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Regulating Occupations: Quality or Monopoly?

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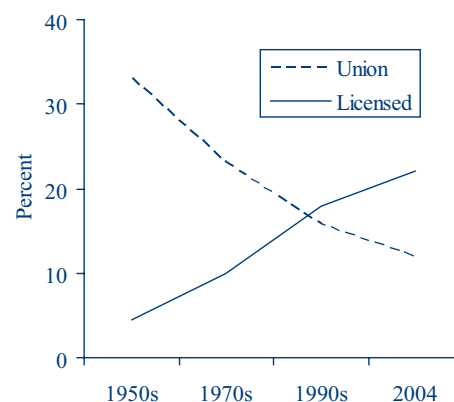
This article highlights some of the findings in the author's new book, Licensing Occupations: Ensuring Quality or Restricting Competition? which is available from the Upjohn Institute (see p. 7).

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

Figure 1 Comparisons in the Trends of Two Labor Market Institutions: Licensing and Unionization



SOURCE: Tabulations for licensing coverage for the 1950s are from the Council of State Governments (1952), which lists licensed occupations in the public use Census Sample for 1950. For the 1960s, the tabulations are from Greene (1969), which links the available listing of licensed occupations to census tabulations. The data for the 1980s are from Kleiner (1990) tabulations; new estimates were developed for 2000. Estimates for union density are from the Bureau of Labor Statistics (1979) and Hirsch and Macpherson (2005).

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 practitioners who are licensed in some U.S. states and not in others reveals that no price breaks on malpractice

Table 1 Key Findings of the Impact of Licensing on Enhancing Quality or Restricting Competition

Issue	Key findings
Estimate of percent of workforce covered by licensing	Using Department of Labor and Census Data, percent of workforce covered by licensing is approximately 20 percent, a growth of 11 percent over the past 15 years.
Potential benefits of licensing	Increased standardization of services and reduction in the potential “loss aversion” by consumers due to poor quality service.
Evidence of the benefits of licensing	Some evidence that the insured and higher-income gain from stricter licensing but no measurable impact on overall quality.
Price and wage effects of licensing	Licensing drives up prices, and the overall wage effect relative to unlicensed occupations in cross-section data is 10–12 percent, but impacts differ widely based on methods, occupations, and toughness of restrictions.
Licensing and employment growth	Within an occupation, the percentage employment growth rate is approximately 20 percent greater in states that do not require licensing, but impacts differ widely based on the methods and occupations.
State variations in licensing	Much variation in the number of occupations licensed by states and the percent of the workforce covered by licensing laws. Case studies show that political spending by the occupational associations is an important factor for who gets regulated.
Redistribution and lost output due to licensing	Estimated redistribution effects to regulated occupations of between \$116 billion and \$139 billion in 2000 dollars, and lost output of \$34.8 and \$41.7 billion per year, which is less than 0.1 percent of total consumption expenditures.
U.S. and EU comparisons	Both economies regulate entry but there is often no exam beyond university or trade school to obtain a license for many of the professions in the EU. EU nations regulate prices charged and the organizational structure of the professions to a greater extent than the United States. Wage effects for licensing are around 1 percent using cross-section estimates, but the impacts vary widely based on methods, occupations, and toughness of restrictions.

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

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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