

OCCUPATIONAL LICENSING IS HOLDING BACK NEW JERSEY

Edward J. Timmons

Senior Affiliated Scholar, Mercatus Center at George Mason University

New Jersey Advisory Committee to the US Commission on Civil Rights

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Chairman Lustberg and all distinguished members of the New Jersey State Advisory Committee to the US Commission on Civil Rights: thank you for inviting me to speak about the effects of occupational licensing on the citizens of New Jersey.

I am a professor of economics at Saint Francis University in Loretto, Pennsylvania, and the director of the Knee Center for the Study of Occupational Regulation, the only university-based academic center focusing solely on the topic of occupational regulation. I am also a senior affiliated scholar with the Mercatus Center at George Mason University. I have been involved with or led three federally funded grant projects exploring the issue. Most of my comments today are based on a report that I coauthored for the Archbridge Institute and my subsequent publication from last year.¹

The main takeaways of my comments are the following:

1. Occupational licensing places a disproportionate burden on low-income Americans and the disadvantaged—especially individuals with a criminal record.
2. There is little to no evidence that occupational licensing helps to protect consumers. On the contrary, licensing makes services more expensive.
3. Between 1993 and 2012, New Jersey added licensing requirements for 38 low- and moderate-income occupations—7 more occupations than the national average of 31.
4. Based on my research, I estimate that this increase in regulation reduced upward economic mobility by 4.3 percent and increased income inequality by almost 10 percent for New Jersey residents.

SOME BACKGROUND ON OCCUPATIONAL LICENSING

Occupational licensing laws establish mandatory requirements for entry into a profession. Occupational licensing, which is the strictest form of occupational regulation, is rarely necessary for the protection of

1. Edward J. Timmons et al., *Too Much License? A Closer Look at Occupational Licensing and Economic Mobility* (Washington, DC: Archbridge Institute, 2018); Brian Meehan et al., “The Effects of Growth in Occupational Licensing on Intergenerational Mobility,” *Economics Bulletin* 39, no. 2 (2019): 1516–28.

consumers. As an example, chefs and restaurant staff are not required to obtain a license to work, but this does not mean that the workers are not subject to regulation. Instead, the restaurant is subject to other regulations, including random health inspections, as well as market-based discipline, facilitated with the help of tools such as customer feedback and ratings from a variety of private sources.

The fraction of the US workforce that is licensed has significantly grown in the past 60 years. In the 1950s, approximately 5 percent of workers were licensed.² Today, that figure stands at 21.5 percent.³ The expressed purpose of occupational licensing laws is to protect consumers and maintain a minimum-quality standard for professions. The existing evidence that occupational licensing fulfills this purpose is ambiguous at best.⁴ In fact, new research indicates that licensing may reduce consumer perceptions of the quality of service.⁵ Consumers in an online platform for home-improvement services were much more interested in online ratings than the licensing status of their service providers.⁶ Conversely, evidence on the costs of licensing is much more conclusive. An Obama White House report notes that “the evidence on licensing’s effects on prices is unequivocal.”⁷ Licensing is found to increase prices by anywhere from 3 to 16 percent.⁸ In addition, licensing is found to reduce the supply of workers by 17 to 27 percent.⁹

HOW GROWTH IN LICENSING HOLDS BACK NEW JERSEY CITIZENS

In research that I coauthored, my fellow investigators and I conduct a nationwide analysis of growth in occupational licensing and its effects on Americans.¹⁰ We find that from 1993 to 2012, states added licensing requirements for 31 low- and moderate-income occupations on average. New Jersey added licensing requirements for 38 occupations.

Our estimates suggest that by adding more licensing requirements, New Jersey made it harder for many aspiring workers to enter the job market. Relative to the average state, greater increases in licensing in New Jersey reduced economic mobility by 4.3 percent. This means that New Jersey citizens were less likely to earn more than their parents. We also found that increases in licensing in New Jersey increased income inequality by almost 10 percent.

By erecting barriers to entry, occupational licensing reduces the number of career paths for New Jersey citizens. Although we did not measure the effect directly, the most vulnerable of New Jersey citizens are the most likely to feel the brunt of these effects. Existing research generally suggests that minorities face greater costs from occupational licensing.¹¹ Occupational licensing laws also often bar individuals

2. Morris M. Kleiner and Alan B. Krueger, “The Prevalence and Effects of Occupational Licensing,” *British Journal of Industrial Relations* 48, no. 4 (2010): 676–87.

3. “49. Certification and Licensing Status of the Civilian Noninstitutional Population 16 Years and over by Employment Status, 2019 Annual Averages,” Bureau of Labor Statistics, last modified January 22, 2020, <https://www.bls.gov/cps/cpsaat49.htm>.

4. US Department of the Treasury, Council of Economic Advisers, and US Department of Labor, *Occupational Licensing: A Framework for Policymakers*, July 2015.

5. Darwynn Deyo, “Licensing and Service Quality: Evidence Using Yelp Consumer Reviews” (unpublished manuscript, n.d.), PDF file, <https://www.aeaweb.org/conference/2017/preliminary/paper/efy2hraQ>.

6. Chiara Farronato et al., “Consumer Protection in an Online World: An Analysis of Occupational Licensing” (NBER Working Paper No. 26601, National Bureau of Economic Research, Cambridge, MA, January 2020).

7. US Department of the Treasury, Council of Economic Advisers, and US Department of Labor, *Occupational Licensing: A Framework*.

8. US Department of the Treasury, Council of Economic Advisers, and US Department of Labor.

9. Peter Blair and Bobby Chung, “How Much of a Barrier Is Occupational Licensing,” *British Journal of Industrial Relations* 57, no. 4 (2019): 919–43.

10. Timmons et al., *Too Much License?*

11. Matthew D. Mitchell and Emma Blair, “A Lose-Lose Proposition,” *The Bridge*, March 17, 2020.

with a criminal record from obtaining a license—even if their crime has little to do with their ability to provide good quality service.¹²

I would encourage policymakers in the state to reconsider the costs and benefits of occupational licensing as a policy tool to enhance consumer safety. As noted, there are a number of policy alternatives—such as private certification—that fulfill the same regulatory objective and do not have the same cost. As an additional example, the National Institute for Automotive Service Excellence is a private nonprofit entity that allows auto mechanics to obtain a credential that can serve as a signal to consumers that mechanics have completed rigorous training. Occupational licensing is not the only regulatory tool available to policymakers. Instead, occupational licensing is the most expensive and cumbersome policy tool, and there is little evidence that it serves its intended purpose. Policymakers should exercise prudence and always carefully consider the costs of occupational licensing.

12. Nick Sibilla, *Barred from Working: A Nationwide Study of Occupational Licensing Barriers for Ex-Offenders* (Arlington, VA: Institute for Justice, 2020).