

## How Does Universal Recognition Effect Licensed Industries? Evidence from the Hairstyling Industry

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### Introduction

Occupational licensing laws are state level requirements one must meet before they can begin practicing in a profession. They are designed to protect consumers. Aspiring professionals must meet the minimum standards created by licensing laws before they are able to practice, in an effort to screen out low quality professionals who are most likely to cause consumers harm. Licensing laws contain requirements for minimum levels of education, lengths of training, competency exams, and professional experience. Because these requirements must be met before an individual can legally practice, they can be thought of as a permission slip to work from the government.

The prevalence of licensing has grown considerably over the last 70 years. In the 1950s, just 5 percent of the labor force had to obtain a license in order to work.<sup>1</sup> It was primarily limited to highly skilled fields where mistakes threatened consumer's health, like physicians and dentists. It has spread to well beyond the original professions, and today over 20 percent of workers must first obtain a license in order to work.<sup>2</sup> Professions like real estate agents, auctioneers, interior designers, massage therapists, and hairstylists all require licenses. Licensing is the most common labor market institution, as more workers are licensed than belong to labor unions or earn the minimum wage.

Although policymakers continue to rely on occupational licensing to regulate professions, licensing laws do have drawbacks. Licensing laws create a barrier to entry into a profession. Before an aspiring professional can begin working, they must meet the licensing requirements—this means foregoing earning an income to meet the education requirements, taking exams, and waiting for the application process, which can be a long and costly process. While it does prevent lower skilled professionals from entering the profession, it can also serve as a barrier to those with adequate skills but lack the time and money to meet the requirements. Research consistently finds that licensing laws reduce the supply of workers in a profession between 17 and 27 percent, a significant reduction in the number of workers.<sup>3</sup> And over time, licensed professions experience slower employment growth than unlicensed professions.<sup>4</sup>

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<sup>1</sup> Kleiner, M. M., & Krueger, A. (2013). Analyzing the extent and influence of occupational licensing on the labor market. *Journal of Labor Economics*, 31(2), S173–S202

<sup>2</sup> Bureau of Labor Statistics (2021). Current Population Survey. <https://www.bls.gov/cps/cpsaat52.htm>

<sup>3</sup> Blair, P. Q., & Chung, B. W. (2019). How much of barrier to entry is occupational licensing?. *British Journal of Industrial Relations*, 57(4), 919-943.

<sup>4</sup> Kleiner, M. M. (2006). *Licensing Occupations: Ensuring Quality or Restricting Competition?* WE Upjohn Institute.

Restricting the number of professionals has negative effects for consumers. Holding other things equal, reducing the supply of professionals offering a particular service increases the prices that consumers pay. Economists estimate that licensing raises consumer prices by anywhere from 3 to 15 percent depending on the profession.<sup>5</sup> These higher prices for goods translate to higher wages for licensed professionals. Not only do consumers pay higher prices, but fewer professionals also means that consumers receive less convenient services, with longer wait times or farther distances to travel.

There is limited evidence that licensing is able to achieve its goal of improving the quality of services. A report by the Obama Administration in 2015 surveyed the existing licensing research and found little evidence that licensing improved quality and most of the studies found no effect.<sup>6</sup> While licensing may serve as a floor, preventing low quality professionals from offering services, it may also act as a ceiling, preventing services from improving over time. In a typical market, competition from new entrants puts pressure on current professionals to improve their services or innovate to better meet consumer needs. However, licensing laws by their nature restrict new entry, reducing the pressure from competition and new entrants. Fewer new entrants and less competition reduces quality improvements.

Because licensing laws are passed at the state level, they can make it more difficult for licensed professionals to move between states. Inconsistencies between specific requirements often arise because licensing laws are passed by each individual legislature. States require education programs with different lengths and may require state specific exams. Additionally, not all professions are licensed in all 50 states.<sup>7</sup> A professional can legally practice without a license for years in one state, but after moving to a new state, be required to start the licensing process from the beginning. Even when a profession is licensed in all 50 states with relatively standard requirements, licensing still poses an additional cost for those moving between states. After moving, a professional is required to apply for a license in their new state, submitting documents like exams scores, their previous license, and their education transcripts. The application timeline can take anywhere from weeks to months depending on the state and profession. Licensing laws have been shown to reduce geographic mobility by 7 percent compared to unlicensed professions,<sup>8</sup> and states with more low-skilled professions licensed have lower in-migration.<sup>9</sup>

## Universal Recognition

The ability of workers to move to a new location for work is an important part of a well-functioning labor market. Open movement allows professionals to move to a new state to fill a

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<sup>5</sup> Kleiner, M. M., & Vorotnikov, E. (2017). Analyzing occupational licensing among the states. *Journal of Regulatory Economics*, 52(2), 132-158.

<sup>6</sup> Department of the Treasury Office of Economic Policy, the Council of Economic Advisers, and the Department of Labor. (2015). Occupational Licensing: A Framework for Policymakers.

[https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing\\_report\\_final\\_nonembargo.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf)

<sup>7</sup> Carpenter, D. M., Knepper, L., Sweetland, K., & McDonald, J. (2017). License to Work: A National Study of Burdens from Occupational Licensing. Arlington: Institute for Justice.

<sup>8</sup> Johnson, J. E., & Kleiner, M. M. (2020). Is occupational licensing a barrier to interstate migration?. *American Economic Journal: Economic Policy*, 12(3), 347-73.

<sup>9</sup> Mulholland, S., and Young, A. (2016). "Occupational Licensing and Interstate Migration." *Cato Journal* 36 (1): 17-31.

shortage in a particular industry or allow entrepreneurs to bring a new service to consumers. Workers who move for economic reasons do so for higher wages or for a job that better meets their needs. Therefore, occupational licensing laws can act as a barrier to both economic opportunity for workers and labor market efficiency.

In an effort to reduce the cost of occupational licensing for licensed professionals moving between states, some states have implemented a reform recognizing out-of-state licenses. Called universal recognition, a state will recognize a license issued to a professional by another state. It does not create a national license; a professional must still apply for licensure in their new state. However, by accepting the credential, states can substantially lower the wait time and cost of obtaining a license. Some limitations persist. For instance, many states have requirements for similar training or education, similar scope of practice, background checks, or establishing residency. Determinations of the similarity of training requirements are left the licensing board to determine, leaving them with some level of discretion. Professionals still have to demonstrate skill through obtaining a license and practicing for one to three years without disciplinary actions. Additionally, for professions which are not licensed in every state, some states accept experience in lieu of a license.

Universal recognition is a relatively recent reform. They were modelled after reforms designed specifically for spouses of active duty military service members, who frequently move between states. Military Spouse reciprocity laws were encouraged by the Obama Administration in 2012.<sup>10</sup> In 2016, New Mexico became the first state to pass universal recognition for all licenses. Arizona was the 5<sup>th</sup> to pass universal recognition, but the first to remove the requirement for substantially similar training, removing licensing boards' discretion. For this reason, they are often referred to as the first to adopt universal recognition. Today, 18 states have some form of universal recognition. Table 1 below shows the state, year, and requirements for universal recognition.

Table 1: States with Universal Recognition, by Year and Requirement

State	Year	Equivalent Training Requirement	Residency Requirement
New Mexico	2016	x	
Nevada	2017	x	
New Hampshire	2018	x	
New Jersey	2018	x	
Arizona	2019		x
Pennsylvania	2019	x	
Colorado	2020	x	
Idaho	2020		
Iowa	2020		x
Missouri	2020		
Montana	2020	x	
Utah	2020		
Vermont	2020		

<sup>10</sup> US Department of Defense. (2019). "Military Spouse Licensure: State Best Practices and Strategies for Achieving Reciprocity."

Kansas	2021		x
Mississippi	2021		x
Oklahoma	2021	x	x
South Dakota	2021	x	
Wyoming	2021	x	

Source: Institute for Justice<sup>11</sup>

## Universal Recognition in the Hairstyling Industry

Universal recognition makes the relicensure process easier and less costly for licensed professionals moving to a new state. Recently published research finds that universal recognition results in an additional average net migration of 11 tax filers and \$1.7 million in adjusted gross income after enactment.<sup>12</sup> But universal recognition may also have unique effects on select licensed industries. The working paper “How Does Universal Licensure Impact Workers and Businesses? Evidence from the Hairstyling Industry in the United States, 1996-2021,” explores the effect of universal recognition on the hairstyling industry, one of the most broadly licensed industries in the nation. The hairstyling industry includes barbers, cosmetologists, and hairstylists, all of whom require a license in all 50 states. The analysis includes four industry outcomes at the state level: the change in wages, workers, businesses, and training programs.

The paper’s results indicate wage growth was 1.8 percent higher for hairstyling industry workers in states with universal recognition than states without it. However, the effect is different between types of universal recognition. States with similar training requirements saw a 2.2 percent higher wage growth, while states with a residency requirement did not have a change in wage growth compared to states without universal recognition. Overall, universal recognition does not appear to impact the change in employment. States with similar training requirements also experience no change in employment; however, states with a residency requirement experience a 3.9 percent increase in employment compared to non-universal recognition states.

Turning to measures of the industry as a whole, universal recognition has a limited effect. There is no evidence that states that pass universal recognition have an increase in the number of establishments. In states with a residency requirement, there is some weak evidence of an increase, but there is no effect for states with a similar training requirement. Finally, there is no evidence that universal recognition has an effect on the number of training programs, which holds for both types of universal recognition.

Overall, states with residency requirements saw faster employment growth but no effect on wage growth. The substantially similar training requirements is more restrictive than the residency requirement, as those states had no increase in employment. The effects of universal recognition on the number of establishments and training programs were small, but that should be expected because of the small number of people who take advantage of universal recognition. Combined, the results suggest that universal recognition can have a small positive effect on an industry,

<sup>11</sup> Institute for Justice. (n.d.). State Reforms for Universal License Recognition. Retrieved May 25, 2022, from Institute for Justice: <https://ij.org/legislative-advocacy/states-reforms-for-universalrecognition-of-occupational-licensing/>

<sup>12</sup> Deyo, Darwynn, and Alicia Plemmons. (2022). "Have license, will travel: Measuring the effects of universal licensing recognition on mobility." *Economics Letters*: 110800.

depending on the specific requirements included in the reform. Restrictions like similar training requirements can leave boards with enough discretion to swamp the potential positive effects of universal recognition.

### **Conclusion**

The uniqueness of the hairstyling industry provides a good example for the study of universal recognition and allows us to explore the effect on a wider range of industry outcomes. The results suggest that states that implement universal recognition have little improvement over states that do not. When broken down by type of requirement, there is some evidence that states with residency requirements have some of the expected benefits, but not states with the similar training requirements.

These results have two implications. First, that the total number of people who are able to take advantage of the reform is small, so any broader effects on the state economy will be limited. Second, the similar training requirement still allows licensing boards to use discretion to limit licensure from other states, reducing the effectiveness of the reform. The design of universal recognition laws is important to ensure its effectiveness. Universal recognition can be an effective tool to lower the cost of relicensure for professionals moving to a new state, but it is not a panacea for the costs of occupational licensing.