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# MFI STUDENT FELLOW

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## Occupational Licensing: Balancing Act for Jobs and the Economy

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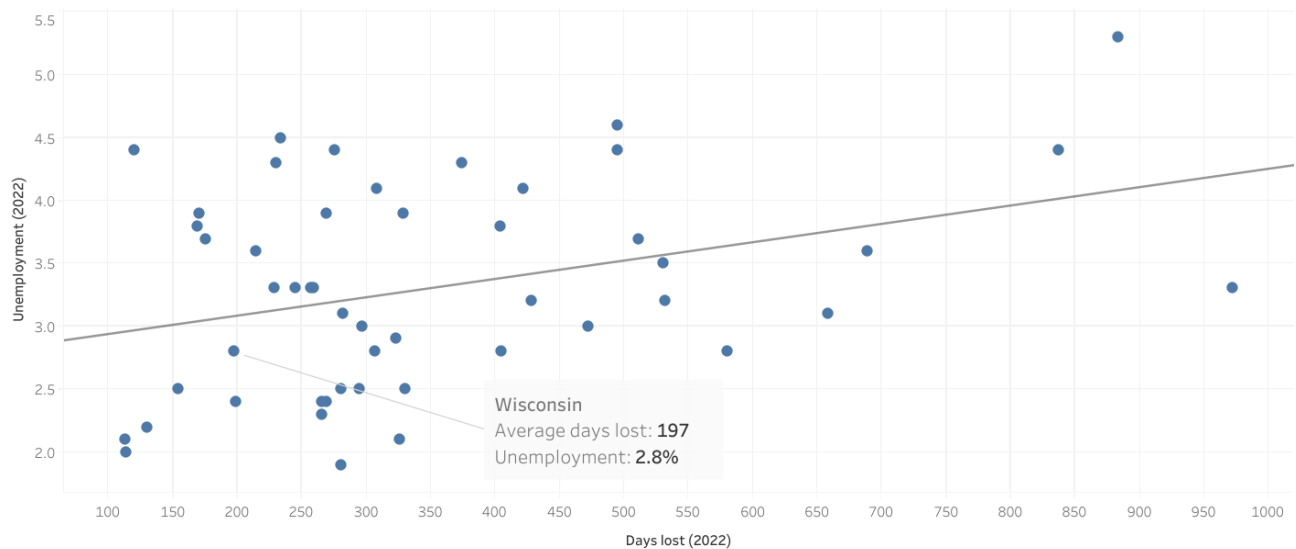
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Occupational licensing is the process by which individuals receive certifications and legal qualifications to work in certain professions. This process is determined and enforced by state governments and differs based on state and profession. There are many advantages to this, but there are also enough drawbacks to warrant calls to reduce occupational licensing or eliminate it entirely.

Occupational licensing is meant to protect certain categories of jobs and ensure that licensed workers are competent and capable. Additionally, it allows for the prosperity of highly skilled workers by reducing potential low-skilled competition. However, excessive occupational licensing requirements can have a detrimental effect on the economy and create unnecessary barriers to entry that discourage economic growth. In addition, occupational licensing requirements can also lead to limited mobility between jobs, reduced competition, and higher costs for consumers, all signs of an inefficient system and obvious detriments to everyone within the U.S. economy. To evaluate the effect of occupational licensing, I will be researching whether occupational licensing requirements have ties to unemployment in Wisconsin and across the country.

The Institute for Justice, a law firm advocating for public interest issues, analyzed the training requirements for 102 lower-income licensed occupations such as barbers, teachers, and bartenders. Throughout this project, this measure was used as a good quantitative representative of the average burden to get a licensed occupation.

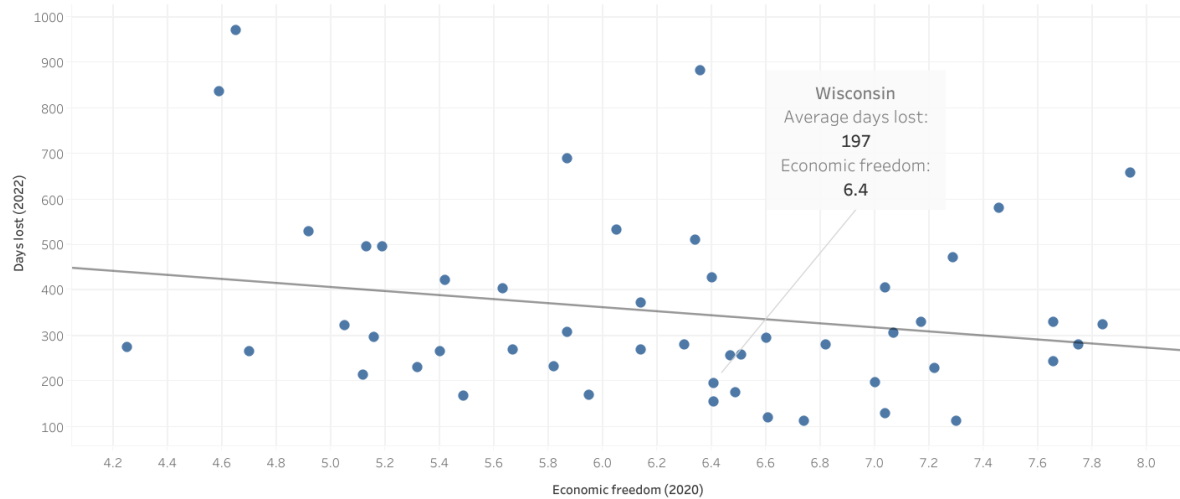
### Relationship between days lost while getting a license and unemployment



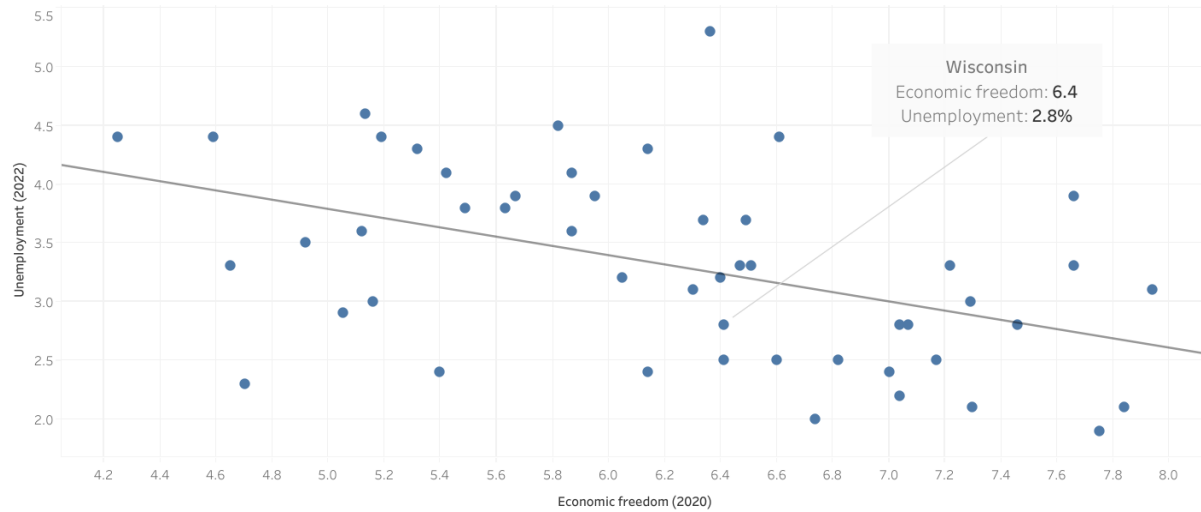
To assess whether occupational licensing requirements make it harder for the average person to get a job, analysis on the relationship between licensing burdens and unemployment rates (data from the Bureau of Labor Statistics) has found that an increase in the burden of getting an

occupational license increases the unemployment rate. This relationship could be explained with the effects of economic freedom, the formal institutions in a society which allows individuals and businesses to make economic choices and engage in economic activities without government intervention or restrictions.

### Relationship between economic freedom and days lost while getting an occupational license



### Relationship between economic freedom and unemployment

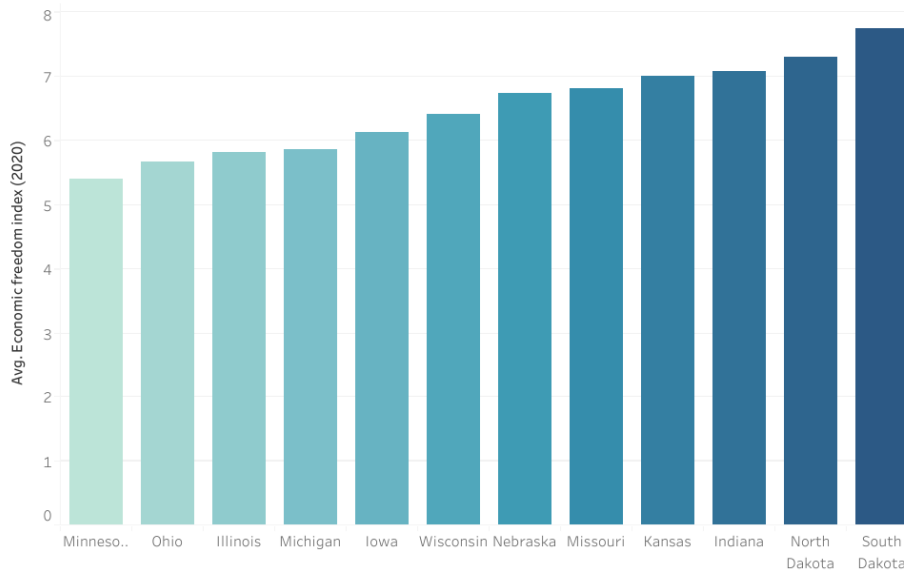


Greater economic freedom encourages job mobility, which can alter the demand for licensed jobs and, in turn, affect licensing burdens. It also fosters entrepreneurship and innovation, leading to a decrease in the average licensing burden by making it easier to obtain licenses. It has been found that the burden for occupational licensing and unemployment is lower in the states that have higher economic freedom (Frasier Institute).

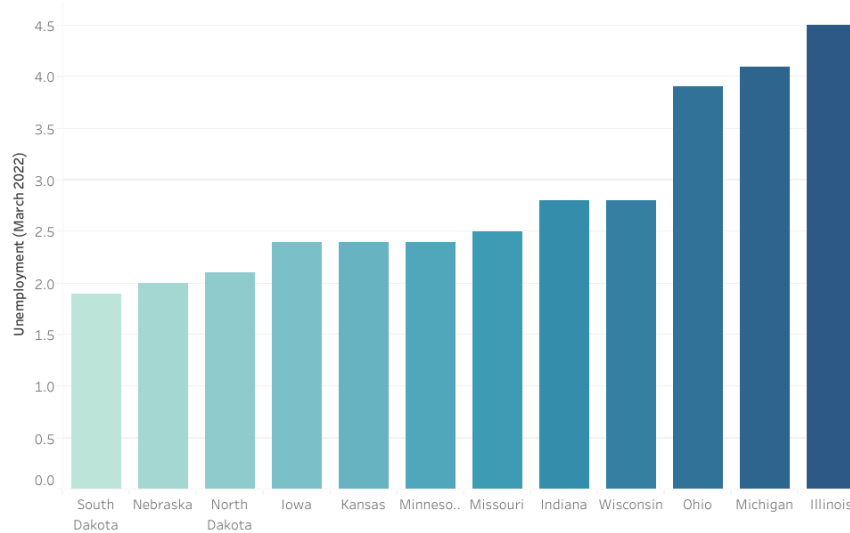
*How does Wisconsin compare to similar states in these metrics?*

Wisconsin paints a positive picture – low licensing burdens, high economic freedom, and low unemployment (with an average of 197 days to obtain a license, an economic freedom index of 6.41, and an unemployment rate of 2.8%). However, when compared to its Midwestern neighbors, it doesn't stand out significantly. The Midwest, on average, has low levels of unemployment (2.8% in the Midwest, 3.3% in the nation) and occupational licensing burdens (236 days (about 8 months) in the Midwest, 351 days (about 11 and a half months) in the nation). It also has slightly higher levels of economic freedom, with an average index of 6.5 compared to the nation's 6.2. Further investigation would be required to determine if there are factors unique to the Midwest region that contribute to this discrepancy.

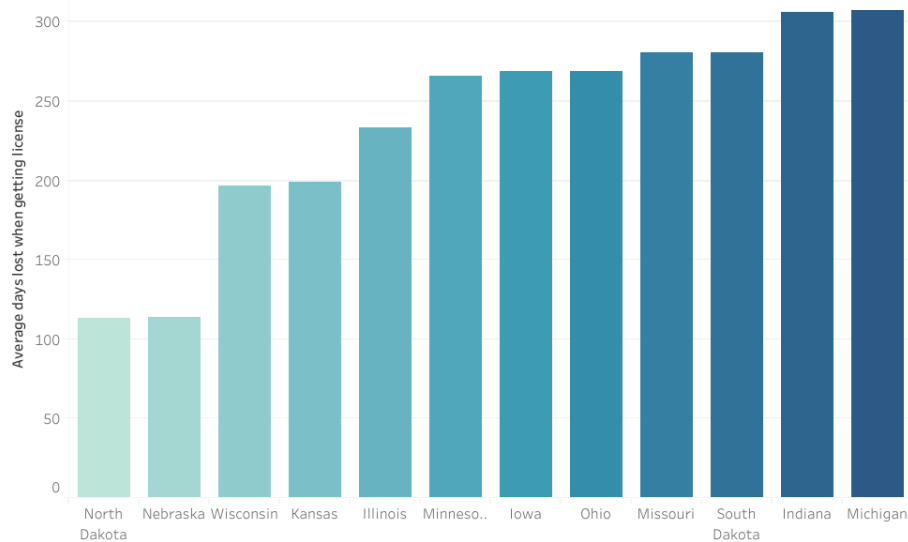
Economic Freedom (2020) in the Midwest



Unemployment (2022) in the Midwest



## Average days lost while getting a license (2022) in the Midwest



While occupational licensing undeniably has its benefits, it's apparent that strict licensing burdens can outweigh the benefits. While some licensing is essential for public safety and consumer protection, there's a growing consensus that the process is often lengthy. Wisconsin, despite its strong economic freedom and relatively low licensing burdens, could still improve its economy by further evaluating and potentially reducing unnecessary licensing requirements.

As the debate on occupational licensing continues, it's clear that finding the right balance between ensuring competence and promoting economic growth is the key to a thriving job market and economy.