Occupational Licensing

Introduction

Occupational licensing is usually sold as a necessity to protect the health and welfare of our citizens. It is a sign of quality that can only be achieved through an official license from the government.

In the 1950s, just five percent of workers in America needed a license to work. And these are in occupations most commonly associated with licensing — medical professionals, teachers, or lawyers. But since that time, the number of occupations that require a license has exploded.

Today, about 19 percent of Mississippians are in an occupation that requires a license. And this is particularly troubling in low and middle-income occupations. Mississippi currently licenses 66 of 102 lower-income occupations, as identified by Institute for Justice.

On average, licensing for low and middle-income occupations in Mississippi requires an individual to complete 160 days of training, to pass two exams, and to pay $330 in fees. Those numbers will vary depending on the industry. For example, a shampooer must receive 1,500 clock hours of education. A fire alarm installer must pay over $1,000 in fees.

The net result is a decrease in the number of people who can work. A study from the National Bureau of Economic Research found that occupational licensing reduces labor supply by 17 to 27 percent. In Mississippi, the Institute for Justice estimates that licensing has cost the state 13,000 jobs. That represents two Nissan plants that could be created by reducing our licensing burden, and it wouldn't require a dime in taxpayer incentives.

The limited consumer choice then leads to higher prices for that consumer, resulting in a hidden tax every Mississippians pays.

Occupational licensing leads to a decrease in the number of people working and an increase in costs to everyone. But is it a public good?

The empirical evidence that exists shows that is not the case. As the Obama administration said in a 2015 report, "Most research does not find that licensing improves quality or public health and safety." The consumer is paying more without getting better results.

Instead of government licensing, there are voluntary or non-regulatory options that help entrepreneurs start and run businesses while providing the maximum options for consumers.

Licensing Alternatives

Market competition is the least restrictive option. Without government-imposed restrictions, consumers have the widest assortment of choices, thereby giving businesses the strongest incentives to maintain a reputation for high-quality services. When service providers are free to compete, consumers can decide who provides the best services, thereby weeding out those that do not.

Quality service self-disclosure is another term for customer satisfaction. There are numerous common sites people can leave reviews such as Yelp, Google, Facebook, specific industry sites, etc. Finding out which location is providing a good customer experience is easier than ever, providing users with more complete options.

Voluntary, third-party certification allows the provider to voluntarily receive and maintain certification from a non-government organization. One of the most common examples is the National Institute for Automotive Service Excellence (ASE) designation for auto mechanics. No mechanic is required to receive this certification, but it sends a signal to the consumer that the location with that designation is committed to quality service. And the consumer can decide whether that is important.

Voluntary bonding and insurance is the final voluntary option. By being bonded and insured, providers are showing their concern for quality to customers at the risk to their own bottom line — whether that's through the potential for increased premiums or loss of collateral.

These are less restrictive options that do not involve the government. But there are still government-controlled options that are less intrusive than licensure.

Two legal options are private causes of action, which give consumers the right to bring lawsuits against service providers who are at fault, and deceptive trade practice acts, which allow consumers to sue businesses for practices that are deceptive or unfair.

The government can also mandate inspections as they do in a number of fields, most notably the food-service industry. It could be applied in occupations that also require licensing, such as the construction field and barbers and cosmetologists. This allows those who are trained in a field to spot potential hazards, while being less burdensome than licensure.

The state may choose to require registration, as they do with hair braiders. Hair braiders previously needed to take hundreds of hours of irrelevant cosmetology classes. Now they register with the state and pay a small fee. This discourages "fly-by-night" providers, while still only creating a small barrier for providers.

All of these options have one theme in common: They are better than government mandated licensure and prevent entrepreneurs from having to take state mandated classes, pay hundreds (or thousands) of dollars in classes, and take time out of their life to receive permission from the state to earn a living.

Instead, the state can protect consumers, while relying on a small government approach that promotes competition and consumer choice. This is what will encourage economic growth.

Key Facts

- 19 percent of workers in Mississippi need a license to work.
- Mississippi requires individuals in low and middle-income occupations to complete 160 days of training, to pass two exams, and to pay $330 in fees, on average.
- Mississippi has lost 13,000 jobs because of occupational licensing and the state has suffered an economic value loss of $37 million, according to a report from Institute for Justice.
- Mississippians pay a hidden tax of $800 every year because of licensing, according to a report from Heritage Foundation.
- In 2004, Mississippi freed hair braiders of irrelevant licensing requirements. Today, there are 2,600 hair braiders earning a living in the state.
- In 2019, Mississippi adopted the Fresh Start Act, which will help ex-offenders earn a living by prohibiting occupational licensing boards from using rules and policies to create blanket bans on ex-offenders.

Recommendations

+ Implement sunset provisions on all licenses and review all licenses to determine their need, benefit, how it impacts the economy, and if less restrictive alternatives are available.
+ Expand the power of the Occupational Licensing Review Commission to actively supervise licensing boards, which are often dominated by industry incumbents.
+ Provide reciprocity for out-of-state licenses.

States Ranked by Number and Average Burden of Licensing

Rank	State	Number of 102 Lower-Income Occupations Licensed	Average Fees	Average Estimated Calendar Days Lost	Average Exams
1	California	76	$486	827	2
2	Nevada	75	$704	861	2
3	Arkansas	72	$246	642	1
4	Arizona	68	$612	765	2
5	Hawaii	63	$438	988	2
6	Louisiana	77	$360	202	2
7	Virginia	68	$291	620	1
8	Oregon	69	$335	537	1
9	Washington	77	$209	163	1
10	Rhode Island	72	$223	326	1
11	New Mexico	66	$266	520	2
12	Iowa	71	$178	288	1
13	Tennessee	71	$327	226	1
14	West Virginia	70	$172	210	2
15	Utah	64	$367	504	2
16	Idaho	67	$164	332	1
17	North Carolina	67	$199	234	1
18	Connecticut	64	$264	361	1
19	Mississippi	66	$330	160	2
20	Maryland	59	$288	529	1
21	Florida	56	$318	693	1
22	South Carolina	60	$220	440	2
23	North Dakota	65	$156	122	1
24	Alaska	63	$298	211	1
25	Alabama	63	$329	142	1

Rank	State	Number of 102 Lower-Income Occupations Licensed	Average Fees	Average Estimated Calendar Days Lost	Average Exams
26	District of Columbia	60	$400	261	1
27	Nebraska	63	$76	118	1
28	New Jersey	54	$224	422	1
29	Massachusetts	50	$309	513	1
30	Michigan	49	$242	255	2
31	Pennsylvania	51	$138	117	1
32	Delaware	44	$199	475	1
33	Maine	45	$188	298	1
34	Georgia	41	$185	464	2
35	Oklahoma	41	$234	399	2
36	Wisconsin	42	$259	214	1
37	New York	41	$279	275	2
38	Ohio	40	$188	350	1
39	Illinois	40	$244	249	1
40	Kentucky	37	$240	466	2
41	New Hampshire	38	$183	273	2
42	Texas	37	$253	341	2
43	Missouri	37	$179	348	1
44	Indiana	37	$163	323	1
45	Kansas	35	$133	200	2
46	Minnesota	34	$238	300	2
47	Colorado	34	$344	260	2
48	South Dakota	32	$198	355	2
49	Montana	32	$261	312	2
50	Vermont	31	$193	287	2
51	Wyoming	26	$345	280	2

Source: Institute for Justice