Regulating Occupations: Quality or Monopoly?

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This article highlights some of the findings in the author’s new book, Licensing Occupations: Ensuring Quality or Restricting Competition? which is available from the Upjohn Institute (see p. 7).

The licensing of occupations often is accused of being stealth regulation that operates under the public policy radar screen. Unlike other labor market institutions, such as laws regulating unions or the minimum wage, the regulation of occupations has received little attention by the press, academics, or policymakers. However, this lack of attention is not because occupational licensing is diminishing in the labor market. Figure 1 shows that the growth of occupational licensing in the United States has increased far more than unions, a more widely studied labor market institution. Since the 1950s, licensing coverage has grown from about 5 percent of the workforce to more than 20 percent, while unions have declined from about a third of the workforce to less than 13 percent, and to fewer than 8 percent in the private sector. Approximately 50 occupations are licensed in all states, and about 800 occupations are similarly regulated in at least one state.

Occupational regulation has varying levels of stringency. The toughest form of regulation is licensure, where it is illegal for a person to practice a profession without first meeting state standards, which usually involve detailed education requirements, testimonials of “good moral character,” and a test. A second, less restrictive form of regulation is certification, which gives states a “right-to-title” protection for persons meeting predetermined standards. Those without certification may perform the duties of the occupation but may not use the title. A third and least restrictive form of
regulation is registration, which usually requires individuals to file their names, addresses, and qualifications with a government agency before practicing in the occupation. Registration often includes posting a bond or filing a fee.

Although the regulation of individuals in occupations dates to ancient times, the guilds of medieval Europe are most often mentioned as examples of the imposition of tough restrictions on entering a craft or occupation. In the United States through much of the nineteenth century, few restrictions were imposed on occupations we often think of as licensed, such as doctors and lawyers. During the past 50 years, however, with the increase in complexity of jobs, especially in the service sector, licensing of individuals in their jobs emerged as one of the fastest-growing labor market institutions in the United States and other industrialized nations.

One of the major justifications for occupational licensing is that it increases service quality. Yet the available studies offer little evidence that licensing individuals has an impact on the quality of service received by consumers. For example, my examination of data from Wisconsin and Minnesota finds no evidence of differences in consumer complaints between Wisconsin, which licensed certain health care occupations, such as physical therapists, respiratory care providers, and physician assistants, and complaints to state boards in Minnesota, which certified the same occupations.

Malpractice insurance premiums can also serve as the arbitrator of the effectiveness of licensing as a way to mitigate the harmful effects of inept practitioners. If licensing works as intended, it should reduce mistakes by licensed relative to unlicensed practitioners. The insurance industry would then provide lower premiums for practitioners in regulated states because licensing statutes (such as testing and background checks) would have weeded out incompetent or unscrupulous practitioners. However, my examination of the rates charged nationally for malpractice

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in insurance premiums were given to practitioners in licensed states.

Then what are the potential impacts of licensing? Restricting labor supply is one. For example, there was a decline in employment growth for librarians, respiratory therapists, and dietitians and nutritionists from 1990 to 2000 in those states that regulate these occupations relative those that do not. The estimates using census data show that, for the licensed occupations that were regulated in about one-half of all states, licensing reduced the percentage growth rate of employment by a statistically significant 20 percent. Therefore, it is not surprising that the impact of licensing on hourly earnings compared to similar unlicensed occupations was about 10–17 percent, depending on the occupations and the methods used in the analysis.

There is considerable variation among the states in the number of occupations licensed and in the percentage of the workforce that is covered by licensing laws. For example, California licenses almost 180 occupations that cover more than 30 percent of its workforce. On the other hand, Kansas licenses about 50 occupations, and these regulatory laws cover less than 12 percent of its workforce. If licensing has no productivity impacts yet increases spending, then simulations of the net expenses of the labor market regulation indicate it costs the economy about $38 billion in lost service output per year.

The regulation of occupations in Europe takes a somewhat different form from that in the United States. Rather than focusing on postgraduation tests, countries such as France, Germany, and the United Kingdom tend to regulate the prices charged and the organizational structure that is allowed by practitioners. With the smaller differences in the wage structure in Europe and the way occupations are licensed, the overall
The impact of licensing on hourly wages is much smaller than in the United States.

The major empirical findings in Licensing Occupations are summarized in Table 1. Given these results of the labor market impacts of licensing, other forms of regulation, such as certification, are suggested. Alternative forms of occupational regulation may provide consumers with more choice than licensing and reduce the potential monopoly impacts of licensing in the labor market. In order to better monitor the economic impacts of licensing, data on this form of regulation should be provided to academics and policymakers in the major national labor market data sources, such as the Current Population Survey. With more data and analysis, the public, workers, and policymakers can more accurately assess whether occupational licensing is ensuring quality or restricting competition.

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References


