually rigorous, data-driven public policy solutions based on free market principles, individual liberty and responsibility, and the ideal of effective, limited and accountable government.



This paper is a publication of Pioneer Opportunity, which seeks to keep Massachusetts competitive by promoting a healthy business climate, transparent regulation, small business creation in urban areas and sound environmental and development policy. Current initiatives promote market reforms to increase the supply of affordable housing, reduce the cost of doing business, and revitalize urban areas.



Pioneer Health seeks to refocus the Massachusetts conversation about health care costs away from government-imposed interventions, toward market-based reforms. Current initiatives include driving public discourse on Medicaid; presenting a strong consumer perspective as the state considers a dramatic overhaul of the health care payment process; and supporting thoughtful tort reforms.



Pioneer Public seeks limited, accountable government by promoting competitive delivery of public services, elimination of unnecessary regulation, and a focus on core government functions. Current initiatives promote reform of how the state builds, manages, repairs and finances its transportation assets as well as public employee benefit reform.



Pioneer Education seeks to increase the education options available to parents and students, drive system-wide reform, and ensure accountability in public education. The Center's work builds on Pioneer's legacy as a recognized leader in the charter public school movement, and as a champion of greater academic rigor in Massachusetts' elementary and secondary schools. Current initiatives promote choice and competition, school-based management, and enhanced academic performance in public schools.

Table of Contents

Abstract	4
Introduction	4
Overview	4
Occupational Licensing in Massachusetts	4
Background	5
Minimal Impact on Health, Public Safety, and Consumer Welfare	5
Economic Costs of Occupational Licensing	6
The Economic Impact of Occupational Licensing in Massachusetts	8
Political Hurdles to Reform	8
Occupational Licensing as a Public Finance Issue	8
Results	9
Methods	11
Understanding These Results	14
Conclusion	14
Options for Reform	14
Massachusetts Reform Plan	15
End Licensing Suspension Policy for Student Loan Defaults	15
Expand Licensing Reciprocity	15
Scrap Occupational Licensing Requirements that Do Not Require Education or Training	15
Pass a Version of the Right to Earn a Living Act	15
Replace Licensing Requirements with Voluntary or Private Certification	15
Bibliography	16
Acknowledgements	19



Abstract

This paper examines the economic and public finance impact of occupational licensing laws in Massachusetts and around the United States. Since the 1950s, the share of the U.S. workforce subject to occupational licensing laws has expanded from 5 percent to at least 20 percent today. Existing literature has documented how this change is harmful: occupational licensing laws do not always improve public health and safety or consumer welfare. Instead, they often serve to increase the

Some states require licenses for shampooers, travel guides, makeup artists, upholsterers, interior designers, tree trimmers, florists, auctioneers, and bartenders.

incomes of a handful of license holders, while raising consumer prices and keeping predominantly lower-income people out of the workforce. As states attempt to reduce the burden of their occupational licensing systems, they've faced opposition from not only special interest beneficiaries of the laws, but also state legislators who see licensing fees as an important revenue source. Using estimates of state-by-state economic costs of occupational licensing laws from Kleiner and Vorotnikov (2018), we find that on net, occupational licensing laws actually

hurt public finances in 29 of the 36 states modeled. The negative economic impact of a state's licensing regime shrinks the state's overall business, sales, and personal income tax base, effectively negating the benefit of licensing fees raised.

Introduction

Overview

Occupational licensing laws are regulations that require workers to obtain a government-issued license to participate in an occupation.¹ They have expanded greatly in the United States over the past half-century. The share of the U.S. workforce that needed an occupational license increased from roughly 5 percent in the 1950s to 29 percent in 2006, according to a study from economists Alan Krueger of Princeton and Morris Kleiner of the University of Minnesota.² While there is some disagreement among studies, most analysts agree that the current share of workers that need occupational licenses is at least 20 percent, a 300 percent increase since 1950.³ Other studies tend to place the share of the workforce that requires a license around 25 percent.⁴

Doctors, lawyers, and airplane pilots aren't the only people who need a license to do their jobs. Some states require licenses for shampooers, travel guides, makeup artists, upholsterers, interior designers, tree trimmers, florists, auctioneers, and bartenders, among well over 100 occupations, and the average license takes almost a year to attain, including educational and training requirements.⁵ The most cited justification

for occupational licensing laws is health and safety or service quality: licenses theoretically prevent unskilled or unqualified workers from performing dangerous or otherwise inferior services, and as a result, they should improve public safety and consumer satisfaction. Additionally, licensing might be a useful signaling mechanism for consumers: a government license could save consumer times trying to navigate a marketplace to find a good service provider.⁶

However, these benefits do not always materialize.⁷ Nobel Prize-winning economist Milton Friedman wrote his dissertation about occupational licensing, and he identified its main beneficiaries: license holders themselves.⁸ Friedman noted that by restricting the supply of workers in a given profession, licensing laws give people who have licenses a wage premium, even if they don't provide a superior service. On average, occupational licensing seems to raise the wages of license holders by between 10 and 15 percent.⁹

While occupational licensing laws benefit license holders and sometimes consumers, they impose a litany of economic harms upon the general population. Licensing laws create a barrier for people entering the workforce.¹⁰ As a result, they create numerous problems, from reducing economic growth, entrepreneurship, labor market dynamism, and social mobility, to increasing income inequality and recidivism in the criminal justice system. And they have disparate impacts on many subgroups, from ethnic minorities to young people to military spouses to ex-cons.

Occupational Licensing in Massachusetts

According to the Institute for Justice (IJ), a non-profit public interest law firm focused on individual and economic liberties, Massachusetts has the tenth-most burdensome occupational licensing laws in the country. It reports that, on average, one has to pay \$309 in fees, spend roughly 513 days in education and training, and take at least one exam to receive an occupational license in the Bay State. However, Massachusetts requires fewer licenses for lower-income occupations (50 of 102 IJ studied) than the average state does, making Massachusetts the 29th most broadly licensed state in the country.¹¹

There are several licenses for which Massachusetts has particularly burdensome regulations when compared to other states. For example, commercial sheet metal contractors, both HVAC and general, require five years of training plus a \$370 fee. However, 13 states do not require licenses for commercial HVAC contractors and 24 states do not require licenses for

[Occupational licensing laws] create numerous problems, from reducing economic growth, entrepreneurship, labor market dynamism, and social mobility to increasing income inequality and recidivism in the criminal justice system.

general commercial sheet metal contractors. Furthermore, on average, states that do license commercial sheet metal installers require only three years of training for HVAC contractors and a little over one year of training for general commercial contractors.¹²

Other occupations are excessively licensed, too. For instance, as IJ notes, Massachusetts has some of the heaviest requirements for cosmetologists, who must go through 1,000 hours of education to work as a supervised cosmetologist, and an additional two years of experience before receiving a license before being able to practice cosmetology as a sole proprietor. Yet for EMTs, a job that has very obvious public health consequences, Massachusetts only requires roughly 35 calendar days of education and training to receive a license.¹³ When it comes to healthcare professionals, Massachusetts is the only state that does not allow licensed optometrists to treat glaucoma; the Commonwealth only permits ophthalmologists to do so.¹⁴

For several occupations, including bill collection agent, commercial fisher, gaming and slot supervisor, cement finishing, insulation, and painting contractor, travel guide, milk sampler, and animal breeder, the state has no occupational licensing requirements—but requires fees from \$20 for milk samplers up to \$1,300 for bill collection agents. Massachusetts is one of three states that require an occupational license for funeral attendants and one of only nine to require one for dental assistants.¹⁵ While not administered at a state level, municipalities in Massachusetts even require occupational licenses for fortune tellers.¹⁶

Massachusetts also has relatively strict rules regarding reciprocity in licensing; meaning the Commonwealth does not always readily accept licenses issued in other states.

Massachusetts, for example, has not joined the 31-state Nursing Licensure Compact that allows nurses to transfer a license earned in one state to another without obtaining a new, state-specific license.¹⁷ Registered nurses who received their license in a different state and move to Massachusetts must pay \$275 for an application to receive a Massachusetts license and a \$30 fee for the license itself, as long as they've graduated from a Massachusetts Board of Registration in Nursing-approved program and passed the National Council Licensure Examination. Out-of-state nurses are also subject to Massachusetts' good character laws, which bar candidates with criminal records.¹⁸

Out-of-state licensed psychologists face similar barriers: to transfer their licenses to Massachusetts, they need to have practiced in the other state for five years in addition to meeting all degree requirements. They're also required to pay a \$150 fee.¹⁹

Massachusetts has some of the heaviest requirements for cosmetologists, who must go through 1,000 hours of education to work as a supervised cosmetologist, and an additional two years of experience before receiving a license before being able to practice cosmetology as a sole proprietor.

Cosmetologists, too, cannot transfer their licenses from other states. Instead, those with out-of-state licenses must take Massachusetts' own cosmetology exams—both written and practical—and pay fees: \$135 for a transfer application, \$120 for the test, and \$68 for the license itself, for a total of \$323.²⁰ Additionally, if the state in which a cosmetologist first received a license required fewer hours of training than Massachusetts does, out-of-state cosmetologists are required to

log extra training hours to make up that difference, even if they've been practicing cosmetology successfully in another state.²¹ Given that Massachusetts has some of the nation's strictest cosmetology licensing requirements, an out of state cosmetologist could have to spend up to two additional years training before being able to run his or her own beauty shop.²²

Recently, Massachusetts has been moving to expand the reach of occupational licensing. One analysis found that from 2012 to 2017, Massachusetts expanded the burden of its licensing laws more than any other state except Maryland.²³ So far in 2019, state legislators have introduced numerous bills to license new occupations.²⁴ Currently unlicensed professions legislators have tried to license include associate home inspector, interior designer, swimming pool builder or service contractor, refrigerator technician, speech pathologist, drain cleaner, personal care attendant, and most strangely, art therapist.²⁵

Background

Minimal Impact on Health, Public Safety, and Consumer Welfare

While data about the impact of occupational licensing on public health or consumer welfare is scarce, existing literature indicates that stronger licensing requirements do not improve public health.

For example, a study of electricians from 1992 to 2007, during which time occupational licensing in the profession expanded dramatically across the country, found that these stricter regulations did not reduce workplace injuries and accidents.²⁶ An analysis of natural hair braiders found that customer complaint rates were extremely low both in states that require hair braiding licenses and those that don't, and that there were no incidents of verified consumer harm in any of the states.²⁷ A study of state-by-state data on cosmetology found "little current evidence to establish a link between licensing requirements and industry outcomes of interest," such as safety incidents, complaints, and quality of service.²⁸

As economist Morris Kleiner noted in a paper for the

Upjohn Institute for Employment Research, evidence that occupational licensing improves the quality of service for customers is “either thin or nonexistent.”²⁹ And in a literature review, the Mercatus Center found that 63 percent of occupational licensing studies showed

the Mercatus Center found that 63 percent of occupational licensing studies showed no effect on the quality of service... [and] a larger share of studies found a negative impact on service quality (21 percent) than a positive one (16 percent).

no effect on the quality of service. Perhaps even more damning, a larger share of studies found a negative impact on service quality (21 percent) than a positive one (16 percent).³⁰

Beyond empirical research showing little public benefit resulting from many licensing laws, an underlying common sense argument against requiring some licenses in the first place is that we allow people to practice many licensed services in their own homes, free of

charge. For example, if a parent wants to cut his or her children’s hair instead of taking them to a barber shop, that’s okay. A handy person might build him or herself a cabinet instead of hiring a carpenter to build it for them, or someone might prefer to make a flower arrangement for themselves rather than going to a florist. Yet if they want to perform those services for other people, even for free, it becomes a public health issue and states get involved.

There are a few notorious examples of this. In 2018, the Arizona State Board of Cosmetology investigated Juan Carlos Montes de Oca for providing free haircuts to the homeless of Phoenix, many of whom had not received a haircut in years.³¹ Sandy Meadows worked as a florist in a supermarket in Louisiana, until the state Horticultural Commission threatened to shut down the supermarket because Meadows did not have a state-mandated florist license. Louisiana is the only state to require a florist license, many people who worked successfully as florists in other states cannot pass the state exam, and a panel of professional judges couldn’t even tell the difference between flower arrangements made in Louisiana and those created outside of the state.³² Nonetheless, Meadows lost her job thanks to this law. Because she lacked another employable skill, she died destitute.³³

Another factor that undermines the argument for licensing of some professions is that thanks to the internet, it’s now much easier for a consumer to access information about the quality and safety of a product or service before buying it. Services like Yelp or Google Reviews allow consumers to easily find information about quality. Alternatively, private third-party groups like Consumer Reports or voluntary certification programs can provide consumers with additional levels of certainty when choosing to use a product or service.³⁴

There is some evidence that occupational licensing laws

reduce service quality or public safety. By reducing the number of providers and subsequently raising prices, some consumers choose not to purchase the service at all. This is especially clear in the case of scope of practice laws for nurse practitioners. In many states, nurse practitioners are barred from providing certain services that they’re trained to perform, and only doctors are allowed to provide them. As a result, primary care is less accessible and more expensive. The ultimate result of this is that places in which scope of practice laws don’t allow nurse practitioners to perform services have worse health outcomes.³⁵ In an example specifically relevant to Massachusetts (as Massachusetts is the only state that prevents optometrists from treating glaucoma) stricter licensing laws for optometrists are associated with fewer practitioners and poorer eye health outcomes.^{36, 37} Additionally, some license requirements restrict competition, meaning license holders do not need to compete on quality.³⁸

Economic Costs of Occupational Licensing

There are several ways in which occupational licensing imposes substantial economic costs. The first is reduced employment. Creating barriers to entry means fewer jobs. In 2018, economists Peter Blair of Harvard University and Bobby Chung of Clemson University found that occupational licensing regulations reduce labor supply by an average of between 17 and 27 percent in the fields they regulate.³⁹ There are some extreme examples of how occupational licensing laws can shrink the labor supply. In 2012, Mississippi had 1,200 hair braiders without any occupational licensing requirements, while Louisiana had only 32 hair braiders, thanks to its requiring 500 hours of training. This enormous differential comes even though Louisiana has a larger African-American population, among whom natural hair braiding is a popular beauty practice.⁴⁰ In terms of the whole economy, economists have estimated that occupational licensing laws cost between 1.7 million and 2.85 million jobs.⁴¹

There are at least two ways to measure the economic cost of occupational licensing laws. The first is through deadweight loss: in other words, transactions that would have occurred without the licensing laws do not occur thanks to the higher prices and restrictions on supply these regulations create. By one estimate, the deadweight loss created by occupational licensing costs the United States between \$6.2 billion and \$8.2 billion a year.⁴² Raising prices for consumers of non-luxury goods tends to hurt lower-income people more, as they spend a larger share of their income on consumption.⁴³

The second measure is opportunity cost. These occupational licensing laws do not just create deadweight loss for consumers. Occupational licensing laws force a misallocation of resources in which workers who would be providing goods and

There is some evidence that occupational licensing laws reduce service quality or public safety.

services in the marketplace must instead spend time in training courses and studying for exams. Licensed practitioners allocate more of their time and resources trying to strengthen barriers to entry to prevent competition. The economic costs of the misallocated resources caused by occupational licensing dwarfs the deadweight loss it creates. Estimates of the economic costs of misallocated resources range from \$183.9 billion, according to a 2018 IJ study, to \$203 billion according to a 2011 study from the Upjohn Institute.^{44, 45} Furthermore, those studies found that occupational licensing laws cost the United States between 1.77 and 2.85 million jobs, respectively.

These costs, up to \$203 billion a year in lost economic growth and 2.85 million fewer jobs, don't tell the whole story.⁴⁶ Occupational licensing laws create and contribute to numerous indirect problems that are not included in that \$203 billion estimate.⁴⁷

Occupational licensing laws reduce labor market dynamism, and as a result reduce competition for workers and depress wages. Licensing laws are usually determined at the state level, and counties and municipalities often have additional licensing requirements. With the exception of Arizona, which recently passed a universal licensing recognition law, people might not be able to bring a license they received in one state into another (Pennsylvania and Montana have also passed licensing recognition laws, but only for out-of-state licenses with as broad or broader requirements than their own). This encourages workers not to move to another state, where they may have to re-take licensing courses. A study from the Federal Reserve Bank of Minneapolis found that “between-state migration in occupations with state-specific licensing exam requirements is 36 percent lower than other occupations.”⁴⁸ This reduction in mobility means the labor market is less dynamic; people are less willing to look for new jobs in other parts of the country. As a result, workers have less negotiating power with their employers, and that slows wage growth, which has been one of America's most serious economic problems.⁴⁹

Occupational licensing laws also reduce low-income entrepreneurship and business formation. This is harmful for two reasons. First, it reduces opportunity for low-income people to follow the American ideal, becoming their own bosses and building their own business—entrepreneurship is a huge source of economic upward mobility. The second is that fewer businesses mean fewer firms competing for workers, which increases the power of employers in the labor market and can therefore put downward pressure on wages.

Occupational licensing makes starting a business harder by creating artificial barriers to entry. According to a paper

from the Goldwater Institute, states that license over half of the low-income occupations covered in IJ's License to Work database have a low-income entrepreneurship rate that is 11 percent lower than states that licensed less than half of low-income occupations.^{50, 51} That's disheartening in itself, but also has negative consequences for the broader labor market. Fewer new small businesses means less dynamism in the labor market, leading to fewer employers competing for workers. In labor markets controlled predominantly by a few large employers, those employers have very strong negotiating power, allowing them to pay lower salaries. This phenomenon is often known as monopsony.⁵²

In some states, occupational licensing contributes to both the student loan crisis and recidivism in the criminal justice system. As of July 2019, seven states still have laws that strip occupational licenses from individuals who default on their student loans, which makes it even harder for struggling borrowers to earn income to pay back their loans.⁵³ Eleven states have repealed laws that rescind licenses for student loan default since the beginning of 2018, but such legislation is still pending in Massachusetts.⁵⁴

Regarding incarceration, occupational licensing laws increase recidivism rates, the rate at which prisoners return to prison after being released. Former offenders who get a job are much less likely to return to prison than those who cannot, and occupational licensing laws make that harder for two reasons. First, the general barrier to entry these laws create particularly hurt former criminal offenders, for whom entrepreneurship is a less difficult path to re-entering the workforce than getting hired at an existing business. Some states also have “good character laws” that give licensing boards the ability to reject applicants for having a criminal record, even if that crime has nothing to do with the license in question. From 1999 to 2007, states with larger occupational licensing burdens (including both good character laws and general licensing regulations) had much higher recidivism rates.⁵⁵ By increasing recidivism, occupational licensing laws can increase crime rates, as former offenders who do not find jobs are much more likely to return to crime—and prison—which translates to more corrections and law enforcement spending.⁵⁶

There are several ways in which occupational licensing laws hurt other specific subsets of the population. The laws disproportionately hurt young people, because licensing protects incumbent workers and increases the barriers faced by younger workers entering the workforce.⁵⁷ Occupational licensing laws also hurt military spouses. Since they frequently have to move around the country, the inability to carry licenses from state to state makes it much harder to find a new job after relocation.⁵⁸

Estimates of the economic costs of misallocated resources [thanks to occupational licensing] range from \$183.9 billion according to a 2018 study from the Institute for Justice to \$203 billion according to a 2011 study from the Upjohn Institute.

On the whole, the harms of licensing, reducing job opportunities and competition for labor, along with increasing recidivism rates and raising consumer prices, all particularly hurt the poor.

Also, four of five studies that examined licensing laws' impact on ethnic minority groups found that they had a disparate negative impact on minorities.⁵⁹

Lastly, occupational licensing laws worsen income inequality.⁶⁰ Raising prices by restricting the supply of a service disproportionately hurts low-income households. The barriers to entry and opportunity costs occupational

licensing create make it harder for low-income individuals to find jobs that can lift them into the middle class.⁶¹ On the whole, the harms of licensing—reducing job opportunities and competition for labor, along with increasing recidivism rates and raising consumer prices—all exact a particular toll on the poor.

The Economic Impact of Occupational Licensing in Massachusetts

In November 2018, economists Morris Kleiner and Evgeny Vortnikov released a paper with the IJ in which they estimate the economic costs of occupational licensing by state. They were able to find statistically significant results for 36 states, including Massachusetts.⁶²

Kleiner and Vortnikov found that license holders in Massachusetts receive a 22 percent wage premium relative to an environment without occupational licenses. They also found that Massachusetts' licensing laws cost the state 64,222 jobs. Regarding deadweight loss from licensing laws, the study found these laws cost the Commonwealth \$411.6 million in lost economic activity. The authors calculated that the misallocation of resources caused by onerous occupational licensing cost the Bay State \$7.889 billion annually.⁶³

This analysis does not include some of the indirect labor market implications of occupational licensing laws, or the impact of higher recidivism rates on crime and state public finance.

Political Hurdles to Reform

If the cost of an overly broad occupational licensing regime outweighs its benefits, why haven't elected officials done something about it? There are several political reasons why these laws exist, and why they are often very difficult to repeal.

The simplest explanation for why occupational licensing laws exist is that they provide concentrated benefits and the costs are diffuse.⁶⁴ In other words, licensing confers a lot of economic benefit on a relatively small number of license holders, while the economic cost of licensure is borne by a much larger number of people, from those kept out of the workforce

to consumers who pay higher prices. As such, license holders have a lot to gain from organizing to protect or expand occupational licensing regulations. Meanwhile, even though the total cost of licensing laws is much higher than their benefits, those costs are spread among so many people that they might not even realize the laws are hurting them. In simpler terms, it's much easier for barbers to organize to push for protective licensure rules that raise their pay by 15 percent than to organize all the barber shop customers just to keep the price of a haircut from going up by 15 percent.

Another reason licensing reform is difficult to achieve is informational asymmetries.⁶⁵ While the influence of lobbyists is derived in part from their ability to coordinate their clients' campaign donations to elected officials, the more significant power of lobbyists comes from their access to and understanding of issue-specific information.⁶⁶ Politicians, particularly state officials with smaller staffs, can't possibly be informed on the specifics of every issue. As a result, lobbyists working on behalf of niche special interest groups have a knowledge advantage and can selectively present information to convince politicians that the lobbyist's client group deserves particular protection. In the case of occupational licensing, a lobbyist working on behalf of licensed cosmetologists can easily cherry pick data to make the case that repealing or reducing licensing requirements would be a public safety risk. This process of regulatory capture, where an industry group controls its own regulation, is made easy in the case of occupational licensing, where industry groups often run the occupational licensing boards.⁶⁷

State governments have another reason to maintain licensing laws that might be ineffective or otherwise harmful. State licenses generate substantial revenues that flow into state coffers, often resulting in a big profit to state government net of the cost of administering the license regulation. Especially in times of fiscal instability or crisis, state governments are reluctant to eliminate or curb revenue sources.⁶⁸

Occupational Licensing as a Public Finance Issue

Understanding the final reason why occupational licensing laws continue to exist necessitates analyzing the laws from a public finance perspective. Most licensing studies focus on how it hurts consumers and workers, slowing down growth while increasing economic inequality. But most of the literature does not assess how occupational licensing impacts state and local government finances. As such, it can be difficult for reform advocates to address state lawmaker concerns that licensing reform would hurt state finances. Our analysis

Kleiner and Vortnikov calculated that the misallocation of resources caused by onerous occupational licensing costs the Bay State \$7.889 billion annually.

demonstrates that in the vast majority of states, excessive occupational licensing hurts state finances, as the misallocation of resources it causes tends to result in lost state and local tax revenue that is greater than the fee revenue it generates.

The first step to approaching occupational licensing as a public finance issue is to treat licensing fees as a tax and analyze how efficient they are as a source of revenue. Fees for government services are economically efficient when they are equal to the cost of the service provided. These fees are also known as benefits taxes.⁶⁹ However, when fee levels are much higher than the cost of the service being provided (in this case,

Kleiner and Vorotnikov calculated that the misallocation of resources caused by onerous occupational licensing costs the Bay State \$7.889 billion annually.

the licensing exam and license administration), fees significantly hurt economic activity.⁷⁰ It's also worth noting that licensing fees are sometimes paid to private companies who administer the exams rather than to a government agency.

In fact, the Massachusetts Constitution technically bans using fees for government ser-

vices as a source of general revenue. In *Emerson College vs. City of Boston*, the Supreme Judicial Court defined fees as “based on services being performed or delivered; legitimate when the services received for the fee are provided only to the beneficiaries of the services, rather than the general public; and paid by choice,” while taxes are “not exclusive to meet expenses incurred in providing a [particular] service.”⁷¹ Enforcement of this constitutional prohibition, however, rarely occurs owing in large part to the difficulty of challenging license fee levels.

Excessive occupational licensing fees are, effectively, a tax on entering the workforce. That's a bad approach to taxation because it impedes citizens from gaining employment that would otherwise generate state income and sales tax revenue, and general economic vitality. Furthermore, thanks to the opportunity costs of occupational licensing laws, people spend hundreds of hours complying with these regulations instead of working, and thus earning more money that could be growing state sales and income tax bases.

As a result, repealing some occupational licensing laws and the fees associated with them might not ultimately hurt state

government finances. As The Hamilton Project, a Brookings Institution affiliate focused on promoting economic policies that lead to broadly shared economic growth noted, “increases in income and payroll taxes from higher employment and more-frequent consumer transactions could partially or wholly pay replace the lost revenue stream” of the licensing fees.⁷²

Results

Most of the research on occupational licensing explores its impact from a national perspective. However, Kleiner and Vorotnikov's study for IJ provides a state-by-state breakdown of the economic impact of occupational licensing laws.⁷³ They estimated the economic costs of 36 states' occupational licensing regimes, and that information can be used to calculate how licensing reform would impact public finance in those states.

Each state raises a certain percentage of their own income in tax revenue. As such, we can take the economic growth that would be generated in the state by reforming occupational licensing laws and multiply it by the share of the economy state and local governments raise from revenue sources other than occupational licensing fees. That will generate an estimate of how much additional revenue state and local governments would raise in economic growth from occupational licensing reform.

We can compare that estimate to how much revenue that state raises from their occupational licensing fees annually. If the additional revenue from economic growth is larger than existing licensing fees, occupational licensing reform would “pay for itself”; in other words, it would generate more tax revenue than is generated by existing fees.

Using Kleiner and Vorotnikov's state growth estimates, we find that in 29 of the 36 states studied, occupational licensing reform would increase net state and local tax revenue compared to existing licensing regimes.

Our analysis demonstrates that in the vast majority of states, occupational licensing hurts state finances, as the misallocation of resources it causes tends to result in lost state and local tax revenue that is greater than the fee revenue it generates.

State	State and local revenue from occupational licensing fees (Census Bureau)	Estimated new tax revenue thanks to larger economy post-licensing reform (Derived from Kleiner & Vorotnikov)	Estimated net change in state and local revenue (Derived from previous two columns)
Alabama	\$58,000,000	\$162,974,323	+\$104,974,323
Arizona	\$170,000,000	\$247,671,224	+\$77,671,223
California	\$3,196,000,000	\$2,402,214,924	-\$793,785,075
Colorado	\$85,000,000	\$503,757,634	+\$418,757,634
Connecticut	\$127,000,000	\$796,034,443	+\$669,034,442
Delaware	\$125,000,000	\$117,421,956	-\$7,578,043
Florida	\$180,000,000	\$1,029,177,950	+\$849,177,949
Hawaii	\$47,000,000	\$606,650,401	+\$559,650,400
Idaho	\$78,000,000	\$88,952,025	+\$10,952,024
Illinois	\$595,000,000	\$1,048,935,449	+453,935,449
Indiana	\$55,000,000	\$256,391,436	+\$201,391,436
Iowa	\$161,000,000	\$422,599,310	+\$261,599,309
Kansas	\$101,000,000	\$293,519,952	+\$192,519,951
Maine	\$109,000,000	\$135,896,535	+\$26,896,535
Maryland	\$191,000,000	\$354,693,134	+\$163,693,133
Massachusetts	\$297,000,000	\$808,272,344	+\$511,272,344
Michigan	\$195,000,000	\$746,247,791	+\$551,247,790
Mississippi	\$76,000,000	\$104,038,155	+\$28,038,155
Missouri	\$150,000,000	\$328,017,713	+\$178,017,713
Montana	\$111,000,000	\$85,268,614	-\$25,731,386
Nebraska	\$36,000,000	\$141,225,576	+\$105,225,576
Nevada	\$221,000,000	\$288,245,849	+\$67,245,849
New Hampshire	\$192,000,000	\$62,744,455	-\$129,255,545
New Jersey	\$510,000,000	\$1,142,375,123	+\$632,375,122
New Mexico	\$43,000,000	\$143,904,659	+\$100,904,658
New York	\$129,000,000	\$1,661,036,272	+\$1,532,036,271
North Carolina	\$287,000,000	\$398,375,325	+\$111,375,324
Ohio	\$909,000,000	\$580,935,237	-\$328,064,763
Pennsylvania	\$997,000,000	\$947,152,885	-\$49,847,115
Rhode Island	\$68,000,000	\$72,126,044	+\$4,126,044
South Carolina	\$103,000,000	\$130,749,587	+\$27,749,586
Tennessee	\$307,000,000	\$325,305,271	+\$18,305,271
Texas	\$538,000,000	\$965,783,915	+\$427,783,915
Utah	\$27,684,000*	\$182,358,967	+\$154,674,967
Virginia	\$208,000,000	\$505,750,177	+\$297,750,177
Wisconsin	\$448,000,000	\$405,371,830	-\$42,628,170

Sources: Institute for Justice, US Census Bureau, Tax Foundation, Utah State Treasury, Federal Reserve Bank of St. Louis

*This estimate comes from Utah's FY 2017 state budget, and includes revenue from all state revenue from all licenses, permits, and fees, not just occupational licensing fees, but not local revenue from occupational licensing fees. The US Census database reported no state and local revenue from occupational licensing fees for FY 2017 in Utah, while reporting \$12 million in 2016 and \$24 million in 2015. I went with the higher approximation to be safe.

On the whole, we would expect that 29 of the 36 states modeled by Kleiner and Vorotnikov would see a net tax revenue increase after significant occupational licensing reform.

Massachusetts in particular would raise significant additional revenue. According to Kleiner and Vorotnikov's model, Massachusetts surrenders almost \$7.89 billion in economic activity due to occupational licensing regulations. Massachusetts state and local governments take in roughly 10.245 percent of state GDP in state and local tax revenue, excluding revenue from occupational licensing fees. Therefore, the Bay State sacrifices roughly \$808 million in general tax revenues

thanks to slower economic growth from licensing regulation, while it raised \$297 million from occupational licensing fees in 2017 (at both a state and local level). On net, existing licensing laws cost Massachusetts state and local governments roughly \$511 million, according to the model. As the state government debates raising taxes, reforming occupational licensing laws could be an alternative way for state government to broaden the tax base and generate new revenue without amending the state constitution or raising tax rates. However, an independent analysis of the potential windfall should be commissioned by the state.

Some of the standout examples, based upon Kleiner and Vorotnikov's state growth estimates, are Connecticut, which could net gain \$669 million in tax revenue from licensing reform, New Jersey, which could gain \$632 million, Hawaii, which could gain \$559 million, and New York, whose state government could capture over \$1.5 billion dollars in new tax revenue.

In the seven states that wouldn't generate net new revenue, licensing reform would make up for a majority of the revenue lost from repealing fees. For example, Wisconsin's state and local governments would recoup 90 percent of lost fee revenue thanks to a broader tax base, while California's would recoup 75 percent.

Methods

These data rely on several sources. For state-by-state growth estimates, we used Morris Kleiner and Evgeny Vorotnikov 2018 paper, specifically Kleiner's estimates of the misallocation of resources caused by occupational licensing laws.⁷⁴ Kleiner includes "the inappropriate allocation of the human capital of people who cannot, because of licensing, work in the occupation for which they are best suited, the resources wasted fulfilling licensing requirements that do not raise quality, the resources lost to rent-seeking when occupational practitioners and their industry associations push for licensure, and the resources wasted providing services of unnecessarily high quality."

This methodology leads to a higher estimate of the cost of occupational licensing than just deadweight loss, which calculates the value of the transactions that do not occur thanks to overly burdensome licensing laws. Artificially reducing supply means that as prices go up, fewer transactions occur than in an economy without these regulations.

As Kleiner argues, deadweight loss underestimates all of the costs of occupational licensing. For example, deadweight loss calculations do not include the time and money spent by trade groups to put occupational licensing into action, or the time and resources dedicated to training programs that do not add value in terms of service quality or public health. Let's use a hypothetical example, in which college degrees are required for bricklayers. Deadweight loss calculations would include the loss in economic activity thanks to a decline in the supply of bricklayers and subsequent increase in price. However, it would not include the cost of the money and time would-be bricklayers would need to spend on college tuition and completing exams that do not have anything to do with bricklaying.

Kleiner attained his estimates of the costs of occupational licensing by estimating the economic returns, or rents, that license holders gain from these regulations, and used those

estimates to find the losses the state bears.

We used U.S. Census data, which has quarterly values for occupational licensing revenue state and local governments collected, for state-by-state occupational licensing revenue estimates. We used the T28 series, defined as "Occupational and Business License, Not Classified Elsewhere." The Kleiner study solely considered the impact of occupational licenses, so including not-otherwise-classified business license fees might lead to a slight underestimate of the positive net change in revenue from occupational licensing reform, as business license fees also reduce economic growth.⁷⁵ That said, the T28 series does not include revenue from licenses for motor vehicles, motor vehicle operators, alcoholic beverage sales, amusements, corporations, hunting and fishing, or public utilities, so it's as close to an estimate of occupational licensing revenue as is available. We used the most recent available data, for fiscal year 2017. The census provides quarterly values, so we summed the four quarterly values for FY 2017.⁷⁶

There may be a problem with the database, as it does not provide occupational licensing revenue estimates from Utah in 2017, even though they have occupational licensing laws and charge fees for them.⁷⁷ To compensate, we used information from Utah's 2017 budget, which lists \$27.7 million in revenue from all permits, fees, and licenses at a state level, as opposed to just occupational licensing revenue from both state and local governments, so that may be an overestimate or underestimate.⁷⁸ For state and

local tax revenue as a share of each state's economy, we used data from the Tax Foundation's 2019 Facts and Figures book, which allows readers to compare the tax and spending policies of the 50 states. However, the report's state and local tax burden statistics are from FY2012.⁷⁹

To do our final calculations, we took the Census Bureau's 2017 data on state and local occupational licensing revenue and divided that number by the state's GDP in 2017 (found from the Federal Reserve Bank of St. Louis)⁸⁰ to find out what percentage of GDP the state raised in occupational licensing fees. After getting occupational licensing revenue as a share of state GDP, we subtracted that value from total state and local revenue as a share of GDP, to find the state's state and local revenue as a share of GDP excluding occupational licensing revenue. We then took the state-by-state estimates of the economic costs of misallocated resources from occupational licensing and multiplied them by the non-occupational licensing state and local revenue share to find out how much general revenue state and local governments lose. We then subtracted fee revenue from that value to find out the estimated net change in state and local government revenue from potential licensing reform.

Therefore, on net, existing licensing laws cost Massachusetts state and local governments roughly \$511 million.

State	Occupational Licensing Revenue, 2017, Census Bureau	State GDP 2017, St. Louis Fed	Occupational Licensing Revenue as Share of State GDP	State and Local Tax Revenue as Share of GDP, Tax Foundation Facts and Figures
Alabama	\$58,000,000.00	\$211,196,500,000.00	0.000275	0.087
Arizona	\$170,000,000.00	\$326,445,800,000.00	0.000521	0.088
California	\$3,196,000,000.00	\$2,797,600,900,000.00	0.001142	0.110
Colorado	\$85,000,000.00	\$345,233,100,000.00	0.000246	0.089
Connecticut	\$127,000,000.00	\$264,509,900,000.00	0.000480	0.126
Delaware	\$125,000,000.00	\$72,461,300,000.00	0.001725	0.102
Florida	\$180,000,000.00	\$976,385,500,000.00	0.000184	0.089
Hawaii	\$47,000,000.00	\$88,447,900,000.00	0.000531	0.102
Idaho	\$78,000,000.00	\$72,294,200,000.00	0.001079	0.093
Illinois	\$595,000,000.00	\$822,539,600,000.00	0.000723	0.110
Indiana	\$55,000,000.00	\$352,272,700,000.00	0.000156	0.095
Iowa	\$161,000,000.00	\$183,909,800,000.00	0.000875	0.092
Kansas	\$101,000,000.00	\$158,109,200,000.00	0.000639	0.095
Maine	\$109,000,000.00	\$61,702,800,000.00	0.001767	0.102
Maryland	\$191,000,000.00	\$399,537,900,000.00	0.000478	0.109
Massachusetts	\$297,000,000.00	\$542,978,800,000.00	0.000547	0.103
Michigan	\$195,000,000.00	\$508,904,800,000.00	0.000383	0.094
Mississippi	\$76,000,000.00	\$109,375,400,000.00	0.000695	0.086
Missouri	\$150,000,000.00	\$303,763,000,000.00	0.000494	0.093
Montana	\$111,000,000.00	\$47,079,000,000.00	0.002358	0.087
Nebraska	\$36,000,000.00	\$119,587,500,000.00	0.000301	0.092
Nevada	\$221,000,000.00	\$158,302,100,000.00	0.001396	0.081
New Hampshire	\$192,000,000.00	\$81,649,700,000.00	0.002352	0.079
New Jersey	\$510,000,000.00	\$602,069,000,000.00	0.000847	0.122
New Mexico	\$43,000,000.00	\$94,210,700,000.00	0.000456	0.087
New York	\$129,000,000.00	\$1,606,601,300,000.00	0.000080	0.127
North Carolina	\$287,000,000.00	\$540,496,600,000.00	0.000531	0.098
Ohio	\$909,000,000.00	\$645,746,900,000.00	0.001408	0.098
Pennsylvania	\$997,000,000.00	\$756,268,500,000.00	0.001318	0.102
Rhode Island	\$68,000,000.00	\$59,305,700,000.00	0.001147	0.108
South Carolina	\$103,000,000.00	\$221,689,600,000.00	0.000465	0.084
Tennessee	\$307,000,000.00	\$349,569,200,000.00	0.000878	0.073
Texas	\$538,000,000.00	\$1,645,135,900,000.00	0.000327	0.076
Utah	\$27,684,000.00	\$164,917,000,000.00	0.000168	0.096
Virginia	\$208,000,000.00	\$510,586,100,000.00	0.000407	0.093
Wisconsin	\$448,000,000.00	\$321,373,300,000.00	0.001394	0.110

X = lost GDP because of misallocated resources thanks to licensing

T = state and local government revenue as a share of state GDP

R = state and local revenue from occupational licensing fees

Y = state GDP

A = R/Y = state and local revenue from occupational licensing fees as a share of GDP

Z = $T - A$ = state and local government revenue as a share of state GDP, excluding occupational licensing fees

Q = $X*Z$ = lost revenue because of misallocated resources

K = $Q - R$ = total state and local government revenue that could be gained from licensing reform

$X(T - (R/Y)) - R = K$

State	Non-Occupational Licensing State and Local Revenue as Share of State GDP	Estimate of Economic Costs of Occupational Licensing, Kleiner 2018	New General Revenue	Net Change in Revenue
Alabama	0.087	\$1,879,200,000.00	\$162,974,323.27	104,974,323.27
Arizona	0.087	\$2,831,200,000.00	\$247,671,223.55	77,671,223.55
California	0.109	\$22,067,500,000.00	\$2,402,214,924.47	-793,785,075.53
Colorado	0.089	\$5,675,900,000.00	\$503,757,634.06	418,757,634.06
Connecticut	0.126	\$6,341,900,000.00	\$796,034,442.89	669,034,442.89
Delaware	0.100	\$1,171,000,000.00	\$117,421,956.20	-7,578,043.80
Florida	0.089	\$11,587,800,000.00	\$1,029,177,949.51	849,177,949.51
Hawaii	0.101	\$5,978,700,000.00	\$606,650,400.89	559,650,400.89
Idaho	0.092	\$967,700,000.00	\$88,952,024.54	10,952,024.54
Illinois	0.109	\$9,598,900,000.00	\$1,048,935,449.20	453,935,449.20
Indiana	0.095	\$2,703,300,000.00	\$256,391,436.35	201,391,436.35
Iowa	0.091	\$4,637,600,000.00	\$422,599,309.77	261,599,309.77
Kansas	0.094	\$3,110,600,000.00	\$293,519,951.81	192,519,951.81
Maine	0.100	\$1,355,800,000.00	\$135,896,535.27	26,896,535.27
Maryland	0.109	\$3,268,400,000.00	\$354,693,133.96	163,693,133.96
Massachusetts	0.102	\$7,889,200,000.00	\$808,272,344.23	511,272,344.23
Michigan	0.094	\$7,971,300,000.00	\$746,247,790.81	551,247,790.81
Mississippi	0.085	\$1,219,600,000.00	\$104,038,155.33	28,038,155.33
Missouri	0.093	\$3,545,900,000.00	\$328,017,713.21	178,017,713.21
Montana	0.085	\$1,007,400,000.00	\$85,268,613.61	-25,731,386.39
Nebraska	0.092	\$1,540,100,000.00	\$141,225,576.29	105,225,576.29
Nevada	0.080	\$3,621,000,000.00	\$288,245,849.12	67,245,849.12
New Hampshire	0.077	\$818,600,000.00	\$62,744,454.78	-129,255,545.22
New Jersey	0.121	\$9,429,200,000.00	\$1,142,375,122.79	632,375,122.79
New Mexico	0.087	\$1,662,800,000.00	\$143,904,658.61	100,904,658.61
New York	0.127	\$13,087,300,000.00	\$1,661,036,271.96	1,532,036,271.96
North Carolina	0.097	\$4,087,200,000.00	\$398,375,324.74	111,375,324.74
Ohio	0.097	\$6,014,300,000.00	\$580,935,236.71	-328,064,763.29
Pennsylvania	0.101	\$9,407,400,000.00	\$947,152,884.81	-49,847,115.19
Rhode Island	0.107	\$675,000,000.00	\$72,126,044.04	4,126,044.04
South Carolina	0.084	\$1,565,200,000.00	\$130,749,586.82	27,749,586.82
Tennessee	0.072	\$4,510,500,000.00	\$325,305,271.44	18,305,271.44
Texas	0.076	\$12,762,600,000.00	\$965,783,915.14	427,783,915.14
Utah	0.096	\$1,902,900,000.00	\$182,358,967.29	154,674,967.29
Virginia	0.093	\$5,462,100,000.00	\$505,750,177.15	297,750,177.15
Wisconsin	0.109	\$3,732,500,000.00	\$405,371,829.73	-42,628,170.27

Sources: Institute for Justice, US Census Bureau, Tax Foundation, Utah State Treasury, St. Louis Fed.

How does that work? Here's a simple example.

Let's say Jeff is already a skilled carpenter, but to comply with licensing laws, he has to spend several months in a training program he doesn't need. By forcing Jeff to misallocate his time instead of engaging in more productive activity, this licensing law reduces economic growth in the state by \$10,000 (X).

State and local governments in Jeff's state collect 10 percent (Z) of the state's economy (Y) in tax revenue (excluding revenue generated by occupational licensing fees—income tax, sales tax, property tax, excise taxes, parking fees, driver's license fees, etc). A \$10,000 loss in economic growth means state and local governments in Jeff's state lose \$1,000 in tax revenue (Q).

Let's say a carpenter's license in this state requires Jeff pay the state government a \$300 licensing fee (R). State and local governments lose \$1,000 (Q) in tax revenue thanks to the negative economic impact of licensing, but raise \$300 (R) in revenue from licensing fees. As such, state and local governments in Jeff's state on net lose \$700 (K) in tax revenue thanks to these licensing laws.

Additionally, this analysis only takes into account the impact of licensing reform on the revenue side of state finances. Reforming and repealing occupational licensing laws could also help reduce state spending in several ways. Higher employment levels don't just result in a broader tax base, they also mean fewer people need to rely on government safety net programs. Similarly, higher employment and lower recidivism rates would reduce crime rates and as such reduce the amount of spending needed for law enforcement and prisons. Eliminating regulations would also eliminate the administrative expenses the fees are supposedly designed to fund. For example, Massachusetts state government spent almost \$30 million on the Division of Professional Licensure in Fiscal Year 2019.⁸¹

Understanding These Results

This analysis is a model of a pretty extreme scenario, which assumes that all licensing regulations that misallocate resources are repealed, along with the fees attached to them. So it would be a mistake to assume that incremental licensing reforms in a state, like repealing licenses for a few occupations like drywall installers or dental assistants, would lead to hundreds of millions of dollars in new revenue for state and local governments annually. Instead, the point is that concerns that licensing reform will cost state governments money are misguided. Properly understood, these findings show that reducing the burden of occupational licensing laws should have a marginally positive impact on most state and local governments' revenue streams.

Conclusion

These data indicate that, in most states, occupational licensing reform would improve state and local public finances, and that lost fee revenue would be more than replaced by higher income, sales, and other tax revenue. In the few states where state governments would lose net tax revenue without occupational licensing fees, they would recoup a majority of the lost fee revenue and still benefit from greatly expanded economic growth and opportunity.

When state governments consider whether to reform occupational licensing laws, they should look at the total fiscal impact, not just the direct income loss from license fee

reduction. In the few cases in which occupational licensing reform would actually reduce net government revenue, state governments should not use that as an argument to keep regulations in place if such licensing regimes hamstring economic growth and keep low-income people out of the workforce.

Options for Reform

The simplest approach to reforming occupational licensing is through direct deregulation by noting whether licensure is required in other states, including the extent of licensure requirements. If other states don't seem to face negative consequences from not having the regulation, it should be repealed or modified. There has been some success across the country in repealing regulations one by one in this manner. Between 2012 and 2017, Tennessee repealed its animal breeder license, Louisiana repealed its license for home entertainment installers, Arizona repealed its license for packers and Illinois repealed its license for farm labor contractors.⁸² Several states have repealed licensing requirements for natural hair braiding and shampooing hair, and in April 2019, Minnesota repealed its license for painters.^{83, 84}

These aren't the only recent examples of licensing repeals. Going through the state regulatory code occupation by occupation and devoting political energy to analyzing each is time consuming and difficult, but potentially worthwhile.

The Hamilton Project put together several policy approaches.⁸⁵ One is to replace occupational licensing requirements with voluntary certificates. Occupational licensing laws make it a crime to engage in simple behaviors like cutting hair, doing someone's nails, or arranging flowers in exchange for payment. A middle road between full deregulation and the existing overreaching system would be to replace many existing licenses with voluntary certificate programs. This way, occupational licenses will not create a major barrier to qualified workers. On the other hand, workers could opt to take a voluntary certificate course to demonstrate to consumers that they are well-trained. While there's not a lot of evidence that licensing laws improve quality of service or public health, consumers do value credibility. As such, creating voluntary certification programs as replacements for licensing laws can make the licensing reform process go much more smoothly.⁸⁶

The second is to establish a cost-benefit analysis before any regulation is adopted that requires proponents to demonstrate the public interest this regulation would protect. This system would apply to both new licensing laws and old laws up for review. Arizona has been a pioneer in this area. The Goldwater Institute developed a proposal called the Right to Earn a Living Act, which would put the burden of proof on

Additionally, this analysis only takes into account the impact of licensing reform on the revenue side of state finances. Reforming and repealing occupational licensing laws could also help reduce state spending.

would-be regulators to demonstrate that new regulations serve a clear public interest, like protecting public health and safety, as opposed to being solely economic protectionism, which is not in the public interest. Arizona Governor Doug Ducey signed a version of the Right to Earn a Living Act in 2017, which not only prevents new licensing regulations that do not serve the public interest, but also gives people harmed by existing regulations the ability to challenge those laws in court if they are shown not to promote the public interest.^{87,88} An even more ambitious approach would be to proactively apply this requirement to all existing licensing laws, instead of just creating recourse for legal challenges.

A third option is to enact licensing reciprocity across state borders. The Federal Trade Commission's Economic Liberty Task Force put together several recommendations for how states can expand licensing reciprocity.⁸⁹ The simplest and boldest approach a state can take to expand reciprocity is to enact universal licensing recognition—recognizing licenses from any other state. Arizona, again, has led the way on this reform. In April of 2019, the state enacted a law recognizing all out-of-state licenses, meaning new Arizonans would not have to get re-licensed once they moved to the state.⁹⁰

Lastly, The Hamilton Project recommended that the federal government increase its engagement with states on licensing issues, using the examples of establishing small grant programs to fund rigorous cost-benefit analyses of licensing laws and developing best practices. That's not the only approach the federal government can take to help reduce occupational licensing burdens. It could use its antitrust power to break up occupational licensing boards, loosen licensing laws in the District of Columbia, or lift federal bureaucratic requirements.⁹¹ There is also the more radical approach of having the federal government take over occupational licensing policy, and subsequently repeal various occupational licenses in states across the country. Economist Tyler Cowen suggested a version of this idea, but there are possible legal challenges, not to mention natural doubts about the federal government's ability to enter a situation and ultimately reduce red tape rather than expand it.⁹²

Massachusetts Reform Plan

There have been a few recent attempts to reform occupational licensing laws in Massachusetts. One bill introduced this year by State Senators Ryan Fattman and Michael Soter would exempt hair braiders from cosmetology licensing regulations.⁹³

But on the whole, there have been many more efforts to expand licensing laws than pull them back. Here are several proposals Massachusetts could adopt to reduce the harmful burden of occupational licensing laws in the state, and even help state and local government finances.

End Licensing Suspension Policy for Student Loan Defaults

Massachusetts is one of seven states in which government can suspend the occupational licenses of people who default on their student loans.⁹⁴ This policy is counterproductive, making it more difficult for workers to pay back their loans, not to mention the deadweight loss associated with putting them out of work and shrinking provider supply.⁹⁵

Expand Licensing Reciprocity

In 2018, 23,800 more people moved out of Massachusetts to other states than moved into Massachusetts from other states.⁹⁶ Domestic migration is important for state economic growth; the Federal Reserve Bank of Dallas found that migration to Texas has been a key driver of the state's continued growth over the past decade.⁹⁷ One of the ways Massachusetts can make itself a more attractive destination is by following Arizona's lead and enacting universal licensing reciprocity, accepting all licenses issued in other states, or in the alternative, expanding licensing reciprocity in selected professions.

Scrap Occupational Licensing Requirements that Do Not Require Education or Training

The fact that some licenses exist without education or training requirements clearly demonstrates that these licenses just exist to create barriers to entry, not to improve public health or service quality.⁹⁸ As the Institute for Justice noted, almost 60 percent of occupational licenses in Massachusetts do not require education or training. In 2017, Connecticut enacted a reform of this kind, de-licensing several occupations.⁹⁹

Pass a Version of the Right to Earn a Living Act¹⁰⁰

This law would require that supporters of a new occupational licensing law prove the regulation is actually necessary to improve public health, safety, or consumer well-being. Putting the burden of proof on prospective regulators would make it much harder going forward for individual lobbying groups to push for further regulation, which stifles Massachusetts' economy. Retroactively applying this analysis to existing regulations would be an even bolder approach.

Replace Licensing Requirements with Voluntary or Private Certification

There is a lot of evidence that some licensing laws do not improve public health and safety or service quality.¹⁰¹ The Massachusetts Legislature would serve the public interest by replacing these mandatory licensing requirements with voluntary certificate programs. Consumers could then choose if it makes sense to pay a premium for a certifiable service.

Creating voluntary certification programs as replacements for licensing laws can make the licensing reform process go much more smoothly.

Bibliography

1. National Conference of State Legislatures, “Occupational Licensing: Barriers to Work Series,” National Conference of State Legislatures, July 17, 2018, <http://www.ncsl.org/research/labor-and-employment/occupational-licensing-barriers-to-work-series.aspx>.
2. Alan Krueger and Morris Kleiner, “The Prevalence and Effects of Occupational Licensing,” National Bureau of Economic Research, September 2008, <https://www.nber.org/papers/w14308.pdf>.
3. Morris Kleiner and Evgeny Vorotnikov, “At What Cost: State and National Estimates of the Economic Costs of Occupational Licensing Laws,” Institute for Justice, November 2018, <https://ij.org/report/at-what-cost>.
4. Council of Economic Advisers, “Occupational Licensing: A Framework for Policymakers,” Council of Economic Advisers, July 2015, https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf.
5. Dick Carpenter, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald, “License to Work: A National Study of Burdens from Occupational Licensing, 2nd Edition,” Institute for Justice, 2017, <https://ij.org/report/license-work-2/ltw-state-profiles/ltw2-massachusetts/>.
6. Council of Economic Advisers, “Occupational Licensing: A Framework for Policymakers.”
7. Ibid.
8. Robert Cord and J. Daniel Hammond, “Milton Friedman: Contributions to Economics and Public Policy,” Oxford Scholarship Online, August 2016, <https://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780198704324.001.0001/acprof-9780198704324-chapter-26>.
9. Council of Economic Advisers, “Occupational Licensing: A Framework for Policymakers.”
10. Ben Casselman, “Licensing Laws Are Shutting Young People Out of the Job Market,” *FiveThirtyEight*, Apr. 22, 2016, <https://fivethirtyeight.com/features/licensing-laws-are-shutting-young-people-out-of-the-job-market/>.
11. Dick Carpenter, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald, “License to Work: A National Study of Burdens from Occupational Licensing, 2nd Edition.”
12. Ibid.
13. Ibid.
14. Shira Schoenberg, “It’s Optometrists vs. Ophthalmologists in Massachusetts Eye Care Debate,” *Masslive*, October 27, 2017, https://www.masslive.com/politics/2017/10/its_optometrists_vs_ophthalmolo.html.
15. Dick Carpenter, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald, “License to Work: A National Study of Burdens from Occupational Licensing, 2nd Edition.”
16. Paul DeBole, “How Do You License a Fortune Teller,” *Commonwealth Magazine*, October 30, 2018, <https://commonwealthmagazine.org/opinion/how-do-you-license-a-fortune-teller/>.
17. John LoDico, “Letting Nurses Care for Their Patients—Wherever They Are,” Massachusetts Health and Hospital Association, February 11, 2019, <https://www.mhalink.org/MHA/MyMHA/Communications/MondayReportItems/Content/2019/02-11/MR-20170403.aspx>.
18. Board of Registration in Nursing, “Apply for a Nursing License by Reciprocity,” Board of Registration in Nursing, <https://www.mass.gov/how-to/apply-for-a-nursing-license-by-reciprocity>.
19. Psychology Degree 411, “Massachusetts Psychology Licensure Requirements, Psychology Degree 411,” <https://www.psychologydegree411.com/licensure/massachusetts/#reciprocity>.
20. Beauty Schools Directory, “Cosmetology License Reciprocity (Transfer) in Each State,” Beauty Schools Directory, <https://www.beautyschoolsdirectory.com/node/712#2MASSACHUSETTS>.
21. Ibid.
22. Dick Carpenter, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald, “License to Work: A National Study of Burdens from Occupational Licensing, 2nd Edition.”
23. Matthew Mitchell and Anne Philpot, “Changes in Occupational Licensing Burdens Across States,” Mercatus Center, April 10, 2018, <https://www.mercatus.org/publications/changes-occupational-licensing-burdens-across-states>.
24. National Conference of State Legislatures, “Occupational Licensing Legislation Database,” <http://www.ncsl.org/research/labor-and-employment/occupational-licensing636476435.aspx>.
25. Alex Muresianu, “The State Legislature Should Steer Clear of New Occupational Licensing Laws,” Pioneer Institute, February 28, 2019, <https://pioneerinstitute.org/blog/the-state-legislature-should-steer-clear-of-new-occupational-licensing-laws/>.
26. Morris Kleiner and Kyoung Won Park, “Life, Limbs, and Licensing: Occupational Regulation, Wages, and Workplace Safety of Electricians, 1992-2007,” *Monthly Labor Review*, Bureau of Labor Statistics, January 2014, <https://www.bls.gov/opub/mlr/2014/article/pdf/life-limbs-and-licensing.pdf>.
27. Angela Erickson, “Barriers to Braiding: How Job-Killing Licensing Laws Tangle Natural Hair Care in Needless Red Tape,” Institute for Justice, July 2016, https://ij.org/wp-content/uploads/2016/07/Barriers_To_Braiding-2.pdf.
28. Kaila Simpson, Cheryl Hendrickson, Dwayne Norris, and Samantha Lilly, “Examination of Cosmetology Licensing Issues: Data Report,” American Institutes for Research, August 30, 2016, https://probeauty.org/docs/advocacy/PBA%20Examination%20of%20Cosmetology%20Licensing%20Issues_2016%200830.pdf.
29. Morris Kleiner, “Licensing Occupations: Ensuring Quality or Restricting Competition,” The Upjohn Institute for Employment Research, 2006, https://research.upjohn.org/up_press/18/.
30. Patrick McLaughlin, Matthew Mitchell, and Anne Philpot, “The Effects of Occupational Licensure on Competition, Consumers, and the Workforce,” Mercatus Center, November 3, 2017, <https://www.mercatus.org/publications/study-american-capitalism/ef-fects-occupational-licensure-competition-consumers-and>.
31. Shoshana Weissmann and C. Jarrett Dieterle, “Is It Wrong to Cut a Homeless Man’s Hair Without a License?,” *The Wall Street Journal*, April 8, 2018, <https://www.wsj.com/articles/is-it-wrong-to-cut-a-homeless-mans-hair-without-a-license-1523209162>.
32. Tim Keller, William Mellor, and Paul Avelar, “Freeing Louisiana Florists: Licensing Law is Blooming Nonsense,” Institute for Justice, <https://ij.org/case/chauvin-v-strain/>.
33. Shoshana Weissmann and C. Jarrett Dieterle, “Is It Wrong to Cut a Homeless Man’s Hair Without a License?”
34. Patrick McLaughlin, Matthew Mitchell, and Anne Philpot, “The Effects of Occupational Licensure on Competition, Consumers, and the Workforce.”
35. Peter Buerhaus, “Nurse Practitioners: The Solution to America’s Primary Care Crisis,” American Enterprise Institute, September 18, 2018, <https://www.aei.org/publication/nurse-practitioners-a-solution-to-americas-primary-care-crisis/>.
36. Shira Schoenberg, “It’s Optometrists vs. Ophthalmologists in Massachusetts Eye Care Debate.”

37. Sidney Carroll and Robert Gaston, "Occupational Restrictions and Quality of Service Received: Some Evidence," *Southern Economic Journal*, April 1981, <https://www.jstor.org/stable/pdf/1058155.pdf>.
38. Ibid.
39. Peter Blair and Bobby Chung, "How Much of a Barrier to Entry is Occupational Licensing," National Bureau of Economic Research, November 2018, <https://www.nber.org/papers/w25262.pdf>.
40. Angela Erickson, "Barriers to Braiding: How Job-Killing Licensing Laws Tangle Natural Hair Care in Needless Red Tape."
41. Morris Kleiner, "Reforming Occupational Licensing Policies," Brookings Institution, March 2015, https://www.brookings.edu/wp-content/uploads/2016/06/THP_KleinerDiscPaper_final.pdf.
42. Morris Kleiner and Evgeny Vorotnikov, "At What Cost: State and National Estimates of the Economic Costs of Occupational Licensing Laws."
43. Ryan Bourne, "Government and the Cost of Living: Income-Based vs. Cost-Based Approaches to Alleviating Poverty," The Cato Institute, September 8, 2018, <https://www.cato.org/publications/policy-analysis/government-cost-living-income-based-vs-cost-based-approaches>.
44. Morris Kleiner, "Occupational Licensing: Protecting the Public Interest or Protectionism," The Upjohn Institute for Employment Research, 2011, https://research.upjohn.org/cgi/viewcontent.cgi?article=1008&context=up_policypapers.
45. Morris Kleiner and Evgeny Vorotnikov, "At What Cost: State and National Estimates of the Economic Costs of Occupational Licensing Laws."
46. National Conference of State Legislatures, "The State of Occupational Licensing: Research, State Policies, and Trends," National Conference of State Legislatures, Oct. 11, 2017, http://www.ncsl.org/Portals/1/Documents/employ/Licensing/State_Occupational_Licensing.pdf.
47. Alex Muresianu, "Pennsylvania Opens Up to Workers from Other States," *Reason*, Jul. 3, 2019, <https://reason.com/2019/07/03/pennsylvania-opens-up-to-workers-from-other-states/>.
48. Janna Johnson and Morris Kleiner, "Is Occupational Licensing a Barrier to Interstate Migration?," Federal Reserve Bank of Minneapolis, December 2017, <https://www.minneapolisfed.org/research/sr/sr561.pdf>.
49. Jay Shambaugh, Ryan Nunn, and Patrick Liu, "How Declining Dynamism Affects Wages," The Hamilton Project, February 2018, http://www.hamiltonproject.org/assets/files/how_declining_dynamism_affects_wages.pdf.
50. Stephen Silvinski, "Bootstraps Tangled in Red Tape: How State Occupational Licensing Hinders Low-Income Entrepreneurship," Goldwater Institute, Feb. 23, 2015, https://goldwaterinstitute.org/wp-content/uploads/cms_page_media/2015/4/15/OccLicensingKauffman.pdf.
51. Dick Carpenter, Lisa Knepper, Angela Erickson, and John Ross, "License to Work: A National Study of Burdens from Occupational Licensing," Institute for Justice, May 2012, <https://ij.org/report/license-to-work/>.
52. Alan Krueger, "Reflections on Dwindling Worker Bargaining Power and Monetary Policy," Federal Reserve Bank of Kansas City, August 24, 2018, [https://www.kansascityfed.org/~media/files/publicat/sympos/2018/papersandhandouts/824180824kruegerremarks.pdf?la=en](https://www.kansascityfed.org/~/media/files/publicat/sympos/2018/papersandhandouts/824180824kruegerremarks.pdf?la=en).
53. Shoshana Weissmann and C. Jarrett Dieterle, "How States Use Occupational Licensing to Punish Student Loan Defaults," R Street Institute, retrieved Jul. 9, 2019, <https://www.rstreet.org/2018/06/27/how-states-uses-occupational-licensing-to-punish-student-loan-defaults/>.
54. Ibid.
55. Stephen Silvinski and Thomas Snyder, "Second Chances: The Importance of Occupational Licensing Reform to Arkansas's Criminal Justice Reform Initiatives," Arkansas Center for Research in Economics, February 2019, <https://uca.edu/acre/files/2019/02/Slivinski-Snyder-Licensing-and-Recidivism-DIGITAL.pdf>.
56. Jonathan Haggerty, "How Occupational Licensing Laws Harm Public Safety and the Formerly Incarcerated," R Street Institute, May 31, 2018, <https://www.rstreet.org/2018/05/31/how-occupational-licensing-laws-harm-public-safety-and-the-formerly-incarcerated/>.
57. Ben Casselman, "Licensing Laws Are Shutting Young People Out of the Job Market."
58. Shoshana Weissmann and C. Jarrett Dieterle, "The Licensing Logjam," *National Affairs*, Spring 2018, <https://www.nationalaffairs.com/publications/detail/the-licensing-logjam>.
59. Patrick McLaughlin, Matthew Mitchell, and Anne Philpot, "The Effects of Occupational Licensure on Competition, Consumers, and the Workforce."
60. Brink Lindsey, "The Conservative Inequality Paradox," *National Review*, November 8, 2017, <https://www.nationalreview.com/2017/11/economic-inequality-crony-capitalism-conservatives/>.
61. Edward Rodrigue and Richard Reeves, "Four Ways Occupational Licensing Damages Social Mobility," Brookings Institution, February 24, 2016, <https://www.brookings.edu/blog/social-mobility-memos/2016/02/24/four-ways-occupational-licensing-damages-social-mobility/>.
62. Morris Kleiner, "At What Cost: State and National Estimates of the Economic Costs of Occupational Licensing Laws."
63. Ibid.
64. Brink Lindsey and Steven Teles, "The Captured Economy," Oxford University Press, New York City, New York, 2017.
65. Lee Drutman and Steven Teles, "A New Agenda for Political Reform," *Washington Monthly*, March/April/May 2015, <https://washingtonmonthly.com/magazine/maraprmay-2015/a-new-agenda-for-political-reform/>.
66. Robert Thornton and Edward Timmons, "The De-Licensing of Occupations in the United States," *Monthly Labor Review*, Bureau of Labor Statistics, May 2015, <https://www.bls.gov/opub/mlr/2015/article/the-de-licensing-of-occupations-in-the-united-states.htm>.
67. Ibid.
68. Ibid.
69. David Duff, "Benefits Taxes in Theory and Practice," *University of Toronto Law Journal*, Jan. 2004, <https://www.jstor.org/stable/pdf/4144930.pdf?refreqid=excelsior%3Ada9180f4d1041ba-27f5a702f80fcb3>.
70. Miriam Bruhn, "The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico," *Review of Economics and Statistics*, February 2011, https://www.mitpressjournals.org/doi/abs/10.1162/REST_a_00059?journalCode=rest.
71. Massachusetts Executive Office of Finance and Administration, "Procedures for Setting Fees, A&F6," Administrative Bulletin, June 25, 2008, <https://www.mass.gov/administrative-bulletin/procedures-for-setting-fees-af-6#fee-setting-process>.
72. The Hamilton Project, "Reforming Occupational Licensing Policies," Brookings Institution, January 2015, http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/v4a_THP_KleinerBrief_.pdf.

73. Morris Kleiner and Evgeny Vorotnikov, “At What Cost: State and National Estimates of the Economic Costs of Occupational Licensing Laws.”
74. Ibid.
75. Miriam Bruhn, “The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico.”
76. US Census, “The Quarterly Summary of State and Local Government Tax Revenue,” US Census, Dec. 18, 2018, <https://www.census.gov/econ/currentdata/dbsearch?program=QTAX&startYear=1992&endYear=2017&categories=QTAXCAT3&dataType=T28&geoLevel=US¬Adjusted=1&submit=GET+DATA&releaseScheduleId=#>.
77. Dick Carpenter, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald, “License to Work: A National Study of Burdens from Occupational Licensing, 2nd Edition,” Institute for Justice, 2017, <https://ij.org/report/license-work-2/ltw-state-files/ltw2-utah/>.
78. John Reidhead, “State of Utah Financial Highlights,” October 2017, Department of Administrative Services, <https://treasurer.utah.gov/wp-content/uploads/sites/10/2017/10/2017-Financial-Highlights.pdf>.
79. Janelle Cammenga, “Facts and Figures 2019: How Does Your State Compare?” Tax Foundation, March 19, 2019, <https://tax-foundation.org/facts-figures-2019/>.
80. Federal Reserve Bank of St. Louis, “Gross Domestic Product (GDP) by State,” Federal Reserve Bank of St. Louis, Retrieved May 3, 2019, <https://fred.stlouisfed.org/release?rid=140&t=gs&gsp%3Bnsa%3Bstate%3Bva&rt=va&ob=pv&od=desc>.
81. https://budget.digital.mass.gov/bb/h1/fy19h1/brec_19/dpt_19/hreg.htm
82. Matthew Mitchell and Anne Philpot, “Changes in Occupational Licensing Burdens Across States.”
83. Nick Sibilla, “New Hampshire Repeals Regulations (and Criminal Penalties) For African-Style Hair Braiding,” *Forbes*, June 13, 2017, <https://www.forbes.com/sites/instituteforjustice/2017/06/13/new-hampshire-repeals-licenses-criminal-penalties-for-african-style-hair-braiders/#6a52e1e2657b>.
84. Jarrett Skorup, “Michigan Repeals Its Painters License,” April 10, 2019, The Mackinac Center, <https://www.mackinac.org/26473>.
85. The Hamilton Project, “Reforming Occupational Licensing Policies,” Brookings Institution, January 2015, http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/v4a_THP_KleinerBrief_.pdf.
86. Ibid.
87. Clint Bolick, “The Right to Earn a Living Act,” Goldwater Institute, January 6, 2016, <https://goldwaterinstitute.org/wp-content/uploads/2016/01/Right-to-Earn-a-living-1.pdf>.
88. Goldwater Institute, “Arizona Becomes First State in Country to Protect the Right to Earn a Living,” April 6, 2017, Goldwater Institute, <https://goldwaterinstitute.org/article/arizona-becomes-first-state-in-country-to-protect-right-earn-living/>.
89. Karen Goldman, “Options to Increase Occupational Licensing Portability,” Federal Trade Commission, September 2018, https://www.ftc.gov/system/files/documents/reports/options-enhance-occupational-license-portability/license_portability_policy_paper.pdf.
90. Ryan Randazzo, “Plumbers, Barbers, Nurses, and Other Licensed Professionals Won’t Need a New License if They Move to Arizona,” *Arizona Republic*, April 10, 2019, <https://www.azcentral.com/story/news/politics/legislature/2019/04/10/doug-ducey-signs-law-eliminate-arizona-licensing-requirements-blow-dry-bill/3424374002/>.
91. Shoshana Weissmann and C. Jarrett Dieterle, “How the Feds Can Reform Crazy State Licensing Laws,” *National Review*, July 7, 2017, <https://www.nationalreview.com/2017/07/occupational-licensing-needs-reform-here-are-federal-policies-could-help/>.
92. Tyler Cowen, “A Radical Solution to the Overuse of Occupational Licensing,” Bloomberg, March 5, 2018, <https://www.bloomberg.com/opinion/articles/2018-03-05/tyler-cowen-s-radical-idea-for-reining-in-occupational-licensing>.
93. <https://malegislature.gov/Bills/191/S144>
94. Mark Hyden and C. Jarrett Dieterle, “As I See It: Massachusetts’ Licensing Law Bad, Even by Biblical Standards,” *The Telegram and Gazette*, April 27, 2019, <https://www.telegram.com/news/20190427/as-i-see-it-massachusetts-licensing-law-bad-even-by-biblical-standards>.
95. C. Jarrett Dieterle and Nicolas John, “Massachusetts Suspension of Occupational Licensing for Student Loan Default,” R Street Institute, April 4, 2019, <https://www.rstreet.org/2019/04/04/massachusetts-suspension-of-occupational-licenses-for-student-loan-default/>.
96. Mike Maciag, “Why Are So Many People Moving Out of the Northeast,” *Governing*, December 21, 2018, <https://www.governing.com/topics/urban/gov-migration-northeast-population-trend.html>.
97. Pia Orrenius, Alexander Abraham, and Stephanie Gullo, “Gone to Texas: Migration Vital to Growth in the Lone Star State,” Federal Reserve Bank of Dallas, First Quarter 2018, <https://www.dallasfed.org/~media/documents/research/swe/2018/swe1801b.pdf>.
98. Institute for Justice, “Nutmeggers Crack Open Occupational Licensing Laws,” Institute for Justice, July 14, 2017, <https://ij.org/nutmeggers-crack-open-occupational-licensing-laws>.
99. Jon Sanders, “Modernizing North Carolina’s Outdated Occupational Licensing Laws,” John Locke Foundation, September 21, 2017, <https://www.johnlocke.org/research/modernizing-north-carolinas-outdated-occupational-licensing-practices/>.
100. Clint Bolick, “The Right to Earn a Living Act.”
101. Patrick McLaughlin, Matthew Mitchell, and Anne Philpot, “The Effects of Occupational Licensure on Competition, Consumers, and the Workforce.”

Acknowledgments

Thank you to peer reviewers John Kramer, Jennifer McDonald, and Dick Carpenter of the Institute for Justice, and Greg George of the Foundation for Government Accountability. Additionally, thank you to Greg Sullivan, Mary Connaughton, Micaela Dawson, Charlie Chieppo, and Jim Stergios of Pioneer Institute, Shoshana Weissmann and Nicholas John of the R Street Institute, Morris Kleiner, economics professor at the Humphrey School of Public Affairs at the University of Minnesota, and economist Alan Cole.

About the Author

Alex Muresianu was a Pioneer Institute Akin Fellow of Digital Media. He is a Consumer Freedom Fellow at Young Voices, and his writing has appeared in publications such as National Review Online, The Orange County Register, The Kansas City Star, The Detroit News, and The Springfield Republican. He is currently a junior at Tufts University studying economics.

About Pioneer

Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to improve the quality of life in Massachusetts through civic discourse and intellectually rigorous, data-driven public policy solutions based on free market principles, individual liberty and responsibility, and the ideal of effective, limited and accountable government.

