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Now You Can Take It with You

Effects of Occupational Credential Recognition on Labor Market Outcomes

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Occupational licensing is a prominent labor market institution in many countries. For example, the share of workers with occupational licenses is above 20 percent in the United States and the European Union. As a government-issued credential, occupational licenses are expected to improve service quality and protect consumers from unscrupulous providers. However, by requiring government permission to practice, occupational licensing creates barriers to entry and is likely to serve special interests rather than the public interest. State licensure prevents individuals with out-of-state licenses from providing a service even though they are trained, credentialed, and experienced workers who are unlikely to raise concern about service quality. Our work shows that expanding recognition of out-of-state licenses increases employment of licensed occupations without sacrificing service quality.

This study focuses on a policy of universal recognition among US states that allows individuals with occupational licenses issued by other states to work without repeating a costly relicensing procedure. Under the existing system, occupational licenses are often not portable across states: an individual licensed in one state cannot practice in another state until that individual obtains a new license, which often requires additional training, exams, or practice experience. The limitation in license portability may reduce interstate exchange of licensed service and mobility of licensed individuals. Also, for those who need to move across states for involuntary reasons—such as work reassignment of a spouse—a costly relicensing procedure may prevent or delay their continuing work in licensed occupations. Thus, universal recognition may improve license portability and lower licensing barriers to entry and mobility against individuals who are credentialed by other states.

Editor, **JEFFREY MIRON**, Harvard University and Cato Institute.

Our work examines the effect of universal recognition on labor market activity and geographic mobility. In theory, universal recognition is expected to increase labor supply through additional labor market participation of individuals with out-of-state licenses. Since the policy should have little effect on service quality and labor demand, we hypothesize an increase in employment and a decline in wages. Turning to geographic mobility, universal recognition may increase migration and commuting inflows from other states. Also, we expect the policy to increase the supply of services and reduce prices, although these effects are beyond the scope of our research. Overall, universal recognition may have a positive welfare (well-being) implication by reducing licensing barriers against experienced workers and by adding competition into the market for licensed services.

To identify the effect of universal recognition, our research exploits staggered adoption of the policy by 18 states from 2013 to 2021. The study sample is individuals aged 18–64 in the American Community Survey from 2005 to 2021 who live in houses, apartments, or mobile homes. Our analysis examines how universal recognition affects the labor market outcomes of licensed individuals in states with a universal-recognition policy relative to other states. Labor market outcomes our analysis focuses on include employment, unemployment, labor market participation, hourly wages, usual hours worked, the number of weeks worked, interstate migration, and interstate commute. In our study, the term "licensed individuals" refers to people who reported a current or previous occupation that is licensed in most states and identifiable in the survey. Among them, our research focuses on 21 licensed occupations that are typically eligible for universal recognition but not for interstate licensure compacts, an alternative license portability program.

Our research reveals that universal recognition has a strong effect on employment. After the policy was implemented, the employment ratio increased by 0.98 percentage points among licensed individuals in the sample relative to unlicensed individuals. The employment effect is driven by additional labor market participation and a reduction in unemployment after the policy implementation. There is also evidence of a decline in hourly wages among licensed individuals after the policy implementation. Moreover, the policy's employment effects are largest for licenses with the lowest preexisting portability, which suggests that universal recognition accomplishes its goal of improving license portability and thus labor market outcomes. Regarding geographic mobility, our research shows that migration into states with universal recognition increased by 48.4 percent (0.77 percentage points) among individuals with low-portability licenses.

Our work contributes to the ongoing policy debates on occupational licensing. This study demonstrates the efficacy of an occupational credential recognition program on labor market activity and geographic mobility. Furthermore, our study provides a clear, negative welfare implication of licensing barriers between states. Our research demonstrates positive labor market effects of license portability on experienced practitioners with out-of-state licenses, so there is little to no concern of a decline in service quality. Lastly, this study provides guidance for policymakers who may want to consider universal recognition as a cost-effective policy tool for workforce development of migrants with out-of-state licenses and for labor market assimilation of immigrants with foreign occupational credentials.

NOTE

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