

Economic Effects of Arizona's 2019 Universal Recognition in HB 2569

Executive Summary

The best path to prosperity is a job. Work brings dignity, hope, and purpose to people by allowing them to earn a living, gain skills, and build social capital that endures. Unfortunately, state and local governments frequently impose regulatory obstacles that hinder this path. Arizona has been at the forefront of removing such hurdles, most recently with the enactment of House Bill 2569. Known as “universal recognition,” this landmark 2019 reform streamlines occupational licensing across dozens of professions by allowing skilled professionals to use their out-of-state experience to quickly obtain a license to work in their new state. Arizona pioneered this approach to help workers relocate, and it is already working, incentivizing even more people to move to the state, and supporting long-term economic growth and job creation. States should follow Arizona's lead and remove overly burdensome occupational regulations, with universal reforms at the heart of such efforts. Numerous governors have already signed versions of universal licensing recognition into law, and even more are poised to enact the reform in the next few years.



Introduction

The labor market is an institution that brings employers and employees together so they mutually benefit from exchange. Workers benefit from the opportunity to develop their skills and receive a paycheck. Employers benefit from increasing their value to consumers and therefore their profitability to stay in business and expand over time. This mutual benefit is the reason for the exchange, which improves the economy in the process. The free market version of the labor market would provide optimal outcomes in a dynamic economy. However, there are perceptions that the labor market fails in some way by having employers take advantage of workers or by consumers not getting the best value for their dollar.

Given this perception of a “market failure,” the often-desired outcome is for the government to intervene in the labor market to correct it. One of the perceived failures is concern about the health, welfare, and safety of the public in various service sectors of the market. In order to correct this presumed market failure, governments impose laws that tend to be the most strenuous form of labor market regulation: occupational licensure. These laws attempt to impose a minimum quality standard in a profession, typically requiring a worker to get a government permission slip to work after completing low levels of training, paying fees, and completing an exam. This interference in the marketplace is a costly endeavor that limits or prevents competition among individuals in an industry and artificially raises licensed workers’ wages at the expense of consumers and potential entrants. In short, this perceived market failure turns a market situation into a government failure resulting in fewer job options for workers and higher costs and lower-quality products for consumers. (Bordelon et al., 2023).

Occupational licensing is widespread government intervention in the labor market, influencing far more workers than those in a union or earning a legal minimum wage. Initially, these laws were limited to a few professions, but their reach has grown substantially since the 1950s. The number of workers required by states to obtain a license has risen from 5% in the 1950s (Kleiner and Krueger, 2010) to 21.7% in 2022 (Bureau of Labor Statistics, n.d.), which was during a period when union membership substantially declined (Ginn & Timmons, 2018; Bureau of Labor Statistics, 2022). The costs of occupational licensure have been noted by both Democrat and Republican administrations in recent years. In 2015, the Obama administration noted the following effects of occupational licensing:

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- Raises price of services by 3% to 16%;
 - Places burdens on military families and individuals with criminal records;
 - Reduces the supply of workers in a profession; and
 - Fails to improve quality, according to 83% of studies (Department of the Treasury, 2015).

Meanwhile, the Trump administration issued an executive order in 2020 also highlighting many of the Obama administration's conclusions (Executive Order, 2020), and the Biden administration showed support for licensure reform in 2021 (Executive Order 14036, 2021).

While Arizona has an array of licensed professions, the state legislature provided some relief to many individuals moving to the state by passing universal recognition in 2019. This policy brief provides an overview of universal recognition through HB 2569 in Arizona, the state's labor market over time, and the estimated economic effects of this key reform.



Universal Recognition

Every U.S. state (and D.C.) requires an occupational license to work in certain occupations. Although many states have similar licenses, their differences result in workers being locked into states where they are licensed because of the high cost of moving and obtaining a license in a new state. State-level occupational licensing laws make it difficult for people to move to a new state and begin working, forcing many to spend time and money retaking classes, passing exams, and waiting for the application process. Even if states have the same licensing standards, new residents are still required to obtain a new license from the licensing board. Instead of protecting consumers, this only hurts those moving to the state (Plemmons, 2022). This arcane situation reduces the freedom of workers to work and firms to hire those workers, thereby contributing to fewer options, lower-quality services, and higher prices in those licensed marketplaces.

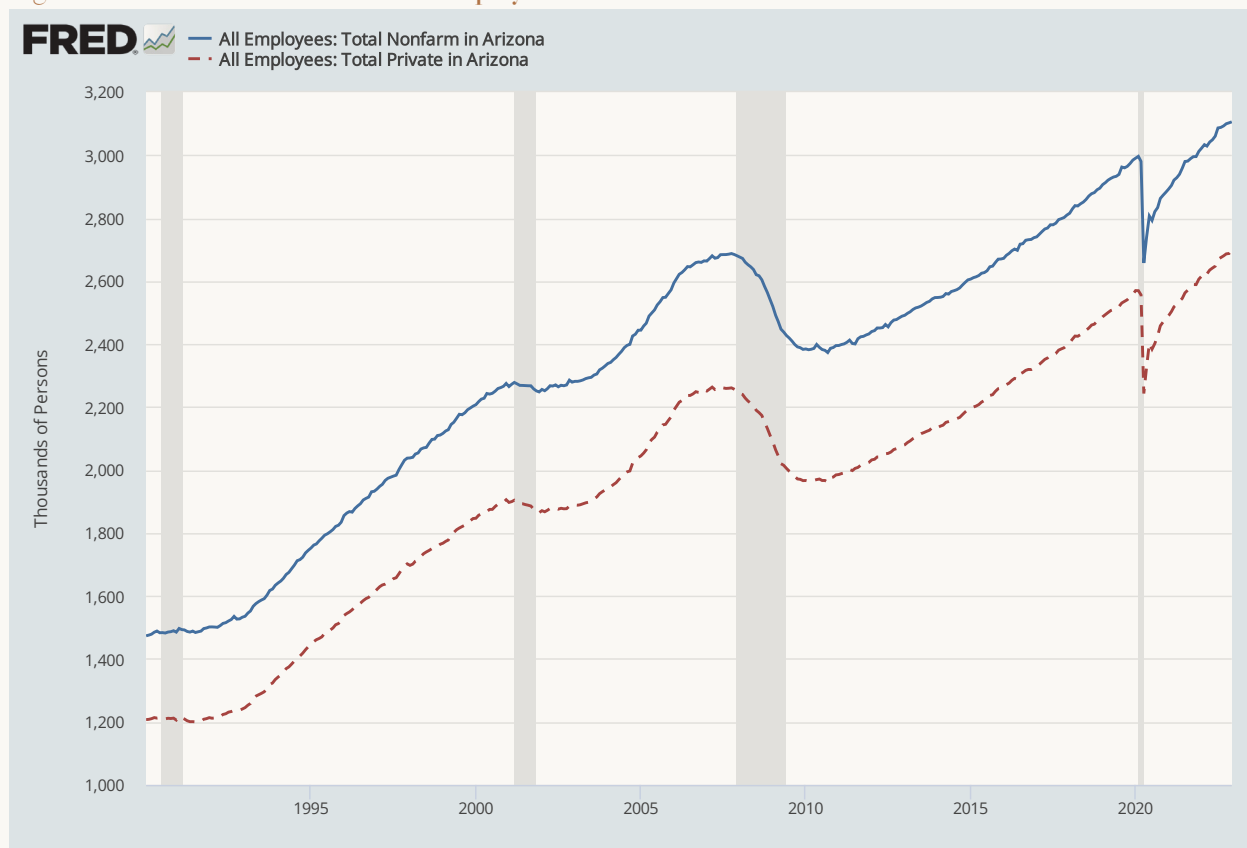
Beginning with Arizona in 2019, a growing number of states have implemented what is called universal recognition of out-of-state occupational licenses (Curry, 2022). Universal recognition laws are designed to remove the discretion of licensing boards to deny licenses based on state-to-state differences and instead require them to issue licenses to prospective workers who meet certain specifications (Follett et al., 2021). Universal recognition laws require prospective applicants to have held an out-of-state license with a similar scope of practice for a specified period of time, generally one year. Applicants may not have active disciplinary proceedings or complaints, and are required to pay applicable fees and complete state-specific exams if required for initial licensure in the state. Universal recognition reduces licensing-law barriers to interstate mobility by firms and workers, helping attract workers from out of state, and making it easier for those who choose to move to begin working (Deyo & Plemmons, 2022). Both consumers and professionals benefit from universal recognition. Consumers benefit from an increase in the number of professionals in the state, which encourages more competition and makes services more widely available and convenient (Curry, 2021).

While universal recognition is effective in reducing barriers to interstate mobility, it does not address the underlying problem of unnecessary barriers to entry into licensed professions that affect Arizonans. Ultimately, many if not the vast majority of occupational licensures should be eliminated because they typically are nothing more than a signaling device for the consumer, like those available online through Yelp and similar websites (Ginn & Timmons, 2018). But until then, universal recognition in Arizona is supporting more employment for those who move to the state. Since universal recognition went into effect in August 2019, over 6,500 people have received a license to work in the state, according to data provided to the Goldwater Institute by licensing boards. This includes hundreds of physicians, thousands of tradespeople, and numerous professionals across dozens of other occupations.

Labor Market in Arizona

Figure 1 shows how total nonfarm employment (includes private and government employment) and private employment have looked similar since 1990. There have been ups and downs in both, as is typical during expansions and recessions (shaded areas).

Figure 1: Total and Private Nonfarm Employment in Arizona



Shaded areas indicate recessions

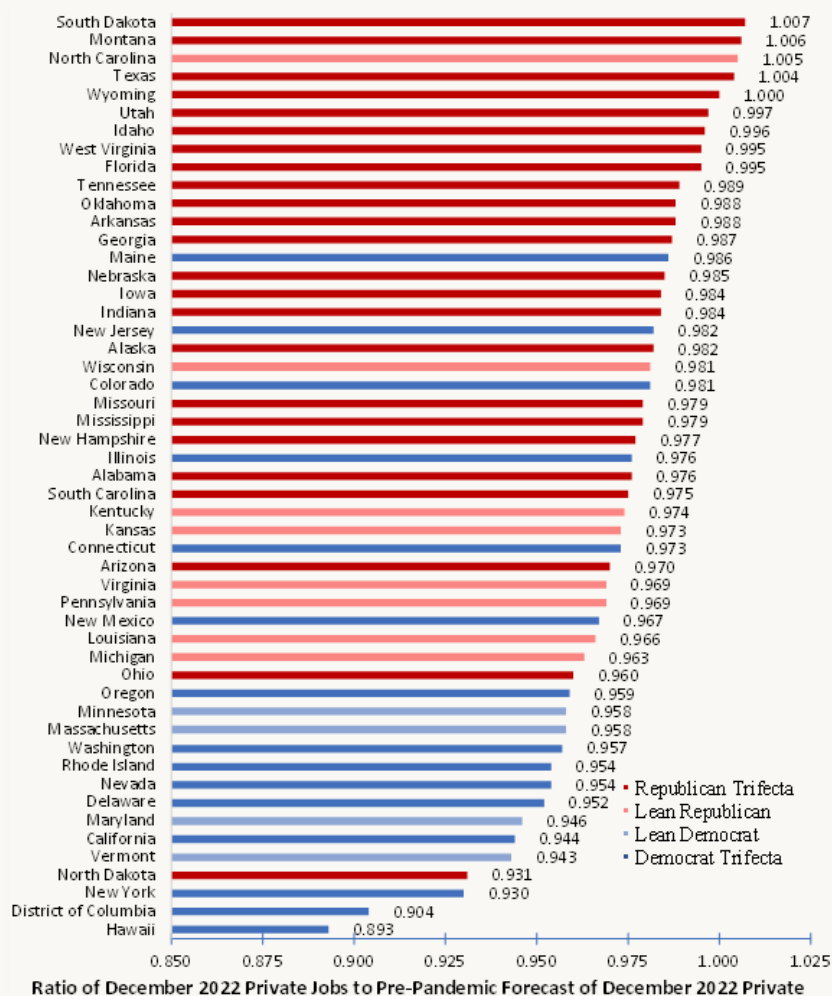
Source: Fed FRED <https://fred.stlouisfed.org/graph/?g=TBQO> for data from January 1990 to December 2022.

Table 1: Labor Market in Arizona	January 2019	February 2020	April 2020	December 2022
Labor Force Participation Rate	61.7%	62.0%	60.3%	61.2%
Employment-Population Ratio	58.6%	58.9%	51.9%	58.7%
Unemployment Rate (U3)	5.0%	5.0%	13.9%	4.0%
Private Sector Employment	2.5M	2.6M	2.2M	2.7M

Notes: Data compare the following: 1) January 2019 - Year when HB 2569 passed, 2) February 2020 - Dated peak of the last U.S. expansion, 3) April 2020 - Dated trough of the last U.S. recession, and 4) December 2022 - Latest data available.

Universal recognition was signed into law by Arizona Governor Doug Ducey on April 10, 2019. This was during a robust labor market after an extended expansion since the last U.S. recession ended in June 2009. To evaluate how the labor market has performed since the passage of universal recognition, Table 1 provides data from January 2019, before the legislation was signed, to the [available jobs report](#) for states in December 2022.

Figure 2: Ratios of Current Private Jobs to Pre-Shutdown Forecast of Private Jobs by Place and Political Representation, December 2022



Source: U.S. Department of Labor; calculations from Erik Randolph at Georgia Center for Opportunity (Georgia Center for Opportunity, n.d.).

Net total nonfarm jobs in Arizona increased by 3,100 in December 2022, resulting in increases for 35 of the last 40 months and ranking as the thirteenth consecutive month of record-high employment to 3.1 million. Compared with December 2021, total employment was up by 93,800 jobs (+3.1%), with the private sector adding 90,700 jobs (+3.5%) and the government adding 3,100 jobs (+0.8%). But this was after lost jobs tallied 338,700 (-11.3%) in total nonfarm and 326,600 (-12.7%) in the private sector after the government imposed pandemic-related shutdowns during March and April 2020 (Block, 2020).

As of December 2022, total employment was up 448,200 (+16.9%) and the private sector was up 453,900 (+20.2%) since the trough in April 2020. The labor force participation rate remains below the rate in January 2019 and February 2020 because the increase in the number people in the labor force have not kept up with the increase in the population. The employment-population ratio has nearly returned to the February 2020 rate, indicating that while the labor force has not kept up, the share of employed people has almost kept up. However, even as Arizona has a historically low unemployment rate of 4.0%, Arizonans still face challenges noted by the decline in the labor force participation rate and the fact that nonfarm private employment is 3% below its pre-shutdown trend as of December 2022 (Figure 2) (Georgia Center for Opportunity, n.d.).

These labor market data are informative of how workers in Arizona have fared over the last few years. While there is certainly room for improvement, especially with the need for more workers to be participating in the labor force again, the labor market is much improved since the doldrums of the shutdown recession. However, with over 6,500 licenses approved since 2019, there continues to be demand for expedited licensure from those moving to Arizona, a state that in 2022 had the eighth-largest population percent increase in the nation (Figure 3) (Walczak, 2022).

Given these variables in the labor market, there is reason to examine the estimated economic effects of universal recognition in Arizona to evaluate how the measure is doing and whether more states should follow with similar legislations. The limitations of the reform should also be understood. Figure 4 shows another factor for why people move to lower-tax states like Arizona from higher-tax states like California (Arizona ranks as the 15th lowest in state-local tax burden, and California ranks as the fifth highest) (York & Walczak, 2022).

Figure 3: Arizona Had the Eighth-Largest Population Percent Increase in the Nation in 2022

State Population Change in 2022

State Migration Patterns, from Most Inbound to Most Outbound, 2022

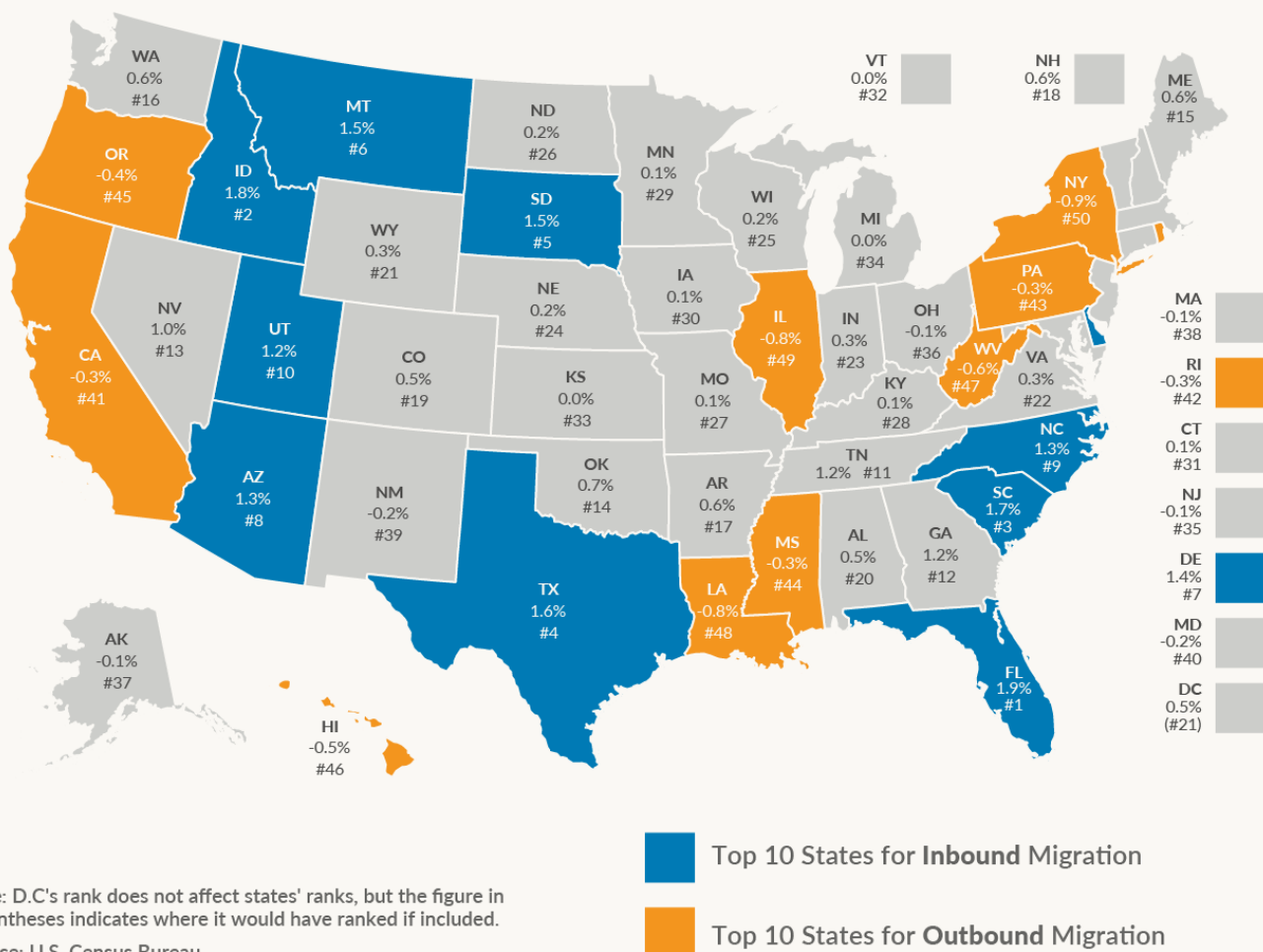
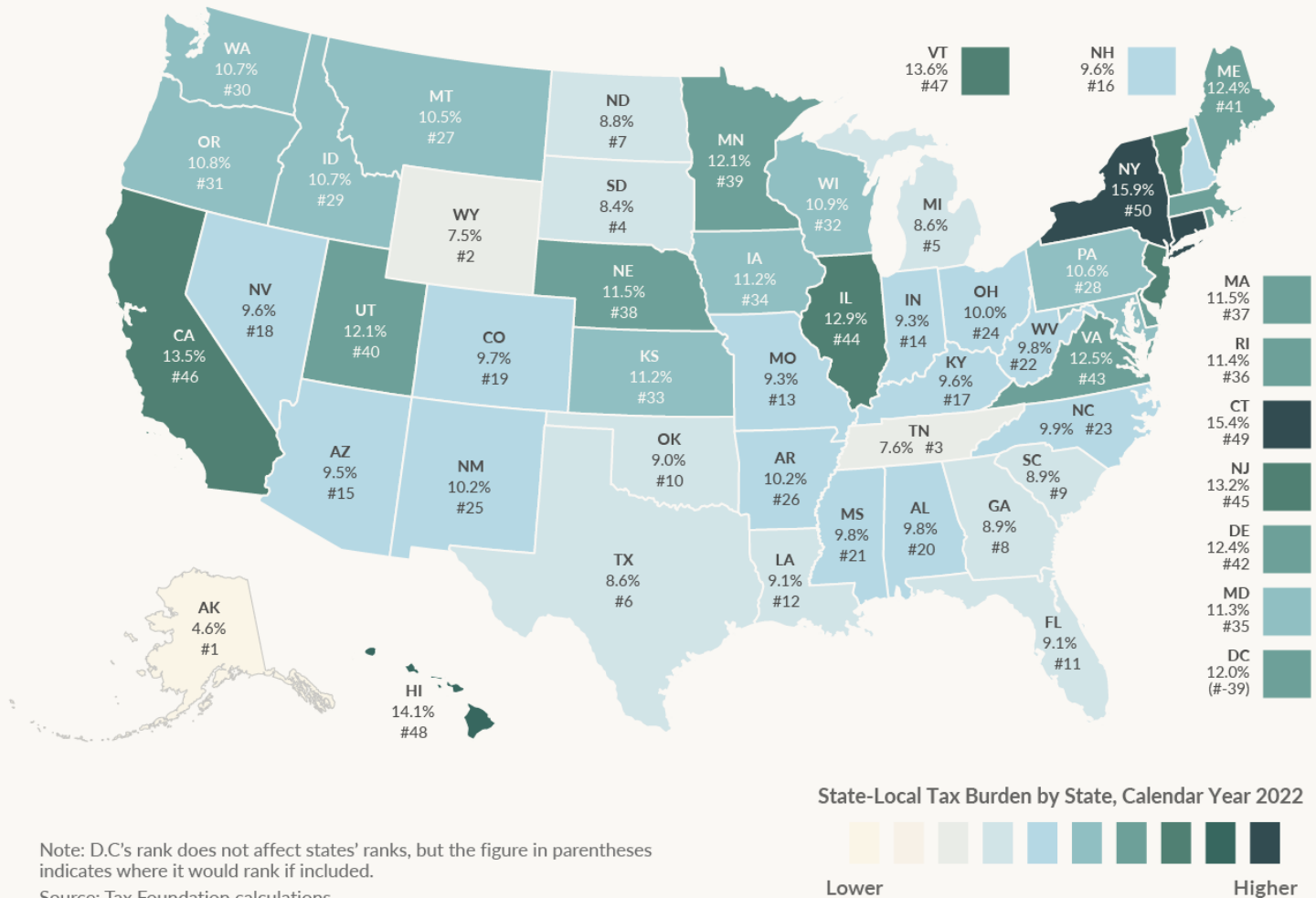


Figure 4: Arizona Had the 15th-Lowest State-Local Tax Burden in the Nation in 2022

State-Local Tax Burdens by State, Calendar Year 2022



Source: Tax Foundation

The last couple of years were also a good test to see what would happen when Governor Ducey suspended or reduced many occupational licenses, an experiment which has yet to produce any kind of calamity. In fact, when Governor Ducey ended the COVID-19 Declaration of Emergency on March 30, 2022, he signed SB 1309, which gave more than 2,000 healthcare workers an extension of temporary professional licenses until January 1, 2023 (Barchenger, 2022). More of the

suspended licenses and regulations addressed during the pandemic should be considered for elimination, because if the licenses are not necessary during a crisis why should they be necessary during normal times? Removing more of these labor market regulations would go a long way toward providing more opportunities to let people prosper in Arizona.

Economic Effects of Occupational Licensing in U.S.



Research and evidence of the effects of occupational licensing across the U.S. consistently find that this labor market regulation reduces employment, especially for those with lower skills and wages, and boosts wages for those fortunate to get a license. However, this benefit frequently comes at the expense of higher prices for consumers. Universal recognition in Arizona has helped to overcome these costs in many ways, but there is more work to be done.

Employment Effects

Nationally, Kleiner and Vortnikov (2018) find licensing results in almost 2 million fewer jobs overall. Blair and Chung (2019) and Kleiner and Soltas (2019) estimate that it cuts employment in licensed professions by 27% and 29%, respectively. And it is not just lost jobs that are influenced by licensing but also the rate of job growth, declining by 20% over time with costs of licensing in the range of \$34.8 billion to \$41.7 billion (Summers, 2007). This job loss is caused by extra barriers to entry from licensure requirements. And licensure makes matters worse as firms tend to move to nearby jurisdictions without licensing requirements (Plemmons, 2022). Licensing has also been associated with reductions in migration between states (Johnson and Kleiner, 2020). And Boesch et al. (2022) find that Hispanic and Black workers are 11- and 5-percentage points less likely to be licensed than white workers, respectively.

Wage Effects

Kleiner and Krueger (2010) find that occupational licensing arbitrarily inflates wages by about 15%, similar to unions. Other evidence suggests a statistically significant increase in hourly wages created by occupational licensure with no significant increase in quality of service (Thornton & Timmons, 2013; Timmons & Mills, 2018). And these costs disproportionately influence lower-skilled, lower-income households (Kleiner & Vortnikov, 2017). Licensure in low- to moderate-income occupations is also associated with reductions in absolute upward mobility and increases in income inequality, as much as 15.4%, respectively (Timmons et al., 2018). The research indicates the higher wages for licensed workers is more likely the result of a decrease in competition caused by licensing requirements. The cost of this increase is shouldered entirely by both the consumer through higher prices and lower-quality service and by potential entrants to the occupation.

Economic Effects of Universal Recognition in Arizona

Given the costs of occupational licensing noted across the U.S. over time and the gains and losses in the labor market in Arizona in the last few years, understanding the economic effects of universal recognition since passage of HB 2569 in 2019 is important. Fortunately, there is recent analysis by the Common Sense Institute (2022) using the Regional Economic Models Inc. (REMI) dynamic input-output model of the Arizona economy. CSI assumes that universal recognition increases net migration to Arizona to find the following economic effects:

- Nearly 16,000 more jobs over the next 10 years
- More than 44,000 people moving to the state by 2030
- At least \$1.5 billion more economic output over time

But as noted above, the costs of occupational licensing continue to weigh on the economy to the tune of about 188,295 lost jobs, \$16.2 billion in lost economic output, and \$1,711 in lost income per person. The assumptions in the REMI model seem legitimate to support these results. They consider dynamic factors in the economy as incentives influence people's actions when there are more opportunities for jobs and higher wages rather than imposed and distorted by governments.



Conclusion

Arizona has taken important steps to reduce the burden of costly occupational licensing regulations in the labor market. While universal recognition is a substantial reform that removes barriers for many who move to Arizona, the economic gains should be expanded to those who already reside in Arizona by eliminating many onerous licensures. This may not happen overnight, but there should be an effort to continue to expand on the 2019 reforms so that more Arizonans have opportunities to flourish.

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