

ENTREPRENEURSHIP POLICY DIGEST

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OCCUPATIONAL LICENSING: A BARRIER TO ENTREPRENEURSHIP

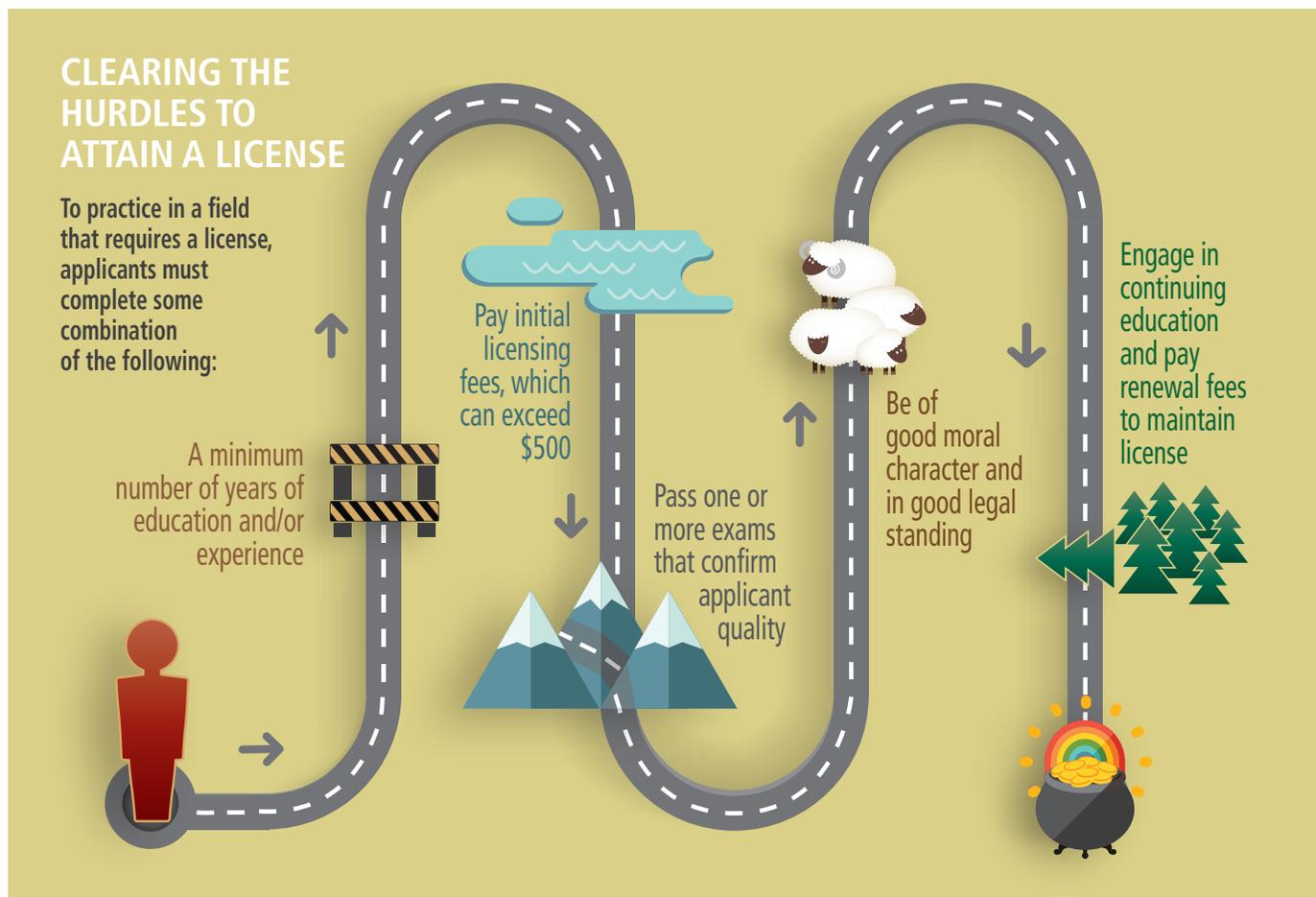
High rates of new business creation are a sign of a dynamic economy in which the barriers to entrepreneurship are low. As entrepreneurs bring new ideas to market, they spur economic growth and create jobs. In fact, companies less than five years old are the [primary source of net new job creation](#) in the United States.

Yet, in certain fields and professions, the path to opening a new business is marked with barriers that can slow or even block entrepreneurs. These barriers often go unnoticed until the entrepreneur runs up against them. Such is the case with one form of government regulation known as licensing, which has the effect of [fencing out new entrants](#) while protecting the licensed from competition.

Since colonial times in America, [governments have imposed licenses on certain professions and trades in the name of public health or safety](#). Today, licensing most often originates at the state level, but municipal governments and the federal government also engage in this form of regulation. Over time, the number of licensed professions has grown and expanded to industries that pose [little or no threat to public safety](#). In some states for example, a license is required to become [a tour guide, sell caskets, or braid hair](#).

About [29 percent of jobs require a government-issued license](#)—a dramatic increase from just forty years ago when only 10 percent of workers were licensed. These licensure requirements result in [fewer practitioners, who can demand higher wages](#), while also stifling new business creation and innovation.

(continued)



FORMS OF OCCUPATIONAL REGULATION



Licensing is one of only several forms of occupational regulation. Other regulatory options can [blunt the negative effects of licensing](#) while still addressing concerns about public safety.

- Besides an outright ban, **licensing** is the most limiting form of occupational regulation, where practitioners must meet certain requirements to practice. *Examples: Dentist, Master Plumber*
- **Certification** has fewer restrictions than licensing, allowing any individual to perform the service but recognizing those who have

achieved a certain level of experience or education with a state certificate of competency. *Examples: Car Mechanic, Hotel Manager*

- The least restrictive form of occupational regulation is **registration**, which requires professionals in a field only to record their qualifications with the state or regulatory body. *Examples: Radiologic Technologists, Lobbyist*

THE LIMITING EFFECTS OF OCCUPATIONAL LICENSING

- Licensing often is justified by claiming that services provided by licensed individuals are of higher quality than those that are not. However, an analysis of licensed interior designers in one state and certified interior designers in another found [no difference in the number of consumer complaints](#) registered.
- Licensing boards can [inhibit innovations in training, practice, education, and the delivery of services](#), preventing the establishment of such options as low-cost legal clinics and prepaid health plans. Such anti-competitive action not only prevents entrepreneurs from entering the industry, but it also raises costs for services entrepreneurs and their employees need.
- Strict state licensing without a system of mutual recognition in other states [restricts the ability of practitioners to move](#) to markets where their skills would be more valuable. Licensing reciprocity ranges from none to full depending on the profession, with many states requiring some additional documentation, fees, and/or testing to obtain a license.
- Occupational licensing requirements can be a hurdle to upward economic mobility. A forthcoming paper finds lower rates of entrepreneurship in states that license more low-income occupations.¹

RECONSIDER LICENSING POLICY TO SPUR ENTREPRENEURIAL GROWTH

- Examine the professions that require a license and [replace licensing with a less onerous form of regulation](#) where public health is not seriously threatened.
- State licensing boards are often composed primarily of licensed members of the occupation. Reform licensing boards to give greater representation to non-licensed practitioners.
- Create public committees to evaluate licensing boards, provide independent analysis of newly proposed licensure requirements, and make recommendations to lawmakers.
- Differences in state licensing requirements can make it difficult for entrepreneurs and workers to find opportunities and jobs, creating stale labor markets and underemployment. [Mutual recognition of other state licenses](#) would improve worker mobility and, thereby, boost economic dynamism.

¹ Findings come from forthcoming research by the Goldwater Institute. Contact jwiens@kauffman.org for access to this paper.

FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at jwiens@kauffman.org:

- Read the Kauffman Foundation's [A License to Grow](#)
- Explore the Kauffman-Thumbtack.com [Small Business Friendliness Survey](#)
- Read [Occupational Licensing: How a New Guild Mentality Thwarts Innovation](#)
- See where your state ranks on the [Institute for Justice's State Profiles](#)
- Read the Kauffman Foundation's [Startup Act for the States](#)



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