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# **Grease or Grit?**

## **International Case Studies of Occupational Licensing and Its Effects on Efficiency and Quality**

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# 1

## Introduction and Overview

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Grease in the gears of intricate machinery can make it operate more effectively, but grit in the gears will slow it down, and could dramatically reduce its efficiency. Analogously, government intervention in the operation of labor markets may make them operate more effectively—like grease—or may slow its workings—like grit (Groschen and Schweitzer 1999). In this book we examine for the first time in a comprehensive manner a dominant governmental institution in the labor market—occupational licensing—to evaluate the extent to which these regulations enhance or diminish the efficient workings of labor and service markets in the United States and parts of Europe (Kleiner 2006; Koumenta and Pagliero 2019). Occupational licensing is often referred to as “the right to practice.” Under licensing laws, working for pay in a licensed occupation is illegal without first meeting government standards. Certification, another form of government regulation, provides a “right to title,” which does not forbid others from providing the service but it prohibits the use of a specific title for working in the occupation.

This book examines occupational regulation from an international perspective across five countries and multiple services and occupations (Kleiner 2013). Our aim to provide both breadth and depth to the issues of the potential costs and benefits of service quality and efficiency in regulated service occupations.

The licensing of occupations is usually based on the protection of the public interest and service quality to society. It is rare, however, that such criteria are subjected to theoretical or empirical scrutiny. Existing literature on occupational regulation (Farronato et al. 2020; Kleiner et al. 2016) has documented the difficulty in developing measures of service quality. The ability to evaluate the influence of occupational licensing on quality outcomes has been difficult to assess for at least three reasons. First, quality is challenging to define and measure. For

example, it is common to use consumer satisfaction to assess quality in the market, but solely relying on consumer satisfaction might provide insufficient information on the licensing-quality relationship. Second, the criteria of what constitutes good quality service varies greatly. Measures of quality usually depend on the occupation in question, thereby limiting the degree to which researchers can generalize from occupation-specific studies to the universe of occupations that are regulated. Consequently, it makes sense to focus on specific occupations. Third, limited data availability places significant constraints on what research questions we can address empirically, thereby compromising the scope for evidence-based evaluations. For example, prices, health, and education outcomes are often difficult measures to obtain from existing governmental and industry sources in Europe and the United States.

Some of the challenges to evaluating occupational licensing outcomes are related to methodology. There may be nonrandom and unobservable factors that confound attempts to identify the causal effect of occupational regulation on quality in empirical work. Studies from the United States often exploit between-state variations in licensing regimes, which enables researchers to undertake comparisons of the same occupation while controlling for other explanations of the observed effects. In the case of the European nations, these cross-national variations are more difficult to obtain.

In this book we evaluate and clarify the relationship between licensing and quality by using expanded definitions of quality. For example, the authors develop methods associated with effectiveness, consistency, nonexcludability, and affordability in service delivery. They operationalize these approaches by using a variety of measures associated with (a) the processes involved in service provision, (b) the outcomes of the services provided, and (c) other value-added proxies. They draw on regulatory changes and outcomes within occupations in Europe and the United States to empirically assess the effect of regulation on quality and illustrate different policy evaluation approaches.

Overall, this book seeks to answer the following empirical question: What is the relationship between occupational regulation and service quality? We use empirical case studies within and across nations and occupations to compare homogeneous groupings of workers and consumers within similar institutional frameworks. We take three unique

approaches in this volume to understand the national and data innovations. First, we provide a variety of methods because there is more than one way to address this question. Taken together, our case studies make use of extensive empirical methods and data sources, all showing the complexities associated with defining the measures of quality. Second, owing to the unique nature of each occupation in the labor market and the high heterogeneity in how quality can be defined and measured, our approaches are good illustrative examples of how such important research questions can be tackled. We do not offer a one-size-fits-all solution to addressing these important policy dilemmas. Instead, our goal is to draw attention to the challenges associated with undertaking research of this kind, while at the same time empirically illustrate ways in which these challenges and policy proposals can be addressed. Third, we avoid thinking of occupational regulation as a binary state, which not only captures observationally more common policy initiatives but also imposes unnecessary and possibly socially suboptimal restrictions on policy alternatives, such as the relaxation or tightening of regulatory provisions. Including diverse forms of regulatory initiatives across continents will shed new light on the types of reforms that could be evaluated and implemented under different institutional frameworks.

## **COSTS AND BENEFITS OF REGULATION**

Occupational licensing policies are a major source of labor market regulation in the United States and Europe, which has potential costs—licensing may reduce the supply of labor in licensed occupations and drive up prices—and benefits—better product quality because of higher levels of job-specific education and training. Despite the often-heated debate over the trade-offs posed by licensing, economists and policy analysts have offered little guidance on how to conduct a cost-benefit analysis of such policies within different nations and across occupations.

The underlying rationale for the influence of occupational licensing is that it affects both labor supply and demand for the services. Licensing influences supply by increasing the costs of entry and thus reducing the number of persons in the occupation. Hours worked, however, may increase as wages rise. The supply of workers in the case of occupa-

tional licensing can only increase by the number of individuals who go through the process to receive their license. The assumption is that government is influenced by the occupational organizations representing the workers in the trade, ranging from doctors to interior designers.

In contrast to the supply issues above, occupational licensing increases the demand for labor, since consumers perceive that the regulated services are of higher quality because of the increased job-specific training. The total supply of services to consumers is a function of the offsetting effects of falling labor supply and rising demand for the regulated service. Also determinative is whether consumers are willing to pay more for them. This volume attempts to address these issues.

## **PREVIEW OF THE STUDIES**

The six case studies presented in this book delve into different areas of the influence of occupational licensing and measures of quality. The first four chapters break new ground by examining occupations practiced in European nations. Similarly, the last two chapters evaluate the influence of licensing on quality in health care and in beauty services for the United States. Below we preview the chapters and discuss how they contribute to the overall theme of whether regulations provide grease or grit in the quality consumers receive from particular services.

The first case study, by Morris M. Kleiner, examines how variations in the regulatory requirements imposed on the ridesharing firm Uber affect measures of quality outcomes for two cities, London and Dublin. Kleiner uses pricing, customer satisfaction, and safety, as measured by hard accelerations and hard braking. Kleiner's research finds little evidence that greater regulatory constraints (at least of the type observed in these two jurisdictions) improve ridesharing experiences or reduce prices for passengers. Further, the technological context within which the taxi and ridesharing driving professions operate is considerably different than was the case when the regulatory provisions for taxi drivers were initially instituted. Based on the evidence for this firm, a reassessment of the form that regulating entry to the taxi and ridesharing driving professions is undertaken may be in order. Further, occupations that have innovative technology can reduce information asymmetries, as is

the case for London and Dublin. Consequently, reducing regulations may be an appropriate path for policymakers to take in considering regulatory labor policies in the face of new technologies.

Chapter 3, by Maria Koumenta and Mark Williams, examines a unique issue of entry into the profession of driving instructors in the United Kingdom (U.K.). Driving instructors are subject to compulsory training requirements, which in practice has led to a dual market where fully trained (licensed) and trainee (in the process of completing their training and obtaining a license) driving instructors could both legally offer instruction for payment. The government changed the requirements by trainee license holders since so few went on to become full instructors. As a result, they could no longer provide driving lessons for money unless they were accompanied by a fully licensed driving instructor, marking a shift from certification to *de facto* licensing.

Koumenta and Williams do not observe any increases in the pass rates of student drivers, leading them to conclude that the quality of driving instructors has not improved. Similarly, they do not find any improvement in three quality measures of consumer performance. For example, overall pass rates are negative once time trends are considered. These findings are reinforced when they compare the trends in pass rates for student drivers to those of motorcyclists before and after the reform proposals. Finally, they note an increase in the cost of driving lessons. The authors conclude that the introduction of licensing for U.K. driving instructors has not resulted in any improvement in service quality, and they discuss the implications for regulation policy.

In Chapter 4, Eva Pagano, Mario Pagliero, Emanuele Pivetta, and Lorenzo Richiardi examine the regulation of pharmacies in Italy and population health outcomes. In Italy, the work of pharmacists, the number and location of pharmacies, and the production, trade, and distribution of drugs are all heavily regulated. For example, the number of pharmacies and their locations are determined through administrative procedures. The authors use hospital admission record data at the municipality level, exploiting the change in the demographic rule that links the number of pharmacies to the number of inhabitants in the municipality. Pagano et al. find a significant effect of the availability of pharmacies on selected health outcomes, but the results show a negative impact of availability of pharmacies on the number of hospital admissions related to influenza.

Chapter 5, by Piotr Białowolski and Michał Masiór, examines the deregulation of the legal professions in Poland. In 2004 and 2005, a set of activities reserved exclusively for those in the legal profession were relaxed, and in 2005 and 2009, entry restrictions and experience requirements, as well as passing scores for bar exam for lawyers, were reduced. Owing to the easing of entry into the legal profession, the number of advocates and legal advisors doubled between 2005 and 2015. Białowolski and Masiór evaluate these changes through the lens of service quality. They also examine the number of reported complaints and disciplinary cases. The authors' analysis of complaints by the type of reported misconduct indicates that the frequency of the most common allegation, a breach of professional duties, fell by two-thirds following the reforms and opening of the profession to newcomers, while the frequencies of other types of reported breaches, including unethical behavior, remained stable or slightly declined. Overall, the relaxation of licensing for legal services greatly benefited the consumers of legal services.

The last two case studies focus on evaluations of the quality aspects of the influence of licensing for specific occupations in the United States. Kihwan Bae and Edward Timmons in Chapter 6 study the effects of expanding scope of practice for health service professionals on the quality of care received by patients. They review the existing literature and focus on advanced practice registered nurses—nurse practitioners and other nurse subspecialties. Although the literature has some limitations, there is an emerging consensus: allowing medical practitioners the ability to work independently from physicians does not reduce the quality of care. Bae and Timmons examine geographic and occupational correlations of scope of practice on health outcomes. If anything, the increase in independent practice appears to improve the quality of care with no measurable influence on prices. Despite these results, regulatory reforms on the scope of practice are often crippled by professional associations and their members who may benefit from existing regulations. They conclude by stating that the COVID-19 pandemic has provided both researchers and policymakers with an opportunity to further consider and investigate the implications of these health policy questions.

In Chapter 7, Darwyn Deyo examines the effect of licensing on quality for two occupations related to beauty services: makeup artists

and shampoos. These occupations are not licensed in every state, and the policy variation allows the author to study the effect of having stringent licensing requirements, such as the amount of licensing fees or board licensing exams, and the influence of having a license. The analysis examines businesses in licensed occupations (makeup artists and shampoos) with the ratings for an unlicensed occupation (pet groomers). Deyo finds that licensing requirements and the associated intensity do not significantly increase quality through the ratings measure of consumer satisfaction. She also finds evidence that licensing sometimes has a negative effect on quality—this result is clearer when businesses are separated by the number of reviews each one received. Licensing does not seem to measurably increase quality across the board or for all businesses, even within the same occupation. Under another set of estimates, licensing barriers reduce quality while also imposing entry barriers for workers and higher costs for consumers. The net effect is that licensing does not seem to reliably increase quality, as measured by consumer ratings. Deyo suggests that policy reform that reduces licensing barriers does not have to come at the cost of lower quality for consumers.

## **DIRECTION FOR THE VOLUME**

Although each case study in this book examines the effect of licensing on efficiency and service quality, there is also a focus on labor market issues. First, occupational licensing has been found to raise wages only for licensed workers, reduce occupational and geographic mobility, and lower employment. Second, are there sufficient efficiency and service quality gains through these regulations to consumers to compensate society for these inefficiencies and barriers in the labor market (Kleiner 2015)? The goal of this book is to give the public, consumers, and students of the economy and labor market a detailed, nontechnical look at occupational licensing in Europe and the United States. The book examines the institution of occupational licensing from an international perspective, offers a view from the perceptions of consumers, and outlines some unintended consequences of policies that have arisen because of occupational licensing. The reader of this book

should become a more informed member of a regulated occupation, consumer, student of regulation, or voter who can better determine the direction of policy that will help to evaluate whether occupational licensing serves as grease or grit in the operation of labor markets and service economies.

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