

Rightsizing and Reviewing Licensing in Iowa will Benefit Workers and Consumers

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Chair Paulsen and all distinguished members of the Boards and Commissions Review Committee:

Thank you for allowing me to testify regarding occupational licensing in Iowa. I am an associate professor of economics and director of the Knee Center for the Study of Occupational Regulation at West Virginia University. I am also a senior research fellow with the Archbridge Institute.

The main takeaways of my comments are the following:

1. Iowa has the second highest percentage of workers licensed nationally (24%) and this is estimated to cost the state more than \$285 million each year.
2. I find that Iowa licenses 33 more occupations than Kansas and 29 more occupations than Missouri
3. Innovations make licensing harder to justify in today's marketplace.

Occupational Licensing in Iowa

Occupational licensing is the most stringent form of professional regulation. It forbids Iowa residents from working in a profession before meeting entry requirements including achieving minimum levels of education, passing exams, and paying fees to the state. Estimates suggest that more than 24 percent of workers in Iowa are licensed—the 2nd highest percentage in the country.¹ By erecting barriers to entering professions in the state, occupational licensing imposes a multitude of costs upon Iowa citizens and eliminates more than \$285 million in economic activity in the state each year.²

¹ Morris M. Kleiner and Evgeny S. Vorotnikov, *At What Cost? State and National Estimates of the Economic Costs of Occupational Licensing* (Arlington, VA: Institute for Justice, November 2018).

² Kleiner and Vorotnikov, *At What Cost?*

In a recent national analysis, I find that Iowa licenses 180 of the 331 occupations we examine.³ Across all states, I rank Iowa as having the 26th most burdensome licensing requirements. Although this is near the national average, it is 33 more occupations than Kansas licenses and 29 more occupations than Missouri licenses.

Licensing is costly and hard to justify

The licensing of a large fraction of the workforce in Iowa has consequences. Occupational licensing is found to reduce employment by as much as 27%.⁴ Occupational licensing also hurts consumers by increasing the prices of services yet evidence is mixed that it improves quality.⁵

The market for services has changed significantly since occupational licensing laws were originally passed decades ago.⁶ Consumers have access to a wealth of information at their fingertips with online reviews. Research consistently shows that online reviews are more useful to consumers in gauging the quality of service than occupational licensing.⁷

To improve access to the workforce and assist consumers that are still struggling with higher prices, regular and meaningful review of existing licensing laws is warranted. Further, it is important to not add unnecessary licensing requirements and subject any proposed legislation to meaningful sunrise review. When it comes to licensing reform—Iowa should not be satisfied with being average. Iowa can look to its southern neighbors of Kansas and Missouri as a model for rightsizing occupational licensing.

³ Noah Trudeau and Edward Timmons. *State Occupational Licensing Index 2023*. (Washington, D.C.: Archbridge Institute, March 2023)

⁴ Peter Blair and Bobby Chung, “How Much of Barrier to Entry Is Occupational Licensing?,” *British Journal of Industrial Relations* 57, no. 4 (2019): 919–43.

⁵ President Obama White House, *Occupational Licensing: A Framework for Policymakers*, https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf, July 2015.

⁶ Adam Thierer, Christopher Koopman, Anne Hobson, and Chris Kuiper, “How the Internet, the Sharing Economy, and Reputational Feedback Mechanisms Solve the “Lemons Problem,” *University of Miami Law Review* 70, no. 3 (2016): 830-877.

⁷ Chiara Farronato, Andrey Fradkin, Bradley Larsen and Erik Brynjolfsson, “Consumer Protection in an Online World: An Analysis of Occupational Licensing,” NBER Working Paper 26601, January 2020; Darwyn Deyo, “Testing Licensing and Consumer Satisfaction for Beauty Services in the United States,” Kleiner Koumenta, eds. 2022. *Grease or Grit? International Case Studies of Occupational Licensing and Its Effects on Efficiency and Quality*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.