Unlock the Map

A Federal Occupational Licensing Reciprocity Act

to Reduce the Cost of Living by Restoring Geographic Mobility

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I. The Problem: An Invisible Tax on American Mobility

The cost-of-living crisis is usually discussed in terms of housing, healthcare, and childcare. But there is a hidden regulatory barrier that makes all three worse: occupational licensing. Twenty-two percent of American workers now need a government-issued license to do their jobs, up from just 5% in the 1950s. These licenses almost never transfer across state lines. The result is a fragmented labor market that traps workers in high-cost areas, raises the price of essential services, and costs the economy an estimated $184 billion per year.

Scale of the Problem

- **1 in 5 U.S. workers** holds an occupational license. The share has quadrupled since the 1950s, driven primarily by professional associations lobbying state legislatures.
- **2.8 million fewer jobs** exist because of licensing barriers, according to Institute for Justice estimates based on labor supply modeling.
- **$184 billion in annual economic losses** from misallocated resources and reduced labor supply (Kleiner & Krueger; Institute for Justice).
- **3–13% higher consumer prices** for licensed services, with no evidence of corresponding quality improvements (meta-analysis of 19 studies, Kleiner 2015).

The Mobility Trap

Licensing creates a geographic lock-in effect that is poorly understood as a cost-of-living driver. Workers in licensed occupations with state-specific requirements are 36% less likely to move across state lines than peers in unlicensed occupations (Johnson & Kleiner, NBER 2018). Licensing accounts for an estimated 3–13% of the total decline in U.S. interstate migration since 1980.

Consider a registered nurse earning $70,000 in San Francisco, where median rent is $3,500/month—consuming 60% of gross income. That same nurse could move to Boise, where rent is $1,200/month, gaining nearly $28,000 in annual cost-of-living relief. But if Idaho is not in the Nurse Licensure Compact, or the nurse holds additional state-specific certifications, relicensing can take months and cost hundreds to thousands of dollars. For many workers, the rational choice is to stay put—trapped in a high-cost market by paperwork.

Military spouses illustrate this vividly: over 35% work in licensed occupations, and despite recent federal protections, 28% still reported needing new licenses after relocating in 2024. Those in licensed fields experience a 14% earnings decline after a move.

Who Bears the Cost

The burden falls disproportionately on lower-income workers, immigrants, and military families. Licensing requirements for lower-wage occupations are often the most arbitrary: Oklahoma requires four times more training for hair braiders (who use no chemicals) than for emergency medical technicians. Louisiana is the only state that licenses florists. Interior designers in Washington, D.C. need six years of education and experience and over $1,500 in fees. These requirements function as barriers to entry that protect incumbents, not consumers.

II. The Proposal: Federal Licensing Reciprocity Act

We propose a Federal Occupational Licensing Reciprocity Act that establishes a national framework for cross-state license recognition, using the federal government's spending power and existing interstate compact infrastructure to break down the state-by-state patchwork.

Core Mechanism

Universal recognition baseline. Any worker holding a valid license in good standing from one state can practice in any other state for occupations where there is no demonstrated, evidence-based public safety justification for state-specific requirements. This covers the vast majority of the 1,100+ licensed occupations across states, many of which have no health or safety rationale.

Tiered categorization of occupations. A new federal Licensing Review Board (housed within the FTC) categorizes all state-licensed occupations into three tiers:

Tier	Criteria	Policy
Tier 1	No demonstrable public safety justification (e.g., florists, interior designers, auctioneers, hair braiders)	Immediate federal preemption. States may not require occupational licenses for these occupations.
Tier 2	Legitimate safety interest but no state-specific variation needed (e.g., cosmetologists, HVAC technicians, real estate agents)	Mandatory interstate reciprocity. Any valid state license accepted in all states. States retain authority over initial licensing standards.
Tier 3	Genuine state-specific requirements justified by local conditions (e.g., certain healthcare specialties, building codes)	Expedited endorsement process: max 30-day review, max $100 fee, no re-examination. Federal funding for interstate compact expansion.

Enforcement and Incentives

- **Federal funding conditionality.** States that do not comply with Tier 1 and 2 requirements within 3 years lose 5% of their Workforce Innovation and Opportunity Act (WIOA) formula grants—approximately $170M nationally, creating real but manageable fiscal pressure.
- **Interstate compact acceleration.** Dedicated $200M federal fund to expand existing compacts (currently covering nursing, physical therapy, psychology, EMS) to 15 additional high-demand occupations within 5 years.
- **National licensing database.** Leverage the SHARE Act's FBI criminal history record-sharing framework (S.1101/H.R.2332, introduced 2025) to build a secure, interoperable national licensing verification system.
- **FTC oversight.** The FTC's new Labor Task Force (formed February 2025) gains permanent authority to review and challenge anticompetitive licensing requirements, building on existing antitrust jurisdiction.

III. Evidence Base

State-Level Proof of Concept

Arizona enacted the first universal licensing recognition law in 2019 (HB 2569). Results through 2025: over 8,000 professionals have used the law to begin working without relicensing, including 500 physicians, 2,900+ tradespeople, and 800 behavioral health professionals. The Goldwater Institute estimates a $1.5 billion GDP increase over 10 years with 16,000 additional workers. Twenty-eight states have now adopted some form of universal recognition, with North Dakota, West Virginia, and Puerto Rico joining in 2025.

Interstate Compacts Work

The Nurse Licensure Compact now covers 41 states and has measurably increased interstate nurse migration while maintaining patient safety standards. The Psychology Interjurisdictional Compact (PSYPACT) covers 42 states and has dramatically expanded access to teletherapy across state lines. These compacts demonstrate that portability and public protection are not in tension.

Economic Impact Data

Metric	Value	Source
Annual economic losses from licensing	$184 billion	IJ / Kleiner & Krueger
Jobs lost to licensing barriers	2.8 million	Institute for Justice
Consumer price increase (licensed services)	3–13%	Kleiner (19 studies)
Migration reduction (state-specific licenses)	36%	NBER W24107
Share of interstate migration decline from licensing	3–13%	Johnson & Kleiner
Employment decline when occupation becomes licensed	29%	Kleiner & Soltas, NBER
Military spouse earnings loss after relocation	14%	DOD / ASPE HHS
Arizona workers using universal recognition	8,000+	Goldwater Institute
States with universal recognition laws	28–29	Reason / IJ (2025)

Bipartisan Consensus

Licensing reform is one of the few policy areas with genuine tripartisan support. The Obama White House published a landmark 2015 report calling licensing a barrier to mobility and economic opportunity. The Trump administration issued an executive order in 2020 encouraging state reform. The Biden administration continued expansion of interstate compacts. The Institute for Justice (libertarian), Brookings Institution (centrist), and Third Way (center-left) all advocate for reform. The FTC formed a dedicated Labor Task Force in February 2025 to investigate anticompetitive licensing practices.

IV. The Cost-of-Living Framing: Why This Is Different

Most policy discussions treat licensing reform as a labor market issue. We argue it is fundamentally a cost-of-living issue, operating through three reinforcing channels:

Channel 1: Trapped in expensive markets. Licensed workers are 36% less likely to move states. This means a cosmetologist in Boston, an electrician in Los Angeles, or a nurse in New York cannot easily capture the $15,000–$30,000 in annual savings available by relocating to a lower-cost state. Licensing converts what should be voluntary geographic preferences into involuntary economic constraints.

Channel 2: Higher prices for essential services. Licensing reduces labor supply by up to 29% and raises service prices 3–13%. These are not luxury goods—they are plumbing, electrical work, dental care, childcare, and healthcare. Every family's cost of living includes these services, and licensing inflates every one of them.

Channel 3: Worsened housing affordability. When licensed tradespeople (electricians, plumbers, HVAC technicians) cannot easily move to high-demand housing markets, it constrains the construction labor supply in precisely the places where housing is most needed. This contributes to the 4-million-home deficit and drives up construction costs.

This framing is what makes the proposal novel. Licensing reform is not usually discussed alongside housing, healthcare, and childcare—but it makes all three more expensive.

V. Risks and Counterarguments

- **Consumer safety.** The most common objection is that licensing protects consumers. The evidence does not support this for the vast majority of licensed occupations. No study has found quality improvements from licensing in low-risk fields. The tiered approach preserves licensing for genuinely safety-critical occupations (Tier 3) while eliminating it for occupations with no safety justification (Tier 1).
- **States' rights.** Federal preemption of state licensing authority is constitutionally and politically sensitive. The proposal uses a mixed approach: outright preemption only for Tier 1 (clearly unjustified licenses), mandatory reciprocity for Tier 2 (maintaining state initial-licensing authority), and incentive-based reform for Tier 3. This mirrors the structure of federal highway funding conditions, which have survived legal challenge.
- **Incumbent opposition.** Licensed professionals and their associations will resist reform because licensing raises their wages by approximately 15%. This is a concentrated-benefit, diffuse-cost dynamic typical of regulatory capture. The FTC oversight mechanism and evidence-based tiering process are designed to shift the burden of proof to those defending licensing, rather than those seeking to work.
- **Implementation complexity.** Categorizing 1,100+ occupations into three tiers is a significant undertaking. The proposal addresses this by establishing the FTC-housed Licensing Review Board with a 2-year classification timeline, public comment process, and presumption of Tier 2 (reciprocity) for any occupation not actively classified.

VI. Fiscal Impact

This proposal is unusually cost-effective. The primary federal expenditure is the $200M interstate compact acceleration fund and administrative costs for the Licensing Review Board—modest relative to the $184 billion in annual economic losses from the status quo. The WIOA funding conditionality requires no new appropriation; it redirects existing funds. Arizona's experience projects a $1.5 billion state GDP increase over 10 years from a single-state reform. A national version would yield multiples of this. Revenue effects are positive: more workers employed, more interstate migration, more income tax receipts for destination states, and lower consumer prices reducing transfer-program costs.

VII. Key Sources for Further Research

Source	Key Finding
Johnson & Kleiner, NBER W24107 (2018)	State-specific licensing reduces interstate migration by 36%
Kleiner & Soltas, NBER W26383	Licensing reduces employment 29%, raises wages 15%
Kleiner (2015), 19-study meta-analysis	Licensing raises consumer prices 3–13% with no quality gain
Nature Humanities & Social Sciences (2025)	Regulatory restrictions grew 3x since 2019; 10% rise = 4% employment decline
Obama White House Report (2015)	Licensing costs millions of jobs, >$100B in consumer expenses
Goldwater Institute (2025)	8,000+ workers benefited from AZ universal recognition; $1.5B GDP est.
ASPE HHS (August 2024)	Military spouses lose 14% earnings after relocation in licensed fields
Institute for Justice	2.8M fewer jobs; $184B annual economic losses from licensing
BLS Monthly Labor Review (2022)	Licensing accounts for 3–13% of interstate migration decline since 1980
Archbridge Institute Index (2025)	State-by-state ranking of licensing burden; 28–29 states have reciprocity