JOINT ECONOMIC COMMITTEE
CHAIRMAN ERIK PAULSEN (R-MN)

REPUBLICAN STAFF STUDY

Why Are More Americans Not Moving to Where the Jobs Are?
The Economy is Generating Record Job Openings

December 06, 2018

INTRODUCTION

As Federal Reserve Chairman Jay Powell put it, America's economy is "in such a good place right now." Growth has returned, wages are rising, employment is rising, and there are more job openings than there are unemployed.

American workers are benefitting from a strong labor market. Unemployment—at 3.7 percent in October—is the lowest in nearly fifty years; and recent Job Openings—7 million in September—are the highest since the Bureau of Labor Statistics (BLS) began tracking them in 2000.

This is great news for workers who have more job options and can expect higher wages as employers compete in a tighter labor market.[1] However, total job vacancies continue to grow even though hires and separation are on the rise, and some workers in smaller towns and rural communities continue to face unfavorable odds of employment.[2] Why is this the case? Unnecessary licensing requirements and high-priced housing in prosperous areas from land-use regulations may be part of the problem. These barriers reduce worker mobility, which in turn hinders economic dynamism and productivity growth.

GEOGRAPHIC MOBILITY

Declining U.S. Migration. America's size, industrial diversity, variation in tax and regulatory policies, and other factors result in a range of regional economic outcomes. Some examples include October 2018 unemployment in the 48 contiguous states ranged from 5.2 percent in West Virginia to 2.4 percent in Iowa;[3] and labor force participation ranged from 70 percent in Minnesota to 54 percent in West Virginia.[4]

Historically, Americans have responded to regional economic variation by relocating to areas that offered greater economic promise. Large-scale migrations include the 19th century westward migration as well as the 20th century migration from Appalachia to Midwest industrial cities. However, migration on a smaller scale is ever present. American dynamism is continually

Key Findings:

- ***Declining occupational and geographic mobility is reducing America's economic dynamism.***
- ***Occupational licensing and zoning laws by States and localities hinder worker relocation and career change, especially of lower-paid workers.***
- ***Employment opportunities and the national economy could benefit from:***

  - Relying more on professional certification rather than licensing;

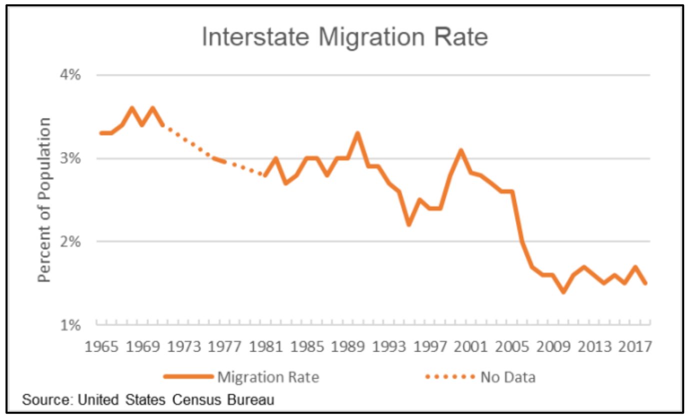
  - Adapting zoning laws to allow more residential development.

[1] Lazear, Edward P., and James R. Spletzer. "Hiring, churn, and the business cycle." *American Economic Review* 102.3 (2012): 575-79.
[2] "A Record Six Million U. S. Job Vacancies: Reasons and Remedies," Joint Economic Committee Hearing, July 12, 2017. https://www.jec.senate.gov/public/index.cfm/2017/7/a-record-six-million-u-s-job-vacancies-reasons-and-remedies
[3] Bureau of Labor Statistics, accessed 11/27/2018. https://www.bls.gov/web/laus/lauhsthl.htm
[4] Bureau of Labor Statistics, accessed 11/27/2018. https://www.bls.gov/web/laus/lalfprderr.xlsx

redistributing labor toward its most productive uses, which often requires geographic relocation. Yet over the past 50 years, annual interstate migration has followed a downward trend (Figure 1).[5]

Fewer American are relocating to better job prospects than in the past.

Figure 1



Economy and Demography. One reason for fewer interstate migrants is the slow job growth following the 2008 recession. Another reason is the aging of the population; labor relocation rates tend to fall with age.[6] Additionally, the price of some homes has not recovered sufficiently for homeowners to sell and relocate. However, state and local regulations, particularly occupational licensing and zoning laws, also create obstacles between workers and employment opportunities, hindering relocation from struggling to prosperous communities.

OCCUPATIONAL LICENSING

Licensing requirements discourage relocation to better job opportunities.

Licensing hinders hiring. Increasingly, government decides the skills and qualifications needed to engage in a particular profession. This occurs most frequently at the state level. As of 2008, 29 percent of the workforce required an occupational license, a huge spike from the 1950s when less than 5 percent of the workforce required such licensing.[7] Thus, for an increasing number of industries, government—not a market driven by what consumers prefer—determines a worker's necessary skillset.

These requirements vary by state, and licenses are rarely transferable. Increasingly, relocation requires a commitment of time, effort, and financial resources to acquire a new license. Additionally, households with multiple earners may be deterred from seeking better opportunities elsewhere if one member faces relicensing costs.[8]

Purpose and use of licenses. Employment regulation includes registration, certification, and licensing. Registration is the least restrictive, may be voluntary,

[5] The dramatic drop in 2006 is due to a change in how the Current Population Survey analyzes migration data. Kaplan, Greg, and Sam Schulhofer-Wohl, "Interstate migration has fallen less than you think: Consequences of hot deck imputation in the Current Population Survey." Demography 49.3 (2012): 1061-1074. Census Bureau data from CPS Historical Migration/Geographic Mobility Tables (Table A-1). https://www.census.gov/data/tables/time-series/demo/geographic-mobility/historic.html

[6] Davis, Steven J., and John Haltiwanger, "Labor market fluidity and economic performance," No. w20479, National Bureau of Economic Research, 2014. http://www.nber.org/papers/w20479

[7] Kleiner, Morris M., and Alan B. Krueger. "Analyzing the extent and influence of occupational licensing on the labor market." *Journal of Labor Economics* 31.S1 (2013): S173-S202.

[8] OECD (2018), OECD Economic surveys: United States 2018, OECD Publishing, Paris, pp. 87-89. https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-united-states-2018_eco_surveys-usa-2018-en

and generally only requires filing a name, address, and qualifications (e.g., a technician that assists a licensed worker). Certification represents evidence of skills acquired through government or private non-profit testing. A lack of certification does not necessarily prevent employment; for example, an accountant may practice even if not a certified public accountant. Licensure, however, is more onerous and restrictive; it is a requirement prior to engaging in an occupation (e.g., attorney or dentist).

Nobel laureate Dr. Milton Friedman explained that while the justification for licensing is to protect the public, in reality, licensing is often a mechanism to protect industries that already have a foothold in the market.[9]

> *In the arguments that seek to persuade legislatures to enact such licensure provisions, the justification is always said to be the necessity of protecting the public interest. However, the pressure on the legislature to license an occupation rarely comes from the members of the public who have been mulcted or in other ways abused by members of the occupation. On the contrary, the pressure invariably comes from members of the occupation itself.*

Effects of licensing requirements. A recent study shows that occupational-licensing barriers to employment create a shortage of providers, which drive up prices; industries enjoying license protection can generate monopoly rents that inflate their wages (by an average of 11 percent nationally) at the cost of denying employment opportunities to others.[10] In 2016, Utah Senator Mike Lee wrote the op-ed "Rise of the Licensing Cartel" in *Forbes*, which explained that dentists lobbied to have teeth-whitening included in "the practice of dentistry" to deny competing unlicensed individuals from providing low-cost whitening services.[11] In 2015, the Obama Administration's Chairman of the Council of Economic Advisors explained that licensing both decreases efficiency and exacerbates inequality.[12]

Occupational licensing requirements often seem unnecessary or excessive.

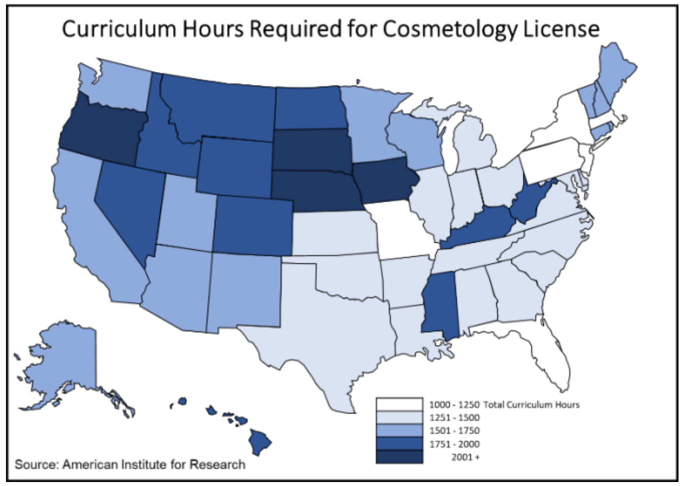
The current administration's 2018 *Economic Report of the President* agrees, noting that occupational licensing is a geographic based regulation that reduces labor mobility.[13] For example, a California-licensed cosmetologist who has completed 1,600 hours of education and hands-on training, as well as an apprenticeship and additional related training, is prohibited from working in Oregon because it has a different set of licensing requirements. Figure 2 shows the 2016 range of state-level required curricular hours for a cosmetology license.[14] Non-transferable licenses and different state-level requirements may

[9] Friedman, Milton. *Capitalism and freedom*. University of Chicago Press, 2009.
[10] Kleiner, Morris M., and Evgeny Vorotnikov. "Analyzing occupational licensing among the states." *Journal of Regulatory Economics* 52.2 (2017): 132-158
[11] "Rise of the Licensing Cartel," Utah Senator Mike Lee, *Forbes*, February 1, 2016. Senator Lee is the current Vice Chairman of the Joint Economic Committee. https://www.forbes.com/sites/realspin/2016/02/01/rise-of-the-licensing-cartel/#b1e143c68ef3
[12] "Occupational Licensing and Economic Rents," Remarks by Jason Furman Chairman, Council of Economic Advisers, The Brookings Institution, November 2, 2015. https://obamawhitehouse.archives.gov/sites/default/files/page/files/20151102_occupational_licensing_and_economic_rents.pdf
[13] 2018 Economic Report of the President, p. 93. https://www.whitehouse.gov/wp-content/uploads/2018/02/ERP_2018_Final-FINAL.pdf
[14] Examination of Cosmetology Licensing Issues, American Institute for Research, August 30, 2016. https://probeauty.org/docs/advocacy/PBA%20Examination%20of%20Cosmetology%20Licensing%20Issues_2016%200830.pdf

Non-transferable licenses and differing State-level requirements increase relocation costs denying some Americans better employment opportunities.

partly explain why residents of Pocahontas County in West Virginia, with an unemployment rate of 4.3 percent, choose not to travel for work to neighboring Highland or Bath Counties in Virginia, with unemployment rates of 2.3 and 2.1 percent, respectively (September 2018).[15]

Figure 2



For some industries licensing may be appropriate (e.g., distribution of pharmaceutical opioids), however for many others it is not (e.g., shampooer).[16] Implications of unnecessary occupational licensing include the following.

Workers lose:

- Individuals and multi-earner households are discouraged from relocating to higher-wage locations.
- Unemployment consequently is higher.

Unnecessary licenses harm workers, consumers, and the American economy.

Consumers lose:

- License authorities decide what is best for consumers and limit their choices.
- Customers consequently face higher prices or forego consumption.

America loses:

- GDP is lower as workers deliver fewer goods and services.
- Labor-market churn is constrained, reducing dynamism and productivity.

While delicensing seems like a relatively easy way to lessen deterrents to interstate migration, one study found that over 40 years only eight licenses have been removed.[17]

ZONING REQUIREMENTS

Land-use regulation limits housing supply, which inflates home prices and reduces net-of-housing income. Incumbent homeowners in high-wage areas have an interest to restrict new housing and reap the benefit of rising real estate values.[18] Over the past 50 years, rising home prices have reduced relocation

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[15] Bureau of Labor Statistics, July 2018 unemployment data, accessed 11/27/2018. https://www.bls.gov/web/metro/laucntycur14.txt
[16] "Licensed to Work: A National Study of Burdens of Occupational Licensing 2nd Edition," Institute for Justice, November 2017, p. 186. http://ij.org/wp-content/themes/ijorg/images/ltw2/License_to_Work_2nd_Edition.pdf
[17] Robert J. Thornton and Edward J. Timmons, "The de-licensing of occupations in the United States," Monthly Labor Review, U.S. Bureau of Labor Statistics, May 2015. https://doi.org/10.21916/mlr.2015.13
[18] Hsieh, Chang-Tai and Enrico Moretti, "Housing Constraints and Spatial Reallocation," NBER Working Paper, May 2017. http://www.nber.org/papers/w21154.pdf

benefits, especially for low-skilled workers.[19] Consequently, low-skilled workers find it uneconomical to move to higher-productivity higher-wage areas. Further, incumbent local policymakers have little incentive to ease restrictions because current residents are more likely to vote them out of office than to move.[20]

Rising Home Prices and Declining Migration. From 1880-1980 Americans pursuing better opportunities moved from poor to wealthy areas.[21] Housing demand from in-migrants was met with new home construction, keeping prices low and net-of-housing income high. Today, while nearly 20 percent of all moves are employment related, fewer Americans are moving.[22]

Incumbent homeowners benefit from a housing shortage.

Home price growth in many prosperous areas has outpaced wage growth, reducing or eliminating financial benefits from relocation. For example, the May 2017 San Francisco-Oakland-Hayward $69,700 mean wage was 38 percent higher than the national average.[23] Yet, with the nation's highest median home prices in San Jose and San Francisco in 2017 at $1 million and $750,000, respectively, relocation to these cities is unaffordable except for highly skilled high-income workers.[24]

Effects of Land-Use Regulations. One study finds that land-use regulation is associated with rising home prices in 44 states.[25] Regulation such as minimum lot size, maximum building height, capping the annual number of building permits, and design requirements constrain supply or add construction costs, inflating prices. From 1980-2000, Manhattan home prices grew twice as fast as the national average because during the entire 1990s only 21,000 new units were permitted compared to 13,000 new units in 1960 alone.[26] Figure 3 illustrates the positive correlation between land-use regulation and home prices for forty cities.[27]

Land-use regulation suppresses housing supply, inflating home prices and hindering relocation to better job opportunities, especially by lower-wage workers.

High home prices from land-use regulation fall disproportionality on lower-skilled, lower-income workers because they spend a larger portion of their income—26 percent—on housing than high-skilled workers—16 percent. Thus, inflated home prices in wealthier areas discourage low-skilled worker

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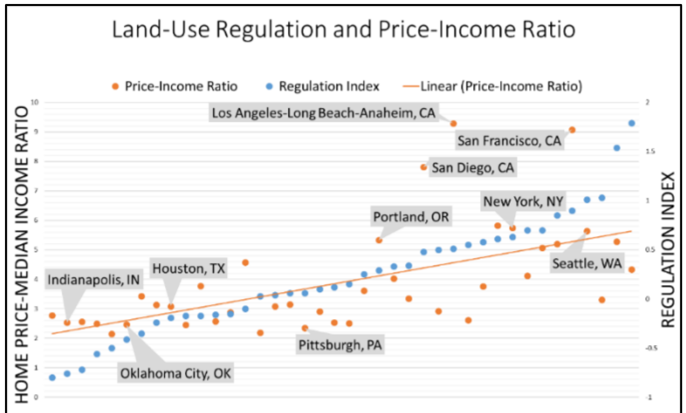
[19] Ganong, Peter, and Daniel Shoag, "Why Has Regional Income Convergence in the US Declined?" Journal of Urban Economics, 102 (2017): 76-90.
[20] Hamelton, Emily, "The Case for Preemption in Land-Use Regulation," Mercatus, July 20, 2017. https://www.mercatus.org/publications/case-preemption-land-use-regulation
[21] Ganong, Peter, and Daniel Shoag, "Why has regional income convergence in the US declined?," Journal of Urban Economics 102 (2017): 76-90. https://law.yale.edu/system/files/area/workshop/leo/document/Shoag_RegionalIncomeConvergence.pdf
[22] "Reason for Moving: 2012 to 2013," Census Bureau, June 2014. https://www.census.gov/content/dam/Census/library/publications/2014/demo/p20-574.pdf
[23] "Overview of BLS Wage Data by Area and Occupation," Bureau of Labor Statistics, accessed June 29, 2018. https://www.bls.gov/bls/blswage.htm#National
[24] "Home Prices in the 100 Largest Metro Areas," Kiplinger, March 2018. https://www.kiplinger.com/tool/real-estate/T010-S003-home-prices-in-100-top-u-s-metro-areas/index.php
[25] Calder, Vanessa Brown, "Zoning, Land-Use Planning, and Housing Affordability," Cato Institute Policy Analysis, October 18, 2017. https://www.cato.org/publications/policy-analysis/zoning-land-use-planning-housing-affordability
[26] Glaeser, Edward L., Joseph Gyourko, and Raven Saks. "Why is Manhattan so expensive? Regulation and the rise in housing prices." The Journal of Law and Economics 48.2 (2005): 331-369. file:///C:/Users/rr42989/Downloads/EdwardLGlaeserJosephGyour.pdf
[27] Gyourko, Joseph, Albert Saiz, and Anita Summers. "A new measure of the local regulatory environment for housing markets: The Wharton Residential Land Use Regulatory Index." Urban Studies 45.3 (2008): 693-729; and Zillow.com, Research, Data, More Metrics, (Mortgage Affordability, Rent Affordability, Price to Income Ratio). https://www.zillow.com/research/data/

relocation, reducing access to stronger labor markets, suppressing upward economic mobility. Further, relocation barriers suppress low-skilled wages.[28] Labor market frictions reduce churn—hires and separations—reducing national productivity,[29] suppressing would-be migrants, and others, wages.[30] GDP growth is constrained from lower productivity.[31]

Americans face higher home prices where there are more restrictive zoning laws.

Figure 3



Source: Joseph Gyourko *et al.* and Zillow.com

Not all cities constrain housing expansion. From 1980-2000, nearly a third of American cities added housing to more than accommodate population growth, lowering inflation-adjusted home prices. Houston's housing starts—exceeded only by Dallas/ Ft. Worth—continue to offer residents low-priced homes.[32] Las Vegas nearly tripled in size and home prices were unchanged.[33] *Forbes* ranked Las Vegas as 2018's 6th fastest growing American city by ten growth measures.[34]

CONCLUSION

Relocation barriers suppress productivity, wages, and GDP growth.

By loosening license requirements and reducing land-use regulations, workers—especially low-skilled workers—will have greater access to opportunities where they exist. At a minimum, States should consider accepting out-of-state licenses. A still better approach would be to move away from licensing toward alternatives such as certification, particularly in professions that pose little risk to the public. This would allow consumers, not industry lobbyists and governments, to choose providers' skill and training level. Further, local policymakers should relax zoning requirements to lower home prices and attract more workers enhancing labor-market efficiency and benefitting consumers, as well as the national economy.

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[28] Ganong, Peter, and Daniel Shoag, (2017).
[29] Lazear, Edward P., and James R. Spletzer. "Hiring, churn, and the business cycle." American Economic Review 102.3 (2012): 575-79.
[30] Hsieh, Chang-Tai, and Enrico Moretti. Housing constraints and spatial misallocation. No. w21154. National Bureau of Economic Research, 2015. http://www.nber.org/papers/w21154.pdf
[31] Hsieh, Chang-Tai, and Enrico Moretti, (2015).
[32] "HOUSTON HOUSING 3Q18: Nation's #2 Market Bypasses Affordability Woes of other Regions by Offering a More Moderately Priced Product Line," Metrostudy News, November 1, 2018. https://www.metrostudy.com/houston-housing-3q18-nations-2-market-bypasses-affordability-woes-regions-offering-moderately-priced-product-line/
[33] Glaeser, Edward L., Joseph Gyourko, and Raven Saks. (2005).
[34] "Full List: America's Fastest-Growing Cities 2018," Forbes, February 28, 2018. https://www.forbes.com/sites/samanthasharf/2018/02/28/full-list-americas-fastest-growing-cities-2018/#29cc89a97feb