March 15, 2017

Hon. Senator Brett Lindstrom
District 18
State Capitol
P.O. Box 94604
Lincoln, Nebraska 68509-4604

Dear Senator Lindstrom:

We welcome the opportunity to share our views regarding a number of proposed bills that would loosen or eliminate certain occupational licensing requirements in Nebraska.¹

In the 1950s, less than five percent of jobs in the United States required a license.² Estimates today place that figure between 25 and 30 percent nationally.³ Nebraska falls roughly in line with the national estimates: nearly 25 percent of Nebraska’s workforce holds one of about 200 occupational licenses.⁴ In our view, the substantial expansion of occupational licensing—in Nebraska and nationally—may likely be unnecessary and can be harmful to consumers and competition.

We recognize that occupational licensing can be beneficial in specific areas, typically when citizens would be at risk of considerable harm if services were provided by unqualified professionals. For example, doctors are licensed, in large part, because it

¹ This letter expresses the views of the FTC’s Office of Policy Planning, Bureau of Competition, and Bureau of Economics. The letter does not necessarily represent the views of the FTC or any individual Commissioner. The Commission, however, has voted to authorize staff to submit this comment.


is too difficult for patients to evaluate the doctor's training and skills. There is what an economist would call a large "information asymmetry" between the patient and the doctor and an unqualified doctor might do great harm to the public. In light of these concerns, the state uses licensing to ensure the doctor achieves and sustains a minimum level of competence.

Unlike physician licensing, occupational licensing in many other occupations does not provide clear public benefits. For example, some states require interior decorators to get a special license from the state. The state requires a license for this occupation even though the normal operation of market forces already fully and reliably protects the public from harm. If interior decorators are not good at their jobs, people will simply refuse to buy their services. There is no discernable risk to the public from allowing an incompetent interior decorator to fail, and the public can easily evaluate the merits of interior decorators without any special assistance from the government.

The simple fact is that many more occupations resemble the interior decorator example than the medical doctor example. Yet many occupations often are subject to licensing requirements that are unmoored from legitimate health, safety, or similar public policy objectives. Unnecessary licensing imposes compliance costs on anyone wishing to enter a licensed occupation. Even modest licensing requirements can and do deter people from entering fields they might otherwise wish to pursue. In effect, excessive licensing acts as a state-created barrier for people seeking work.

These dynamics often are not lost on the current, licensed workers in a particular field. Indeed, licensed workers often are strong proponents of licensing precisely because being licensed directly benefits them economically. After all, licensing restricts the number of potential competitors they may face, which may enable them to charge higher prices. For this reason, policymakers should be skeptical of claims that licensing is necessary to protect the public from some perceived ill, especially when looking beyond the small subset of occupations where licensing has a clearly identified and appropriately grounded public policy rationale.

FTC staff supports the Nebraska legislature's ongoing efforts to review and, where possible, streamline the state's many licensure requirements. This reform initiative has the potential to deliver significant benefits to Nebraskans, including Nebraskans looking for new or better work within the state, as well as Nebraska consumers generally.

In this comment, we suggest a general framework for evaluating the competitive effects of legislative proposals to modify Nebraska's various occupational licensing regimes. Although we do not comment specifically on each of the four legislative proposals, the goal of the framework is to aid legislators, regulators, and other policymakers in identifying those options that impose the fewest possible restrictions on competition, consistent with public health, safety, and other legitimate policy goals. In many situations, as current bills appear to recognize, it may be possible to eliminate licensure requirements entirely.
I. Nebraska Occupational Licensing Reforms

FTC staff was asked to comment on four bills that would reduce or eliminate certain restrictions on occupational licensing in Nebraska.

- L.B. 341 would allow banks to elect “active executive officers” as exempt from the requirement to apply for and obtain licenses from the state Department of Banking and Finance.  

- L.B. 346 would eliminate the license required for individuals to engage in motor vehicle, motorcycle, or trailer sales.

- L.B. 347 would reduce the licensure requirement for school bus drivers by eliminating a rule that a driver’s license examiner of the Department of Motor Vehicles test applicants’ qualifications to operate a bus and eliminate a requirement to obtain a special school bus operator’s permit.

- L.B. 348 would eliminate the license required for potato shippers.

We understand that these four bills are part of a larger initiative on occupational licensing reform in Nebraska, led jointly by state legislators and Governor Ricketts, and which includes additional bills that would repeal licensing requirements in other professions. Against the backdrop of such large-scale review, we focus on procompetitive effects of loosening occupational licensing requirements more broadly, rather than analyzing competitive effects with respect to each specific identified occupation.

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7 See letter from Trinity Chappelear, Legislative Aide to State Senator Suzanne Geist, Neb. State Legislature, to Tara Isa Koslov, Acting Dir., Office of Policy Planning, FTC (Jan. 17, 2017) (on file with Office of Policy Planning). We understand that the Federal Motor Carrier Safety Act, which Nebraska has adopted, already requires school bus drivers to obtain a commercial driver’s license with a special designation to carry passengers. See 49 C.F.R. § 383 (2011).


II. Competition, Occupational Licensing, and the Federal Trade Commission

Competition is a core organizing principle of America’s economy.\(^\text{10}\) It gives consumers the benefits of lower prices, higher quality goods and services, increased access to goods and services, and greater innovation.\(^\text{11}\) The FTC works to promote competition through enforcement of the antitrust laws, which prohibit certain transactions and business practices that harm competition and consumers. The FTC also engages in competition advocacy to urge decisions that benefit competition and consumers, in the form of comments on proposed legislation and regulations, discussions with regulators, court filings, and other advocacy channels.

The FTC has engaged in various advocacy efforts relating to licensing requirements for occupations and professions. Since the late 1970s, the Commission and its staff have conducted economic and policy studies,\(^\text{12}\) as well as submitted advocacy comments to state and self-regulatory entities on competition policy and antitrust law issues.\(^\text{13}\) Advocacies on occupational licensure have involved such professionals as real estate brokers,\(^\text{14}\) electricians,\(^\text{15}\) accountants,\(^\text{16}\) dentists and dental hygienists,\(^\text{17}\) nurses,\(^\text{18}\) eye doctors and opticians,\(^\text{19}\) and veterinarians.\(^\text{20}\)

\(^{10}\) See, e.g., N.C. State Bd. of Dental Exam’rs v. FTC, 135 S. Ct. 1101, 1109 (2015) (“Federal antitrust law is a central safeguard for the Nation’s free market structures.”); Standard Oil Co. v. FTC, 340 U.S. 231, 248 (1951) (“The heart of our national economic policy long has been faith in the value of competition.”).

\(^{11}\) See, e.g., Nat’l Soc’y of Prof’l Eng’rs v. United States, 435 U.S. 679, 695 (1978) (noting that the antitrust laws reflect “a legislative judgment that ultimately competition will produce not only lower prices, but also better goods and services. . . . The assumption that competition is the best method of allocating resources in a free market recognizes that all elements of a bargain—quality, service, safety, and durability—and not just the immediate cost, are favorably affected by the free opportunity to select among alternative offers.”).


\(^{13}\) Many of these advocacy comments can be found at http://www.ftc.gov/policy/advocacy/advocacy-filings.


III. Competitive Considerations Regarding Occupational Licensing

All occupational licensing restrains competition to at least some degree, because it limits the number of people who can provide certain services. Occupational licensing rules typically specify entry conditions, define the various practices that constitute a licensed occupation, and legally authorize such practices. Without a license, a worker in a given field usually cannot compete to provide services, regardless of his or her skills and qualifications. Unlicensed practice is prohibited by statute and may be subject to civil or criminal penalties.


18 Many of the individual advocacy comments regarding nursing restrictions, along with the research and analyses underlying these comments are described in POLICY PERSPECTIVES, supra note 12.


21 See, e.g., George J. Stigler, The Theory of Economic Regulation, 2 BELL. J. ECON. & MGMT. SCI. 3, 13 (1971) ("The licensing of occupations is a possible use of the political process to improve the economic circumstances of a group. The license is an effective barrier to entry because occupational practice without the license is a criminal offense.").
Recent studies strongly suggest that the burdens of excessive occupational licensing fall disproportionally on the most economically disadvantaged citizens. \textsuperscript{22} Another group particularly impacted by excessive occupational licensing are the spouses of U.S. military personnel. Because members of the military move to new states frequently, their spouses must repeatedly meet new and often different licensing requirements as they move from state to state.

The harms of excessive state licensing are not limited to those looking for new jobs. Licensing requirements may limit not only who is allowed to work in a particular field, but also how they work. When the state mandates particular ways of doing things, these regulations may stifle entrepreneurship and innovation. For example, one study found that for a subset of low- and moderate-income jobs, the average license required around nine months of education and training. \textsuperscript{23} In some cases, over the long-term, these regulatory barriers to entry may severely impede the flow of labor or services to where they are most in demand, potentially reducing consumer access to valued services. \textsuperscript{24}

Additionally, when licensing reduces the number of people working in a given field, that can blunt competition and may cause prices to increase. Several studies have found that prices increase, sometimes significantly, due to licensing an occupation at the state level. \textsuperscript{25} One estimate has shown that licensing restrictions can raise consumer expenses by over two hundred billion dollars nationwide. \textsuperscript{26} This means that even citizens who have never sought work in a particular area can be harmed by excessive state


\textsuperscript{23} CARPENTER, KNEPPER, ERICKSON, AND ROSS at 14.


\textsuperscript{25} See, e.g., KLEINER, supra note 2, at 15 (explaining that occupational licensing can result in price increases by as much as 33 percent).

\textsuperscript{26} Id. at 6.
licensing because they may pay higher prices or receive lower quality services than would otherwise prevail absent the licensing.

Further, the purported consumer protection benefits of licensing may not justify the costs. Reductions in competition caused by licensing can also cause quality, choice, and access to decline. Although well-meaning licensing rules may be designed to provide consumers with minimum quality assurances, these rules do not always increase service quality, especially if training or educational requirements do not directly relate to the services a given professional provides.

For these reasons, FTC staff urges legislators and regulators to consider removing excessive, unnecessary licensing restrictions wherever possible. Liberalization of occupational licensing may promote competition and benefit consumers. Benefits that may flow from an expanded supply of qualified workers can include improved access to services, lower prices, and improved service quality. Reform may also spur innovation in how services are delivered.

We respectfully recommend that state legislators, regulators, and other policy decision makers consider the following framework when evaluating changes to occupational licensing law.

- What legitimate policy justifications, if any, were articulated when the original license requirements were imposed?

- Are there currently any specific, legitimate, and substantiated policy objectives that justify continuing the license requirements?

- If current, legitimate policy objectives are identified, does the furtherance of those objectives likely outweigh the expected harms from licensing? Such harms may include reduced economic opportunities, restricted employment, increases in consumer prices, and reductions in quality or access.

- If state licensing appears justified, are there any less restrictive alternatives to the current licensing system that still address the legitimate policy objectives, while reducing burdens on the public? Are the licensing requirements narrowly tailored

27 See, e.g., Morris M. Kleiner & Robert T. Kerdle, Does Regulation Affect Economic Outcomes: The Case of Dentistry, 43 J. LAW & ECON. 547, 570 (2000) (“Overall, our results show that licensing does not improve dental health outcomes as measured by our sample of dental recruits. Moreover, treatment quality does not appear to improve significantly on the basis of the reduced cost of malpractice insurance or a lower complaint rate against dentists, where regulation is more stringent.”); Cox & Foster, supra note 12, at 21-29.

28 For example, certain hair braiders are required to attend cosmetology schools that do not even teach hair braiding as a condition of obtaining a license to do business in other states. See Jenni Bergal, A License to Braid Hair? Critics Say Licensing Rules Have Gone too Far, STATELINE, P E W C H A R T A B L E T R U S T S (Jan. 30, 2015), http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2015/1/30/a-license-to-braid-hair-critics-say-state-licensing-rules-have-gone-too-far.
to achieve the specific public policy purpose, or is there a less intrusive way to achieve the public policy objective?

When the public benefits are slight or highly speculative, occupational licensing may not be desirable in any form. Similarly, a specific regulation that imposes non-trivial impediments to competition may not be justified. Even when particular regulatory restrictions address well-founded consumer protection or other concerns, the inquiry should not end there. If the restrictions are also likely to harm competition, we believe that policymakers should consider whether the regulations could be more narrowly tailored to minimize the burden on competition while still achieving other legitimate policy goals. For example, a state could adopt a certification system in lieu of licensing, which could allow consumers to choose between a certified, but potentially higher-priced professional, and a lower-priced, noncertified professional.\(^{29}\)

IV. Conclusion

We commend Governor Ricketts and Nebraska’s legislators for examining state occupational licensing laws to determine whether such laws, on balance, help or harm Nebraska citizens. State regulation of occupations can serve important public policy goals and, when used appropriately, protect the public from harm. But, as illustrated by economic studies and the Commission’s lengthy prior history and experience, occupational licensing can also make consumers worse off. Licensing can limit occupational opportunities and impede competition without offering meaningful protection from even substantiated risks. For these reasons, we encourage the Nebraska legislature to consider the likely procompetitive benefits of reducing or (where appropriate) eliminating occupational licensing requirements, consistent with legitimate policy concerns.

We appreciate this opportunity to present our views.

\(^{29}\) See, e.g., Cox & Foster, supra note 12, at vii-ix. Moreover, there are additional mechanisms to protect consumers that are arguably less restrictive than either licensing or certification, including professional registries, mandatory disclosure requirements, and third party provision of quality information. Id. at 49-51.
Respectfully submitted,

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