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THE EFFECTS OF ARKANSAS' OCCUPATIONAL LICENSURE REGULATIONS

THOMAS J. SNYDER, PHD

CONTENTS

2	Executive Summary
4	Introduction
7	The Economics of Licensure: Licensure Helps License Holders and Hurts the Poor
9	An Example: The Experience of Massage Therapists
12	Evidence: The Effect of Licensure on Unemployment, Prices, and Poverty
18	Licensure in Arkansas Is Excessive When Compared to Other States
21	An Alternative to Licensure: State Certification
24	References
26	Appendix
29	About the Author
29	About ACRE

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EXECUTIVE SUMMARY

Arkansas' extensive occupational licensure requirements hurt the state's economy, particularly harming the state's poor. Governments require some occupations to be licensed, making it illegal for persons to work in one of these trades without a license. In the 1950s, only 5% of the U.S. workforce was employed in jobs that required licensure, but by 2006, 29 % of the U.S. workforce was employed in jobs that required licensure. In Arkansas, 128 professions require a license. This is the fifth-highest number in the United States. Moreover, Arkansas requires licenses for more low-wage occupations than most states. Arkansas not only requires many occupations to be licensed, but it also imposes the second-highest average burden—in terms of time and money—on the licensed occupations. Arkansas is second only to Hawaii in licensure

burden. Not only does Arkansas require more categories of workers to obtain licensure than most states, but the difficulty of acquiring licensure in Arkansas is especially burdensome when compared to other states.

Although occupational licensure is an increasing trend in Arkansas and in most states, the economic effects of these policies are frequently ignored. There seems to be little public discussion in Arkansas regarding whether licensure laws are a net help or a net harm to ordinary Arkansans.

It is easy to see that workers in some occupations should be required to be knowledgeable and credentialed before providing services. This leads to the seemingly reasonable conclusion that workers in these occupations should be *required* to have a state license before

having the right to offer services. However, by requiring strict licensure in many occupations, Arkansas' policies create many unintended consequences. Rather than maintaining consumer satisfaction and safety, occupational licensure is actually a method by which current workers preclude competitors from entering that occupation. Restricting entry into a specific occupation enriches those already working in the occupation and hurts those attempting to enter it—frequently the poor and low-skilled. Because the barriers of licensure effectively prevents potential workers from entering a particular occupation, they remain unemployed or are forced to work in lower-paying jobs. Furthermore, consumers—especially those with low incomes—also suffer, both because they must pay higher prices for services and because they have fewer options for services in the restricted profession.

Empirical evidence illustrates the harm of Arkansas' excessive occupational licensure regulations: higher prices, unemployment, and poverty.

If Arkansas reduced its licensure requirements in low-wage jobs to the level of Missouri (from 52 to 31 occupations), it could experience a .75 % decrease in the state employment rate.

Licensure for low-wage occupations requires an average of 689 days of education and

experience. If Arkansas were to reduce its education and experience requirements of low-wage jobs to that of neighboring Mississippi (from 689 to 155 days on average, a 77.5 % decrease), prices across the board would fall in Arkansas by 4.5 %.

Simply lowering the (average) barrier to get an occupational license in Arkansas could significantly increase the purchasing power of those with lower income. If Arkansas were to reduce the total number of licensed low-wage occupations (52) to that of its neighbor Missouri (31) the reduction in licensure could decrease Arkansas' poverty rate by 2.1 %.

Certification is an alternative policy to occupational licensure; it would protect and benefit the public while avoiding the harms of licensure. In contrast to state occupational licensure, Arkansas' consumers would benefit unambiguously under state certification. The state government could still define the requirements of certification. The key difference is that the state would not make it *illegal* for an uncertified interior decorator, barber, massage therapist, etc., to provide his or her service. Just as consumers benefit unambiguously when they have the choice of generic or name-brand cereal, they also benefit from the opportunity to choose a certified or uncertified barber, door-repair contractor, or other currently licensed occupation.

INTRODUCTION

Arkansas' 18 % poverty rate is higher than the poverty rate in 44 of the other 49 U.S. states. Its poverty rate among African Americans, 34%, is also among the nation's highest.¹ Compared to nearby landlocked states, Kansas is 30% richer; Missouri, 16%; Tennessee, 16%; and Oklahoma 14% richer per capita than Arkansas.² One often-overlooked economic policy that hurts Arkansas' economy, and especially affects its individuals with low income, is the state's excessive occupational licensure requirements.

Governments require workers in some occupations to be licensed, making it illegal to work in those occupations without a license. In Arkansas, 128 professions require a license, the fifth-highest number in the United States (Summers, 2007). *Licensure* differs from *certification*. In a certification system, a government defines the requirements for certification, but it does not take the next step and *require* an individual to be certified in order to have the right to work.

Although occupational licensure is an increasing trend in the United States, the economic effects of these policies are frequently ignored by policymakers. In the 1950s, only 5% of the U.S. workforce was employed in jobs that required licensure, but by 2006 fully 29% of the U.S. workforce was employed in jobs that required licensure (Kleiner & Krueger, 2010). Occupational licensure is not discussed in U.S. political debates, which tend to focus on taxes, minimum wage, or other government programs. Arkansas has extensive licensure requirements compared to most states; however, there has been little public discussion about whether licensure laws are a net help or a net harm to ordinary Arkansans.

Arkansas has licensing requirements for jobs that require no license in neighboring states. A boiler operator, a clerk of scales, a dispensing optician apprentice, a farrier, a hospital maintenance plumber, an illegal

¹ Poverty data is from 2007-2011 census data. Retrieved from http://www.census.gov/hhes/www/poverty/publications/Appendix_Tables1-24.pdf

² 2012 State GDP per capita was measured by taking the 2012 State GDP from the Bureau of Economic Analysis and dividing it by the state population from the U.S. Census.

dumps control officer, a voice stress analysis examiner—among many other occupations—all require a license in Arkansas but not in neighboring states.

Perhaps the Arkansas public's attention is not focused on occupational licensing because the benefits of licensure seem obvious: It is not difficult to convince someone that a pest/weed control applicator should be required to be knowledgeable and credentialed before providing his or her service. After all, a mistake made by the applicator can lead to chemical poisoning. The logical conclusion is that the state should *require* an applicator to obtain a license before offering services if the license guarantees a certain level of competence. Thus, most Arkansans would have no reason to object to requiring licensure, and politicians would be under no pressure to vote against licensure regulation. In Arkansas, a pest/weed control applicator needs at least two years of college education, with only one class relevant to the profession (entomology). Alternatively, they need to gain a year of experience under a licensed professional, obtain insurance, pass an exam, and pay a fee.³

³ Requirements obtained from the 2015 Directory of Licensed, Certified, and Registered Occupations in Arkansas. Prepared by Arkansas' Department of

However, Arkansans might reconsider requiring licensure for pest/weed control applicators if the many unintended consequences of licensure were clearly explained and were a central part of the public conversation about economic growth and poverty alleviation. For example, licensure increases the costs of becoming a pest/weed control applicator, thereby: (1) discouraging individuals with low income from entering the profession; (2) increasing the price customers pay for their services; (3) discouraging individuals with low income from hiring a pest/weed control applicator; and thus (4) increasing the likelihood of chemical poisoning in less-affluent households because the householder attempts to control pests/weeds herself (Carroll & Gaston, 1981).

Given Arkansas' high number of licensed occupations, we all pay these costs repeatedly. Is there an alternative to licensure for Arkansas that addresses the quality and safety issues while avoiding unintended consequences?

Carroll and Gaston (1981, 1983) show that when barriers to entry drive prices up, consumers often make their own repairs. In the case of plumbers, unions drove up prices.

Workforce Services. Retrieved from http://www.discoverarkansas.net/admin/uploadedPublications/2549_DLO_2015.pdf

In the case of electricians, licensing was the culprit.

“Whatever the causal nexus, the system [licensing] showed significant decreases in the density of electricians to be associated significantly with several restrictive measures (tests, experience requirements) and in turn increases in accidental electrocutions are associated with lower per capita availability of electricians.” (Carroll & Gaston, 1981, p. 965).

THE ECONOMICS OF LICENSURE: LICENSURE HELPS LICENSE HOLDERS AND HURTS THE POOR

Nobel Prize-winning economist Milton Friedman considered occupational licensure to be a method that current professionals use to preclude new competitors from entering a profession or occupation (Friedman, 2002), a theory supported almost unanimously in economics research (Kleiner & Krueger, 2010; Persico, 2015). Restricting entry into a specific field empowers those already in the field, while hurting those attempting to enter, and harm is concentrated among the poor and those with low skills. Furthermore, consumers—especially those with low incomes—also suffer from restriction of entry because they pay higher prices and have fewer options for services in the restricted profession.

Mandatory licensure establishes several barriers to entry for workers desiring to enter an occupation. New entrants must pay a fee; pass exams that may be graded by future competitors; complete classroom hours in a board-accepted, state-approved school; and often work a certain number of hours for someone established in the profession. The

required education may be quite expensive, and new entrants must use their time to get licensed instead of earning a living. Moreover, state licensure requirements for many professions require applicants to prove that they are of good moral character. This may prevent former convicts from entering the profession, even if the profession is unrelated to the crime they committed.

These hurdles are usually designed not to protect consumers but to protect incumbents. Kleiner and Kurdle (2000), for example, found that tougher dentistry licensing laws do not improve dental hygiene, but they do increase the cost of services and the earnings of incumbent practitioners. Until recently, Louisiana required florists to fulfill burdensome requirements to obtain a license, yet tests showed that unlicensed florists provided the same quality product as the licensed florists (Carpenter, II, 2011, 2012). Laws that require teeth whiteners to be licensed have increased—not because of demonstrated consumer harm, but because dentists did not like the competition (Erickson

2013). English proficiency requirements for Vietnamese manicurists likely had little to do with protecting the consumer, but it did diminish the number of Vietnamese Manicurists, providing a larger market share for non-Vietnamese manicurists (Federman, Harrington, & Krynski, 2006). State licensing also diminishes the number of massage therapists, giving gains to the incumbent professionals (Thornton & Timmons 2013), but restricting choice for consumers and work for unlicensed massage therapists. A similar story goes for the licensing of cosmetologists (Adams, Jackson, & Ekelund, 2002). As Gellhorn (1976) put it, “Only the credulous can conclude that licensure is in the main intended to protect the public rather than those who have been licensed or, perhaps in some instances, those who do the licensing.”

Another unsatisfying consequence of occupational licensing is that its harm falls disproportionately on minorities. Dorsey (1983) found evidence that minorities disproportionately fail licensure requirements. Moreover, workers raised in poverty are less likely to meet tuition costs for licensure-required education and more likely to possess a criminal record, which can lead them to fail the moral character test. Wheelock, Uggen, and Hlavka, (2011) found that the “moral character” requirement in

occupational licensing regulations disproportionately hurts African Americans in the labor market. In a study on regulation of day-care center staff, Hotz and Xiao (2011) found that regulation produces both winners and losers. Higher-income parents may benefit from higher-quality staff, but lower-income parents may be priced out of the market. Minorities are disproportionately poor, so they will essentially pay for the extranormal profits of the entrenched professionals instead of on the low-priced services.

Conversation about occupational licensing has been elevated to the national level. It has been discussed in a recent White House report (2015) and President Obama’s fiscal year 2016 budget proposal includes \$15 million for the Department of Labor to investigate and address the negative effects of occupational licensing. The White House report suggests voluntary certification, registration, or mandatory bonding as possible alternatives to licensing.

AN EXAMPLE: THE EXPERIENCE OF MASSAGE THERAPISTS

To better grasp the effects of licensing, consider the experience of massage therapists. To be a massage therapist in Arkansas, a worker must pay triple the fee and take twice as many exams as a massage therapist in neighboring Missouri (Carpenter II, Knepper, Erickson, & Ross, 2012), while neighboring Oklahoma has no state licensing requirements at all. In Arkansas, a massage therapist must graduate with at least 500 in-classroom hours of instruction from a board-accepted massage therapy school or state-approved education institution; pass a board-approved massage therapy examination; pass the Arkansas law examination; be of “good moral character”; and pay fees to obtain a license.⁴ Arkansas has regulated massage therapy since 1951, adding more rules and requirements as time passed. However, many requirements do not apply to incumbents, as described in the regulation’s grandfather clause:

“In the event the qualifications for a specific license are increased or changed, a person holding a particular license from the Arkansas State Board of Massage Therapy may continue to hold that license or may upgrade from massage therapist to master massage therapist or from master massage therapist to massage therapy instructor, without meeting current requirements for the particular license the person held at the time of the increase or change.⁵”

Well-trained, educated, and experienced massage therapists do not want competition from inexperienced massage therapists offering low-priced massages. To restrict competition, incumbent massage therapists can lobby the government to create a policy that limits the practice of massage therapy to only those individuals who are well-trained and educated in the field. Such a policy can require each massage therapist to obtain a license only by completing a certain number of hours of schooling, having a certain amount of experience, passing an exam,

⁴ Ibid.

⁵ Arkansas code of 1987. Retrieved from <http://www.arkansasmassagetherapy.com/documents/>

Arkansas%20Massage%20Therapy.Chapter%2086.pdf

and/or paying substantial fees. Experienced incumbent massage therapists have already completed those requirements; can accomplish requirements more efficiently than new entrants; or may be protected by a grandfather clause that exempts the current practitioners from the requirements.

The harm of occupational licensing is experienced on both the supply and demand sides of the service. Poorer, less-educated people who cannot afford the fee; pay the tuition for required education; or take time to study for exams, may never get the opportunity to learn the profession and earn income. In addition, because fewer people are able to sell massage therapy sessions, Arkansans' must either accept the high prices of licensed massage therapists or do without the service. As a result, Arkansans will buy fewer services. Another consequence is that Arkansans pay a uniformly high price for the massages they do purchase; no one is available to offer lower-quality services at a steeply discounted price. Were there no mandatory licensure, it is unlikely that Arkansans would be hoodwinked into paying a premium price for a lower-quality massage. Even in the absence of licensure, a highly qualified masseuse would be able to point to his or her credentials and charge a premium price to those customers willing to pay for top

quality. Practitioners who lacked those credentials would be unable to charge a premium price, and they would reduce their prices in order to attract customers. In short order, an Arkansan would be able to judge a masseuse by price and credentials, and make a choice that aligned with his or her needs. With such mandatory-licensure laws in place, however, incumbent massage therapists severely restrict the practice of massage therapy by newcomers and less-credentialed practitioners.

Would-be massage therapists, most of whom likely have a lower income than well-credentialed massage therapists, do not benefit from licensure requirements. Would-be therapists must either find another source of income or attempt to meet the time-consuming and often cost-prohibitive requirements for licensure. The relatively wealthy among the would-be massage therapists may expend their resources to obtain licensure, but the poorest would-be massage therapists may have to seek alternative employment. Therefore, licensure requirement either eliminates an employment opportunity for poorer massage therapists, or it creates a costly obstacle for them to overcome.

If massage therapy were the only occupation requiring licensure in Arkansas,

then it would hardly be worth writing about. However, the economic logic behind mandatory licensure for massage therapists is the same logic that underlies mandatory licensure of the state's plumbers, dentists, carpenters, cosmetologists, opticians, appraisers, athletic trainers, seed dealers, floor sanders, and so on. In each of these occupations, incumbent workers earn higher incomes at the expense of would-be workers and also of consumers. In these and other mandatory-licensure occupations, poor consumers pay what is for them a burdensome price for licensed services, while consumers with more resources experience a lower burden for licensed services. With an understanding of the economics of licensure, an informed political office holder with a commitment to reducing poverty could do so advocating elimination or reduction of licensure requirements. Given Arkansas' relatively high poverty rate, such a change in policy would be especially beneficial.

The harm caused by occupational licensure is not mere economic theory. As demonstrated in the next section, evidence also shows that occupational licensure hurts those with low income by increasing unemployment, raising prices, and entrenching poverty.

EVIDENCE: THE EFFECT OF LICENSURE ON UNEMPLOYMENT, PRICES, AND POVERTY

Our work differs from Summers (2007), who used data from the Department of Labor CareerOneStop and America's CareerInfoNet. Summers counted the number of occupations in each state that require a license. However, we wanted to analyze the impact of licensing on poor and working class Arkansans, so we used Institute for Justice occupational data, which count licenses on occupations that pay below the national median salary or wage (Carpenter II, et al., 2012).

Our inquiries also differ from research such as that conducted by Kleiner and Krueger (2010), who use Harris poll data asking respondents if they were required to have a government license in order to work in their profession. Harris poll data shows that 20.2 percent of the Arkansas workforce is licensed. The concern with the Harris poll data is that many participants who work in mandatory-licensure occupations are health professionals, lawyers, architects, etc. This type of regulation may have important effects on the labor market (Kleiner, Marier, Park, &

Wing, 2014; Erickson, 2013), but are focus is not on the high-salaried occupations. We focus on jobs workers should be able to do without being forced to acquire extensive formal training.

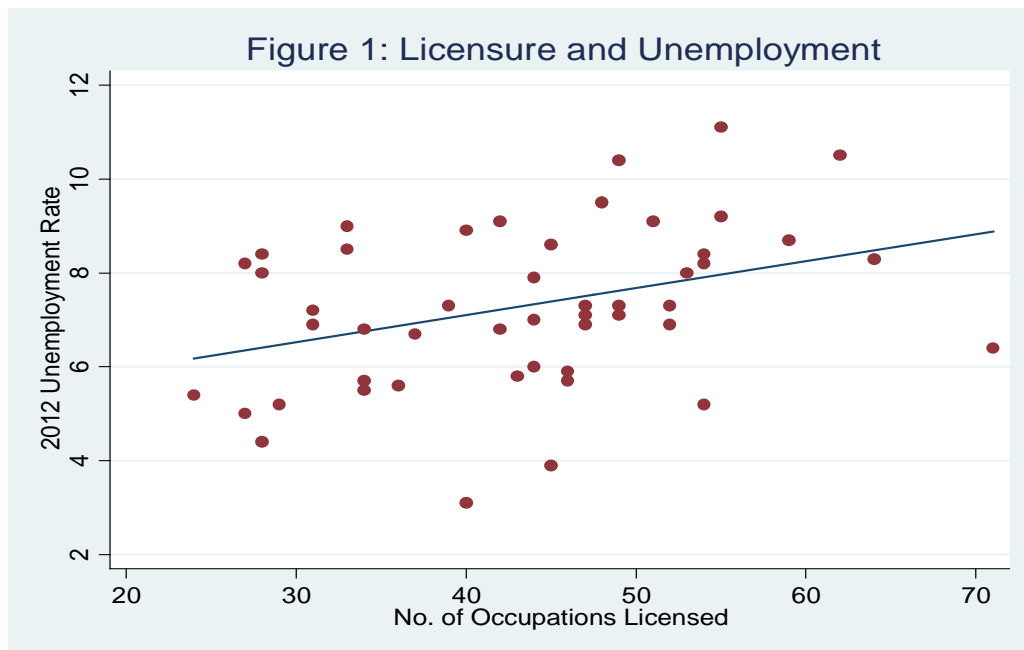
Economic theory suggests that occupational licensing requirements lead to unemployment and higher prices, which can promote poverty. Given that African Americans, in comparison to Caucasians, are disproportionately poor in Arkansas and the United States overall, occupational licensure will disproportionately harm African Americans. Evidence from earlier studies supports the claim that licensing hurts the poor and minorities (Dorsey, 1983; Federman, Harrington, & Krynski, 2006; Hotz & Xiao, 2011; Wheelock, Uggen, & Hlavka, 2011), but this paper explicitly tests whether unemployment, prices, and poverty, have a connection with occupational licensure.

Figure 1 shows the correlation between occupational licensure and the unemployment rate. The state-level

unemployment rate⁶ is on the vertical axis, and the number of occupations that require a license is on the horizontal axis. Recall that the data is limited to those occupations that pay below the national median salary or wage (Carpenter II, et al., 2012). Using data on low-wage jobs allows us to focus on the major hurdles facing low- and moderate-income individuals, rather than on the hurdles high-income individuals face when moving from one high-paying job to another. As discussed earlier, economic theory suggests that occupational licensure can lead to unemployment by creating employment

barriers for low-income individuals. Given that some states require licensure for workers in more occupations than other states, we would expect high-licensure states to have higher unemployment rates than other states. This is indeed the case, as shown in Figure 1: Unemployment and occupational licensure have a positive relationship; states with more low-paying mandatory-licensure occupations experienced a higher unemployment rate than those with fewer low-paying, mandatory licensure occupations.

Many variables can affect the unemployment rate in a state, and Figure 1



Note: State unemployment rates for 2012 (Bureau of Labor Statistics) are on the vertical axis. The number of low-wage mandatory-licensure occupations in each state is on the horizontal axis (Carpenter, II et al., 2012).

⁶ The unemployment rate was taken from the Bureau of Labor Statistics (BLS).

does not consider these other possible relationships; thus its results could be seen as misleading. Variables such as income per capita, percentage of bachelor's-degree holders, population, union membership, and minimum-wage legislation can affect the unemployment rate of low-income individuals. To address these concerns, we perform a regression analysis that allows us to control for the influence of these other variables. Table 1 in the Appendix displays the results of a regression estimated using the ordinary least-squares method.

The results from Table 1 show that an increase of 10 low-wage jobs that are licensed is associated with an increase of 0.36% in the unemployment rate, controlling for other factors. A state such as Arkansas may be able to cut its unemployment rate significantly by eliminating the barrier of licensure for some of its low-paying occupations. In December 2014, Arkansas had a 5.7% unemployment rate with a civilian labor force of 1,312,400.⁷ That unemployment rate was higher than that of some of its surrounding states. This is unlikely to be pure coincidence, given that Arkansas also has one of the most extensive and burdensome licensure systems in the nation. According to the estimate in Table 1,

an elimination of licensing requirements of 10 of low-wage jobs (from 52 to 42 occupations) would increase the number of jobs in Arkansas by 4,725. To get this number, we multiply 10 times the coefficient in Table 1 on the number of occupations licensed (0.036) and subtract that amount from the December 2014 unemployment rate (5.7%) to get 5.34%. If the unemployment rate were 5.34% instead of 5.7%, then the amount of unemployed in Arkansas would have been $0.0534 * 1,312,400 = 70,082$ instead of $0.057 * 1,312,400 = 74,807$. If Arkansas had reduced its low-wage occupation licensure requirements to that of Missouri (from 52 to 31 occupations), it could have experienced an increase of 9,974 jobs and driven the December 2014 unemployment rate from 5.7% to below 4.95%. If the unemployment rate had been 4.94% instead of 5.7%, the number of unemployed Arkansans would have been $0.0494 * 1,312,400 = 64,833$ instead of $0.057 * 1,312,400 = 74,807$. When jobs are abundant, licensing may have small effects on the unemployment rate, but when jobs are scarce, the effect is more substantial.

Economic theory suggests that licensure not only affects unemployment, but it also affects prices. Widespread, expensive

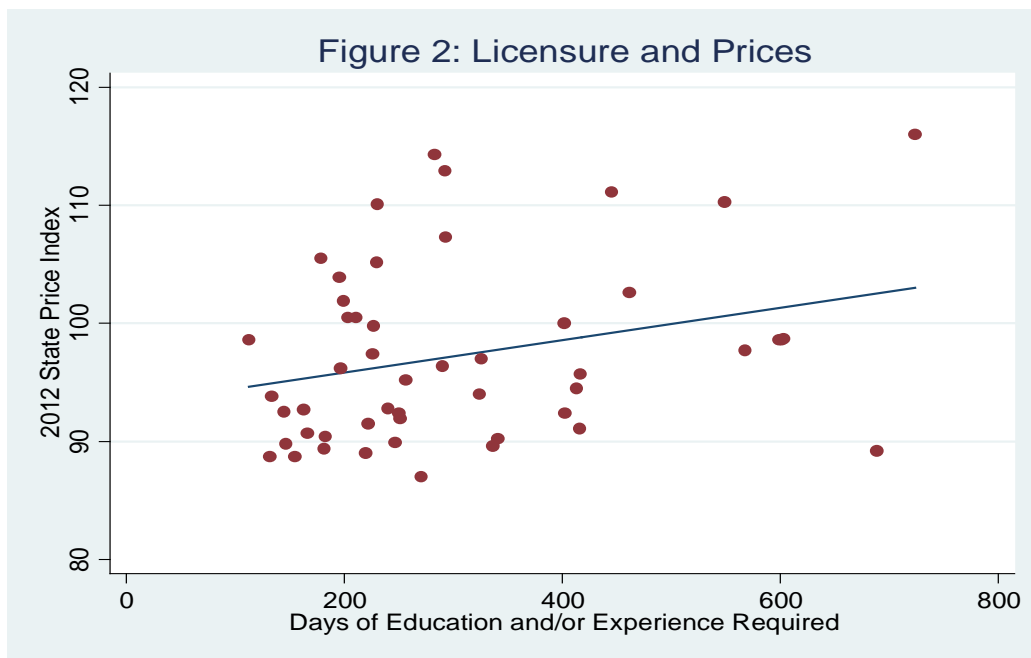
⁷ The labor force data was taken from the U.S. Bureau of Labor Statistics. Retrieved from

http://www.bls.gov/news.release/archives/laus_03172015.htm

licensure requirements increase a worker's cost of providing a product or service. Therefore, states with more burdensome licensure requirements may have higher prices in general. Figure 2 shows the connection between the average number of days of education or experience required to obtain a license in a state and a measure of average prices of products in that state. The Bureau of Economic Analysis compiles the state price index,⁸ which measures prices in each state relative to the average state price index set equal to 100. As expected, Figure 2

shows a positive connection between the average education/experience required to obtain a license and average prices for goods and services.

As in Figure 1, it is possible that prices and licensure requirements in Figure 2 move together because of the influence of other variables, such as the state's population or income per capita. Therefore, it is appropriate to test the relationship between prices and educational/experience requirements while controlling for other variables that may affect prices. Table 2 in the Appendix uses the



Note: The 2012 price index reflects the average prices in each state relative to the average, which is set to equal 100. Data is from the Bureau of Economic Analysis. The average number of days of education and/or experience to obtain a license is obtained from Carpenter, II, et al. (2012).

⁸ For Figure 2, price data was taken from the BEA. Retrieved from <http://bea.gov/newsreleases/regional/rpp/2013/rpp061>

3.htm. Licensure data was taken from Carpenter II, et al. (2012).

ordinary least-squares method to test the significance of the relationship between prices and occupational licensure requirements, controlling for other factors.

Indeed, Table 2 shows that education and experience requirements have a positive relationship on prices, even when controlling for the effects of other important factors. The positive and statistically significant coefficient means that an increase in education and experience requirements for licensure corresponds to an increase in the price level in that state. In Arkansas, licensure for low-wage jobs requires an average of 689 days of education and experience. The estimated coefficient says that if Arkansas were to reduce its education and experience requirement for low-wage jobs to that of neighboring Mississippi (from 689 to 155 days, or a 77.5% decrease), prices would fall in Arkansas by $0.058 \times 77.5\% = 4.5\%$. Simply lowering the (average) barrier to obtain a license in Arkansas could significantly increase the purchasing power of consumers, especially those with lower incomes.

Evidence supports the idea that excessive occupational licensure increases prices and unemployment. These negative effects are likely concentrated among the

poor. Wealthier Arkansans are probably already paying a premium for highly credentialed physicians, interior designers, massage therapists, etc., so licensure requirements have a smaller effect on them as consumers. The wealthier are also likely to be more educated and have the ability to obtain licensure more easily than the poor, so licensure requirements may benefit them by protecting their jobs from competition. Those with low income in Arkansas and in the United States are disproportionately harmed by licensure requirements both as consumers and employment seekers. Figure 3 looks at the relationship between poverty rate (average from years 2007-2011) and licensure of low-wage jobs. A positive relationship exists between poverty and occupational licensure.

Arkansas has a relatively high poverty rate, especially among African Americans.⁹ According to the U.S. Census, one of every three African Americans in Arkansas is living in poverty. If occupational licensure hurts the poor, it disproportionately hurts African Americans. Of course, many factors may affect poverty. Controlling for other factors, we can see that, indeed, licensure is associated with more poverty. Table 3 considers the state

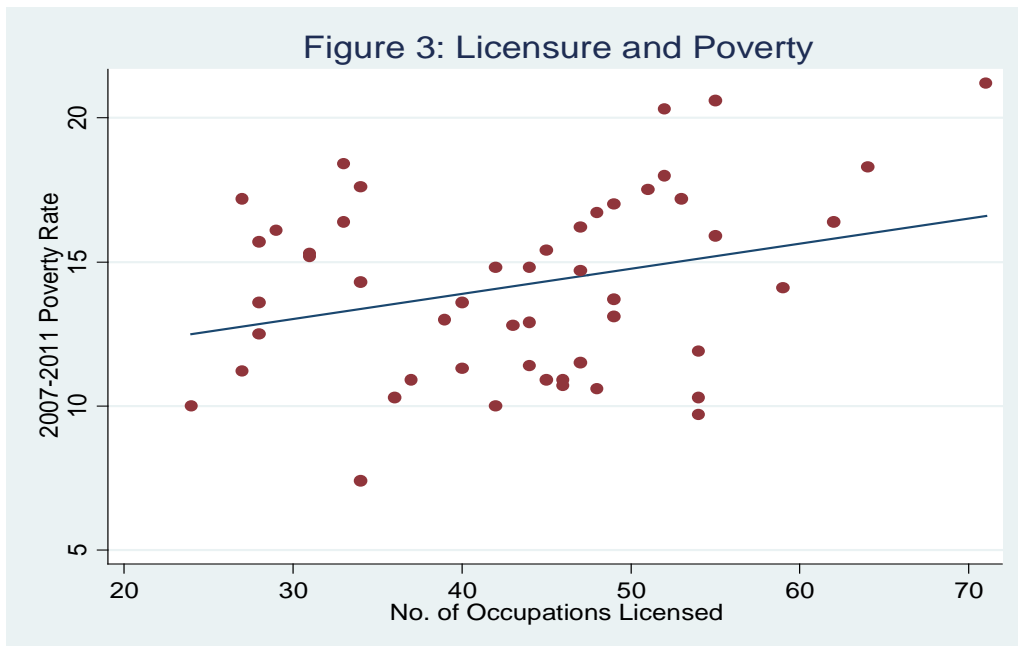
⁹ Poverty data is from 2007-2011 US Census data. Retrieved from

http://www.census.gov/hhes/www/poverty/publications/Appendix_Tables1-24.pdf

poverty rate and occupational licensing requirements.

Controlling for other factors, including average income, requiring 10 additional occupations to get a license results in an

increase in the poverty rate by 1.01%. Table 3 suggests that if Arkansas were to reduce its total licensed low-wage occupations (52) to Missouri's level (31), the decrease in licensure burden could lower the poverty rate by 2.1%.



Note: The poverty rates on the vertical axis is a 5-year average from the U.S. Census. The number of low-wage jobs that require a license is obtained from Carpenter, II, et al. (2012).

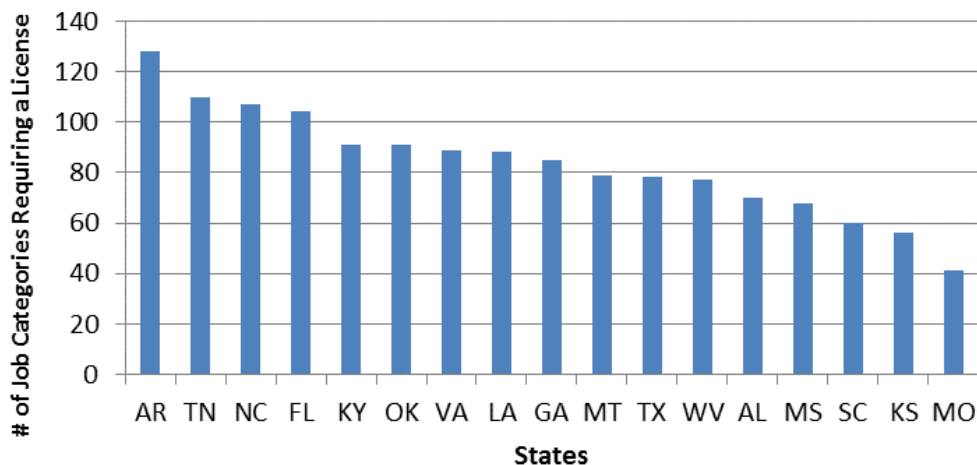
LICENSURE IN ARKANSAS IS EXCESSIVE WHEN COMPARED TO OTHER STATES

Arkansas ranks among the top five states for mandatory occupational licensure.¹⁰ Arkansas requires licensure for three times as many occupations as its neighbor Missouri (128 to 41). Even if Arkansas were to halve the number of occupations that required licensure, it would still exceed the number of occupations that require a license in Kansas (56). It may be no coincidence that Arkansas' per-capita income is lower than those two states. Arkansas licenses 128 occupations to New York's 77, despite the fact that New

York has six times the population of Arkansas. Figure 4 compares Arkansas' mandatory licensure burden to that of surrounding states.

Not only does Arkansas require licensure of more categories of workers than most states in the union, the difficulty of acquiring each license in Arkansas is especially burdensome when compared to other states. Although New York's economy is substantially more diverse and developed than Arkansas', one does not have to be

Figure 4. Licensure in Arkansas and Nearby States



Note: The licensure data discussed here is from Summers (2007) and includes high-paying jobs.

¹⁰ The licensure data discussed here is from Summers, A. (2007), which includes high-paying jobs.

nearly as qualified to obtain a licensed job in New York. In fact, to get a licensed job in Arkansas, on average one needs more than double the amount of experience and education than needed to obtain a licensed job in New York. On a more local level, a worker needs to have an average of more than three times as much education and experience to get a licensed job in Arkansas (689 days) than in Missouri (220 days) or Kansas (166 days). Figure 5 illustrates the differences in education and experience requirements.

Arkansas is especially restrictive in the construction trades. To be a door-repair contractor in Arkansas, one must first have five years of education/experience, pass an exam, and pay fees to obtain a license. No other state is more restrictive. Most states

require no experience/education, or no license at all, to be a door-repair contractor. It seems illogical for the Arkansas to have such special requirements for a person to be able to repair doors, especially in light of the *lack* of mandatory licensure in other states. An almost identical situation exists for floor sanders and other construction trades. If construction trade licensure were established for the public’s health and safety, one would think that more densely populated states would have greater requirements—since a professional error in an apartment building in a densely populated city center would be of greater concern than a relatively isolated building in Arkansas.

Furthermore, Arkansas’ governmental licensing bureaucracies do not

Figure 5. Required Education and Experience for Licensure in Arkansas and Nearby States



Note: The licensure data discussed here is from Carpenter, II, et al. (2012).

operate for free. The 2016 Arkansas state budget for Professional Regulatory Boards & Commissions was \$66,110,756.¹¹ This figure includes expenditures for the Embalmers & Funeral Directors Board, Hearing Instrument Dispensers Board, Massage Therapy Board, Dietetics Licensing Board, Dispensing Opticians Board, and many others. Given Arkansas' population of about 3 million and the total cost of these boards, every person in Arkansas is expected to pay an average of \$22 to the state government for the administration costs of licensing and similar regulations.¹²

¹¹ Budget numbers were taken from the Arkansas Department of Finance and Administration: http://www.dfa.arkansas.gov/offices/budget/Documents/fy2016_funded_budget_schedule_2Dec.pdf

¹² Estimated by dividing the budget by the adult population of Arkansas (U.S. Census).

AN ALTERNATIVE TO LICENSURE: STATE CERTIFICATION

Compared to other states, Arkansas is regulated by a large number of occupational licensure laws. Given the harm and limitations that these regulations can impose, it is time for Arkansans to evaluate whether occupational licensure regulations actually do more harm than good. Very little evidence exists that suggests that licensure has improved the average quality or safety of goods or services *received* by consumers. However, the evidence does demonstrate the harm of excessive licensure: higher prices, unemployment, and poverty. An alternative policy to occupational licensure is certification, which would protect and benefit the public while avoiding the harms of licensure.

Arkansas' consumers would benefit unambiguously under state certification compared to state occupational licensure. The state government could still define, if it so wished, certification requirements, just as it defines licensure requirements. The key difference is that the state would not make it *illegal* for an uncertified interior decorator,

barber, massage therapist, etc., to provide his or her service. If the state shifted from licensure to certification, an individual who did not want a haircut from a certified barber would not be forced to get a haircut from one. If an individual preferred a discounted haircut from an uncertified barber, then he or she would not be forced to pay a premium for the certified barber. If the state is concerned that the consumer can be easily tricked into purchasing services from uncertified and unqualified barbers, the state could require barbers to clearly state whether they are certified. Just as a consumer benefits unambiguously by having the choice of generic or name-brand cereal, the consumer benefits unambiguously from having the choice of a certified or uncertified barber, door-repair contractor, or other worker.

Arkansas consumers would also enjoy lower prices, as certified practitioners would have to compete with the uncertified practitioners, just as brand-name breakfast cereals must consider competitive pricing when a lower-priced generic cereal provides competition. Poor consumers would

especially benefit, since rich consumers would likely continue to choose certified practitioners, just as they would continue to choose brand-name cereals. The prices of many services would decrease in Arkansas if consumers were allowed to choose to obtain services from uncertified workers. Prices in Arkansas are not as high those in some states, but considering Arkansas' high poverty rate and low average wages, any decrease in prices would be especially beneficial.

Inexperienced and low-skilled workers in Arkansas would benefit were the state to replace licensure laws with certification requirements. The uncertified barber or massage therapist can gain experience by offering discounted services, and he or she can decide whether certification is worth the cost. Successful business leaders such as Bill Gates and Steve Jobs found that they did not need to complete a college degree in their field to be successful; similarly, other practitioners may find that their natural abilities and reputation make certification requirements unnecessary. What losses would society have experienced were the great entrepreneurs held back by licensing requirements?

If Arkansas' state government chooses to focus on certification instead of licensure, it may initially require a budget

similar to its current licensure budget, to administer and enforce certification rules. However, the state may find that it does not need to provide certification standards in many areas, as private organizations will shoulder the burden. For example, if consumers want certification for an area that the state does not provide, an entrepreneur will undoubtedly take advantage of the opportunity and create a private certification business. Unlike the state government, private certification companies have a very strong interest to be reputable, since their business is on the line. For instance, if consumers struggle to find a quality air-conditioning repairperson, a company may form to provide a certification- or reputation verification service for that service. In fact, many private companies already provide such services, among them Angie's List, Yelp, TripAdvisor, Good Housekeeping Seal of Approval, Underwriters Laboratory, and Automotive Service Excellence. With private certification companies providing this service, the state can focus its efforts on eliminating fraud instead of administering and enforcing certification.

The quality and public health concerns that give rise to the public perception of licensure can be addressed with certification. Taxpayers can save money

because the state will no longer administer and enforce licensing rules and, more importantly, states can avoid the unintended harms of excessive licensure. The main barriers to reducing licensure are current professionals and public perception: Current professionals are a formidable opponent, as they are already politically organized, have more power, and have powerful incentives to push for restrictive legislation. The general public outnumbers these incumbents, but members of the public and individual consumers do not lose enough to fight the entrenched interests of current professionals. The problem is one of concentrated benefits

for entrenched interests and dispersed costs on the whole public (Olson, 1971). While it may seem easier to attack over-licensing one profession at a time, incumbents and their professional organizations will come out to fight, and consumers and under-employed workers will not fight to change one profession. It may be easier to make one large change in the number of licensed occupations all at once. Specifically, removing licensing boards and legislating optional certification may be much more effective than simply reducing the burdens.

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APPENDIX

Table 1: Unemployment and Licensure¹³	
Dependent Variable: State Unemployment Rate in 2012	
Variables	Coefficient
No. of Occupations Licensed	0.22 *
	<i>0.12</i>
GDP per Capita	-0.39 *
	<i>0.20</i>
Union Membership	0.10
	<i>0.070</i>
Population	0.27 ***
	<i>0.068</i>
Minimum Wage	0.78 *
	<i>0.41</i>
Constant	1.68
	<i>1.90</i>
R Squared	0.47
No. of Observations	50
F Stat	7.49

Note: Robust Standard errors were used. *10%, **5%, and ***1% significance level. Licensure data was taken from Carpenter II, et al. (2012). Other data is from the Bureau of Economic Analysis, the United States Census, the Bureau of Labor Statistics, and the Department of Labor.

¹³ For Table 1, all variables are logged. The Licensure data was taken from Carpenter II, et al. (2012). The other data is from the Bureau of Economic Analysis, the Census, Bureau of Labor Statistics, and the Department of Labor.

Table 2: Licensure and Prices	
Dependent Variable: State Price Index in 2012	
Variables	Coefficient
Education and/or Experience	0.064 *** <i>0.015</i>
GDP per Capita	0.19 *** 0.038
Union Membership	0.074 *** <i>0.16</i>
Population	0.023 <i>0.014</i>
Minimum Wage	-0.08 <i>0.14</i>
Constant	2.01 *** <i>0.48</i>
R Squared	0.64
No. of Observations	50
F Stat	16.50

Note: Robust Standard errors were used. *10%, **5%, and ***1% significance level. Licensure data was taken from Carpenter II, et al. (2012). Other data is from the Bureau of Economic Analysis, the United States Census, the Bureau of Labor Statistics, and the Department of Labor.

Table 3: African-American Poverty and Licensure	
Dependent Variable: African-American Poverty Rate in 2012	
Variables	Coefficient
No. of Occupations Licensed	.23 *** <i>0.094</i>
GDP per Capita	-0.23 <i>0.27</i>
Union Membership	0.13 * <i>0.072</i>
Price	-3.27 *** <i>0.60</i>
Unemployment Rate	-0.022 <i>0.11</i>
Constant	18.58 *** <i>1.83</i>
R Squared	0.65
No. of Observations	50
F Stat	21.11

Note: Robust Standard errors were used. *10%, **5%, and ***1% significance level. Licensure data was taken from Carpenter II, et al. (2012). Other data is from the Bureau of Economic Analysis, the United States Census, the Bureau of Labor Statistics, and the Department of Labor.

ABOUT THE AUTHOR

Thomas J. Snyder is an associate professor of economics at the University of Central Arkansas. A native of the Tallahassee area, he earned his undergraduate degree in economics at Florida State University. He earned his doctoral degree in economics at Florida International University. Dr. Snyder has published research on topics in international trade and economic growth and development. Dr. Snyder is the resident master of UCA's EPIC Residential College. He lives in Conway, Arkansas.

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*If you have questions or comments, or would like more info
about this study or about ACRE and its endeavors,
please contact ACRE Director David Mitchell (dmitchell@uca.edu)
or the author Thomas J. Snyder (tjsnyder@uca.edu).*



**ARKANSAS CENTER FOR
RESEARCH IN ECONOMICS**

UNIVERSITY OF CENTRAL ARKANSAS

211 College of Business
201 Donaghey Avenue
Conway, Arkansas 72035

501.852.0665
<http://uca.edu/acre/>