

Death and Occupational Licensing in Hawaii

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Chair Belatti, Vice Chair Takenouchi, and all distinguished members of the House Committee on Health and Homelessness:

Thank you for allowing me to testify on the regulation of funeral services and professionals in the state of Hawaii. I am the assistant director of the Knee Regulatory Research Center at West Virginia University. The main takeaways of my comments are the following:

1. Licensing is not always the appropriate form of regulation because of significant costs.
2. Licensing in Hawaii reduces economic mobility and increases income inequality.
3. Colorado removed licensing for funeral professions in 1983, which reduced prices for consumers and did not result in worse outcomes.

Occupational licensing is one of the most common forms of professional regulation and the most stringent. These laws prevent Hawaii residents from working in a profession until they meet certain entry requirements, which often include education, training, and passing exams. Licensing is designed to protect consumers and the general public from harm from low-skilled professionals, which is an important goal. However, licensing is not the only form of regulation that we can turn to, for consumer protection.

Licensing can be costly, and we have to weigh both the costs and the benefits of licensing. Licensing laws create barriers to entry that make it more difficult to enter a profession. Economic research estimates that licensing reduces the number of professionals by up to 27 percent.¹ Economists consistently find evidence that licensing laws act as a barrier to entry for the funeral profession.² There is also evidence that they tend to disproportionately exclude minorities.³

All of the education and training requirements must be met before an aspiring professional is legally allowed to practice in a licensed profession. Unfortunately, because of the time and money it takes for training and education, many are unable to enter these professions. Research found that licensing laws increase income inequality by almost 9 percent and decreased

¹ 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

² Pizzola, Brandon, and Alexander Tabarrok. "Occupational licensing causes a wage premium: Evidence from a natural experiment in Colorado's funeral services industry." *International Review of Law and Economics* 50 (2017): 50-59.

³ Mitchell, Matthew. "Policy Spotlight: Occupational Licensing and the Poor and Disadvantaged." Mercatus Center Policy Brief. (2017).

economic mobility by almost 4 percent—making achieving the American Dream that much more difficult.⁴

Despite the fact that licensing laws have such an impact on aspiring professionals, we find limited evidence of any improvements in the quality of services due to licensing.⁵ This is also true for funeral services in particular. In 1983, Colorado sunsetted its funeral services board, and economists later found no evidence of any decrease in quality.⁶ In fact, when considering a similar bill to HB 2149, the Colorado Department of Regulatory Agencies recommended against licensure, finding no evidence of threats to the public health, safety, and welfare by the new, unlicensed funeral professionals.⁷

That is not to say that delicensing had no effect. Removing licensing for all funeral professions in Colorado decreased the prices that consumers paid by 15 percent.⁸ Licensed funeral directors push customers to higher-priced services, which increases their spending.⁹ We would expect the opposite to occur after licensing funeral directors; that consumers would face higher prices.

Active professionals will be grandfathered in, benefiting from the restriction on competition from new entrants in the form of higher wages. Aspiring professionals are forced to overcome greater barriers to entry, while consumers are forced to pay higher prices for the same quality services.

Although licensing laws are designed to protect consumers from harm, they are not always appropriate or effective. Aspiring professionals suffer, facing roadblocks to meaningful work. Individuals should not be prevented from entering a profession unless there is evidence of a need for regulation. Hawaii should not make it more difficult for aspiring funeral directors.

⁴ Timmons, Edward, Brian Meehan, Andrew Meehan, and John Hazenstab. "Assessing growth in occupational licensing of low-income occupations: 1993-2012." *Journal of Entrepreneurship and Public Policy* 7, no. 2 (2018): 178-218.

⁵ "Occupational Licensing: A Framework for Policymakers," White House, July 2015,

https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf

⁶ Pizzola, Brandon, and Alexander Tabarrok. "Occupational licensing causes a wage premium: Evidence from a natural experiment in Colorado's funeral services industry." *International Review of Law and Economics* 50 (2017): 50-59.

⁷ Colorado Department of Regulatory Agencies Office of Policy Research and Regulatory Reform, 2007. Funeral Service Practitioners. https://ij.org/wp-content/uploads/2022/02/sunrise/Colorado_2007_FuneralServicePractitioners.pdf

⁸ Pizzola, Brandon, and Alexander Tabarrok. "Occupational licensing causes a wage premium: Evidence from a natural experiment in Colorado's funeral services industry." *International Review of Law and Economics* 50 (2017): 50-59.

⁹ Harrington, David E., and Kathy J. Krynski. "The effect of state funeral regulations on cremation rates: Testing for demand inducement in funeral markets." *The Journal of Law and Economics* 45, no. 1 (2002): 199-225.