Chairwoman Kraft-Tharp, Vice Chairman Coleman, and distinguished members of the Business Affairs and Labor Committee:

My name is Josh Smith, and I am a research manager at the Center for Growth and Opportunity at Utah State University. I concentrate on issues of human capital such as immigration and regulations like occupational licensing. Thank you for inviting me to testify before this committee. I am grateful for the opportunity to discuss our research with you.

Because of Colorado’s licensing requirements, 57,410 jobs and at least $374 million in economic value were lost in the state during 2018. Considering the extent of licensing, these results should not be surprising. A little less than one out of every five workers must be licensed to work in Colorado.

In my testimony today, I want to outline the motivations behind licensing rules and their effects as studied in the academic research. I have also included an attachment of our recent publication dealing with how occupational licensing affects US consumers and workers in greater detail.

**Why License: Consumer Protection**

Occupational licensing laws are generally justified as consumer protections. In theory, requiring workers in certain fields to possess licenses stops incompetent service providers from deceiving uninformed customers and gives customers reason to expect quality service.

**The Failure of Licensing to Protect Consumers**

Research on licensing’s effects shows that it not only fails to achieve its goals but also creates unintended costs.

- Licensing rarely improves quality or public safety
  - A review of 19 studies by economists at the Mercatus Center at George Mason University found that in 12 of the studies, licensing had no effect on quality or an unclear one. Four of the studies showed that licensing led to lower quality, and only three showed that it led to higher quality.²
  - Past studies of the effect of drawing back licensing regulations in the medical field find no harmful effects and even some small evidence of improvements in gestational age.³

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Licensure Should Relate Directly to the Risks of the Occupation
A careful review of the existing research shows that consumers are not well-protected by licensing professionals. My coauthors and I discuss several alternatives and reforms in the attached paper about licensing that are more likely to achieve the aim of consumer protection. Other licensure researchers have made similar recommendations.


- Even when licensing improves service quality, it may still harm some groups of people
  - For example, in a study on the effect of licensing child care providers, the authors found that quality did rise due to licensing, but the number of providers in low-income areas fell.
  - Even though average quality improved as a result of licensing, the beneficiaries were disproportionately wealthy, while the poor sometimes lost access altogether. If licensing causes some people to receive superior care while others get none, it may be hard to tell whether licensing is a net welfare benefit or loss.

- Licensing causes prices to rise
  - Economic theory is clear on this point—restrictions on supply will raise prices for consumers. Often, this means that prices rise while quality remains the same. In one oft-cited paper studying contractors in California, the author concludes that some consumers “may be receiving a quality of service quite similar to what would prevail in the absence of licensing, and they may be paying higher prices for that quality.”

- Licensing rules reduce employment
  - State-level estimates suggest that Colorado loses more than 57,000 jobs and at least $374 million annually in economic value because of licensing rules.
  - A 2018 estimate by economists at Harvard and Clemson finds that licensing reduces the share of workers in the licensed occupations by between 17 and 27 percent. This estimate means that if an occupation is licensed and becomes unlicensed, we’d expect that occupation to grow by between 17 and 27 percent.

License’s Effect on Quality - A Review of 19 Studies

The Number of Studies

- Licensing had a Neutral or No Effect on Quality
- Licensing Lowered Quality
- Licensing Raised Quality

In place of licensing rules, policymakers do not find themselves empty-handed nor do consumers find themselves unprotected. The simple reality is that licensing is one of the most restrictive forms of regulation available and ill-suited for occupations that do not present clear and immediate harm to consumers. Licensing is not, however, the only option.

For example, the emergence of online review platforms like Yelp and TripAdvisor allows consumers to avoid bad service providers by making ratings and complaints clear and transparent. In addition, consumers already rely on private groups to signal quality in many fields by providing certification to signal quality.\(^9\)

Where government intervention is necessary, it should still be related to the risks of the occupation. Instead of licensing, many risks can be mitigated through less restrictive measures. For example, states can certify practitioners and even grant them special titles that only certified individuals may use. Utah does this with dieticians and nutritionists. Anyone may be a nutritionist, but only state licensed and registered individuals may be dieticians.\(^10\) Options like state certification and titling give consumers opportunities to express preferences for higher quality providers without entirely excluding competition.

A reading of the evidence plainly shows that licensing is not the best way to protect consumers, and that it creates a real financial burden for the average person. It is promising to see so many states, and especially those of you here today, taking seriously reform efforts that will better protect consumers and Colorado’s economy.

Thank you again for inviting me to speak about my research with you today. I look forward to discussing any further questions you have. I also have physical copies of our research if you haven’t already received a copy and are interested in taking one.

Sincerely,

Josh Smith
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