

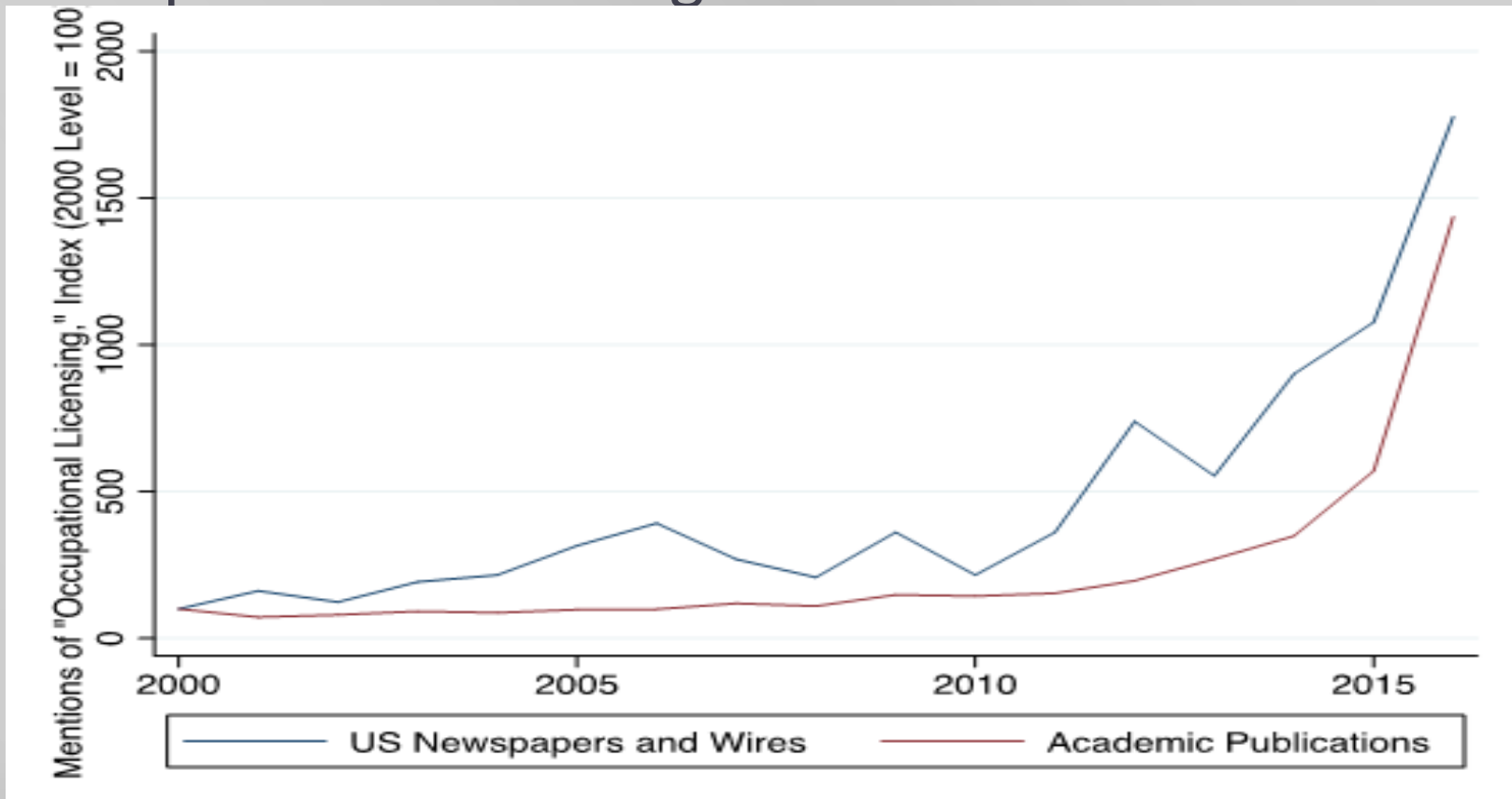
*Wisconsin Legislative Study Committee on
Occupational Licenses*

October 12, 2022

*Origins and Consequences
of Occupational Licensing*

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Twin-Cities, the Knee Center for the Study of
Occupational Regulation, West Virginia
University, and NBER

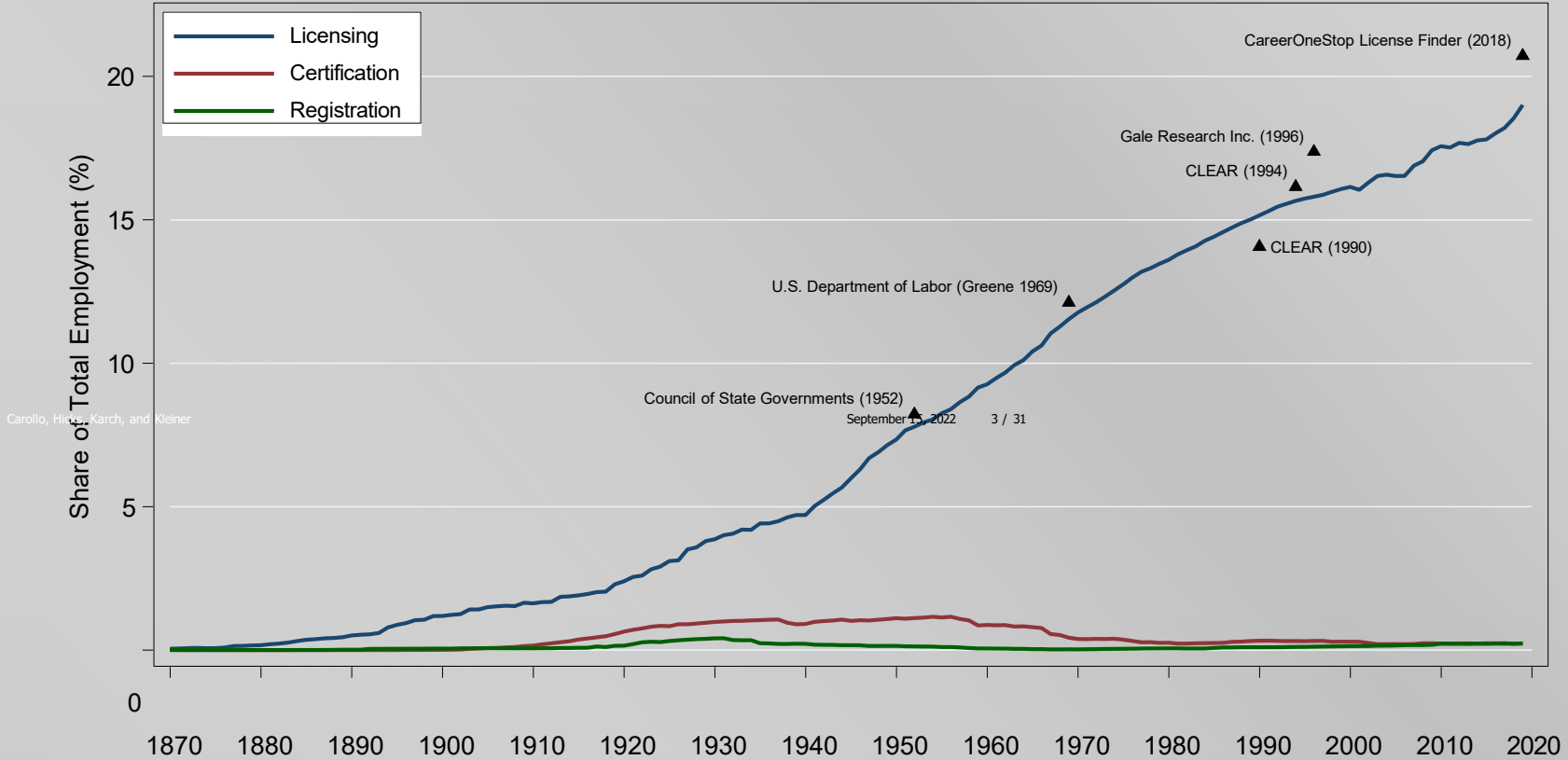
Popular and Academic Interest in Occupational Licensing



Notes: “US Newspapers and Wires” is the count of mentions of “occupational licensing” in US newspapers and wires available on the Nexis database, normalized by mentions in 2000. “Academic Publications” is the count of mentions of “occupational licensing” in publications available on the Google Scholar database, divided by mentions of “economic” in each year and normalized by mentions in 2000. All data are as of September 9, 2017.

Longer-Run Trends in Occupational Licensing Requirements

Estimated share of total employment covered by licensing statutes



Licensing coverage estimates are constructed by aggregating policy indicators for state-occupation cells, weighted by each cell's share of total U.S. employment. Triangles denote estimates constructed from secondary sources of policy data using the same method.

Has Licensing Gone Too Far?

- **“[O]verly burdensome licensure requirements weaken competition without benefiting the public.”**

-former U.S. Labor Sec. Alex Acosta, Jan 8 2018, WSJ

- **“Too often, policymakers do not carefully weigh [the] costs and benefits when making decisions about whether or how to regulate a profession through licensing.”**

– U.S. Council of Economic Advisers, Jul 2015

- **“I want to liberalise unfair regulation to make it easier for people to follow their dreams and start new careers.”**

New Prime Minister of the UK --Elizabeth Truss, Jun 26 2018

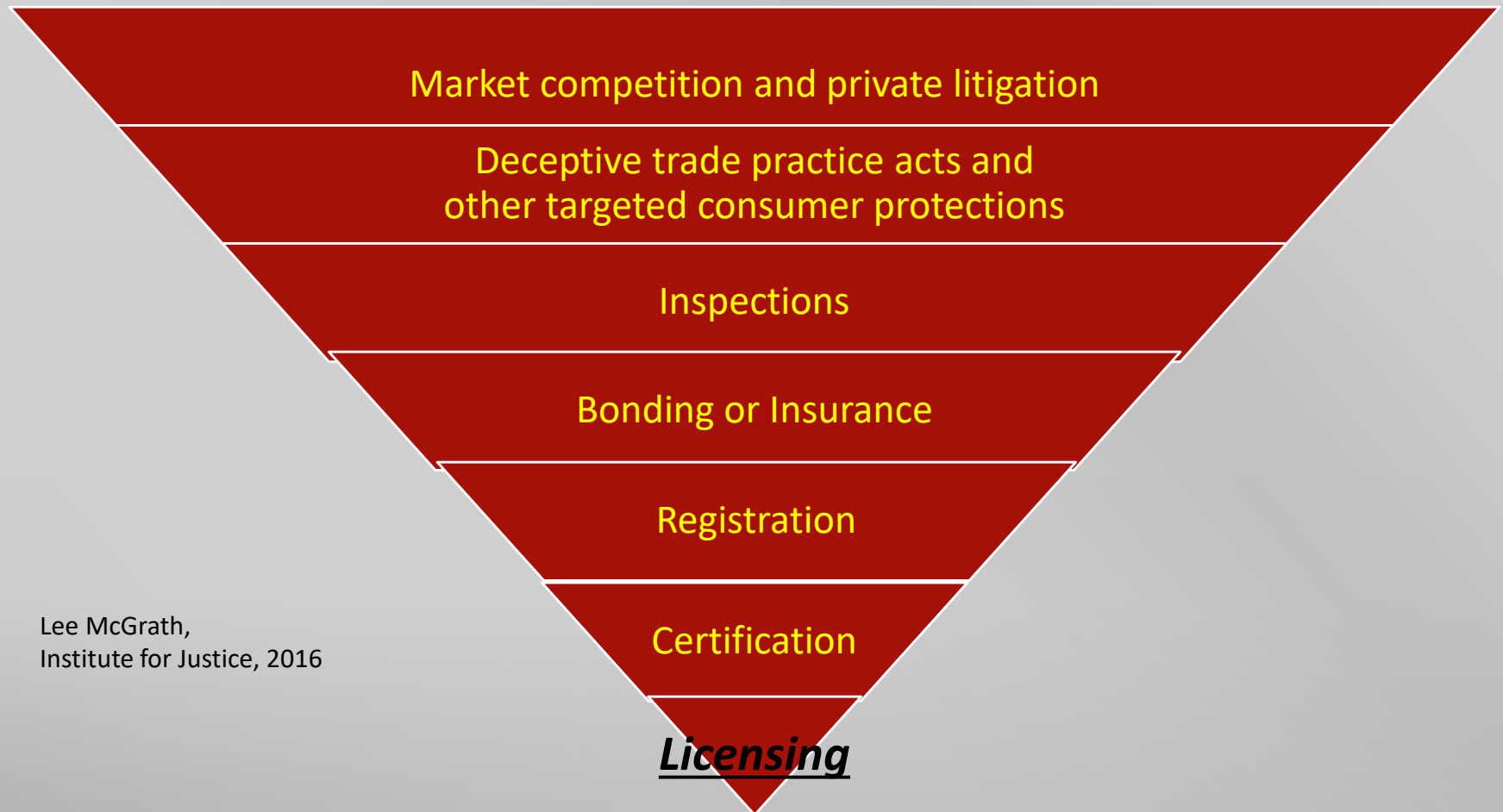
Licensing 101

- Occupational licensing is a pervasive feature of the U.S. labor market.
 - A license is a government credential legally required to perform certain tasks
 - Attaches to an individual (not establishment/firm) and requires a demonstration of competency
 - About 25% of U.S. workers currently hold an occupational license

Licensing 101: What do we need to know about the institution?

- Still, relatively little is known about the development of this institution.
 - How did licensing laws originate?
 - What were the key factors in their evolution?
 - Why has this method of regulation come to encompass so many jobs?

Use of least restrictive form of regulation consistent with policy goals



Lee McGrath,
Institute for Justice, 2016

Different Views

Former Supreme Court Justice Robert Jackson

- “The modern state owes and attempts to perform a duty to protect the public from those who seek for one purpose or another to obtain money. When one does so through the practice of a calling, **the state may have an interest in shielding the public against the untrustworthy, the incompetent, or the irresponsible.**”

Opposition to regulation

- ***“All professions are conspiracies against the laity”***

George Bernard Shaw

Milton Friedman, Nobel Prize winning economist at the University of Chicago

- “The impossibility of any individual or small group conceiving of all the possibilities, let alone evaluating their merits, is the great argument against central governmental planning and against arrangements such as **professional monopolies that limit the possibilities of experimentation. On the other side, the great argument for the market is its tolerance of diversity**; its ability to utilize a wide range of special knowledge and capacity. It renders special groups impotent to prevent experimentation and ***permits the customers and not the producers to decide what will serve the customers’ best.***”

Findings on origins of occupational licensing

Licensed occupations are highly selected on task content.

- ▶ Most (but not all) licensed occupations are professional or personal service jobs
- ▶ Plausibly riskier jobs are more likely to be licensed and were licensed earlier

Certain states are consistently more likely to originate and spread licensing legislation.

- ▶ These tend to be larger and more urbanized
- ▶ Some association with legislative ideology and professionalism

Rent seeking by occupations

- Size and political organization of the occupation is strongly associated with regulation timing.
 - Within occupation, larger markets are regulated earlier
 - Establishment of a state professional association significantly increases likelihood of regulation

Occupational Regulation as a form of a Guild

The Rise of Guilds

From the time of medieval guilds in Europe, service providers have had strong incentives to create **barriers to entry for their professions in order to raise wages** (Ogilvie 2014).

Occupational Regulation as a form of a Guild

“guild members and politicians could collaborate in capturing a larger slice of the economic rents and redistributing it to themselves at the expense of the rest of the economy” (Ogilvie, 2014)

Decline of Guilds

With the advent of the Industrial Revolution in both Europe and the United States, smaller enterprises that competed at the local level gave way to larger enterprises, such as heavy equipment manufactures or steel mills, whose markets were national or international.

Consequently, the ability to control markets was much more difficult.

Decline of Guilds

- Workers in these industrial enterprises did many of the same **tasks established by the enterprise and no longer needed guilds**. It became much harder to restrict entry or impose governmental entry requirements on these large enterprises, and therefore, in a **largely industrial economy, occupational guilds declined (Ogilvie 2014)**.

Meet the Experts | Some of the jobs that require licensing in one or more states



Personal care

- Wig specialists
- Hair braiders
- Shampoo specialists
- Body piercers
- Naturopathic doctors
- Hearing aid dispensers
- Athletic trainers



Flora and fauna

- Nuisance control specialists
- Wildlife rehabilitators
- Dog handlers
- Land surveyors
- Florists



Product and home care

- Appliance repair technicians
- Windshield installers
- Bedding supply dealers
- Computer repair technicians
- Handymen
- Locksmiths
- Automotive parts recyclers



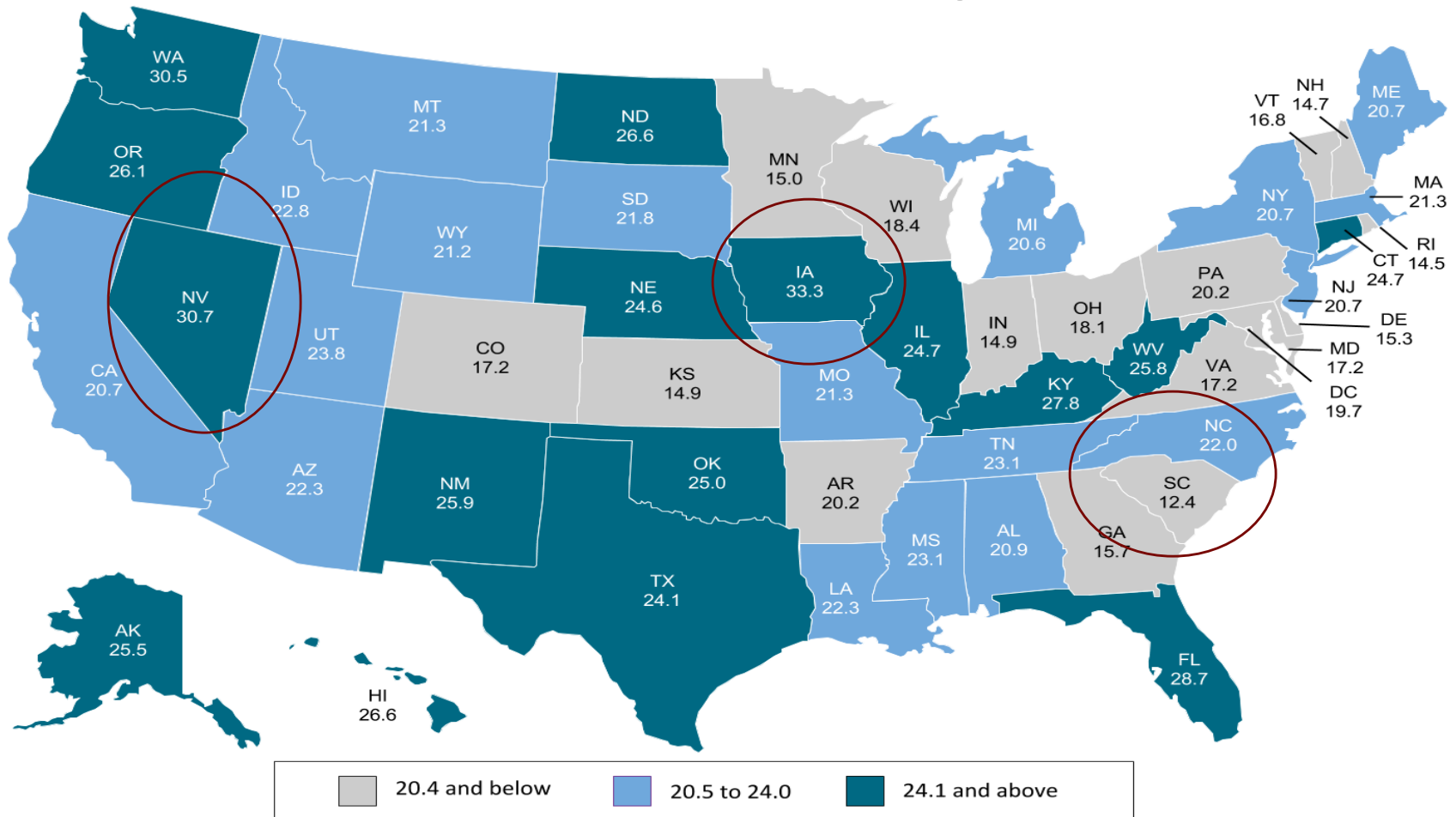
Other

- Pyrotechnic operators
- Private detectives
- Shorthand reporters
- Vending machine operators
- Student athlete agents
- Professional wrestlers
- Tour guides

Source: WSJ research; Photos: Associated Press (repairman); Getty Images (all others)

Harris Survey Estimates of Percent Licensed by State

Share of Workforce Licensed, by State



Source: Kleiner and Vorotnikov (2015) based on an analysis of data from a Harris poll of 9,850 individuals conducted in the first half of 2013.
Note: The three categories were constructed to contain roughly the same number of states.

How Do Occupations Become Licensed?

- Occupations as they develop **similar tasks and common procedures** for doing a job do not begin as a licensed occupations.
- Occupations evolve, organize, and often **select licensing** as a method to obtain professionalism and status, as well as to limit the supply of practitioners.
- **Occupations tax their members through dues and engage in political activities that often lead to registration, certification, and eventually licensing. The process of regulation across political jurisdictions often takes years or decades to achieve full licensure.**

An Example: Application to occupational licensing

Respiratory therapists, who organized themselves and raised their profession's dues in order to lobby for licensing laws, tended to be more successful in getting these licensing statutes passed (Wheelan, 2000)

Case Study of Medicine

**MEDICAL EDUCATION
IN THE
UNITED STATES AND CANADA**

**A REPORT TO
THE CARNEGIE FOUNDATION
FOR THE ADVANCEMENT OF TEACHING**

**BY
ABRAHAM FLEXNER**

**WITH AN INTRODUCTION BY
HENRY S. PRITCHETT
PRESIDENT OF THE FOUNDATION**

**PRESIDENT OF THE FOUNDATION
HENRY S. PRITCHETT
WITH AN INTRODUCTION BY**

Does it Protect Health and Safety?

Occupational licensing is often not tied to issues of clear health and safety concerns at the point of service. To illustrate, Michigan requires **1,460 days to become an athletic trainer but only 26 days to be licensed as an emergency medical technician (EMT)—** handles heart emergencies and strokes.

Findings and Implications of Occupational Licensing for the Overall Labor Market

- Shifting an occupation in a state from entirely unlicensed to entirely licensed increases state **average wages in the licensed occupation by about 15 percent**, increases hours per worker by 3 percent, and *reduces employment by 29 percent*.
- We estimate an average **welfare loss of 12 percent of occupational surplus**. Workers and consumers respectively bear 70 and 30 percent of the incidence.
- Higher willingness to pay offsets 80 percent of higher prices for consumers, and higher wages compensate workers for 60 percent of the cost of mandated investment in occupation-specific human capital

Outcome effects of Occupational Licensing

- **Small income inequality effects and increasing variance in wages** (Kleiner & Krueger, 2013; Kleiner & Volotnikov, 2017)
- **Little to no impact on quality and safety outcomes for consumers** (Hall et. al., 2019; Kleiner & Kudrle, 2000; Kleiner et al., 2016; Larson, 2015, Farronato et.al. 2021, Kleiner and Koumenta, 2022)
 - ✓ *Exception:* Historical initial licensing of physicians and nurse midwives (Anderson et al., 2016; Law & Kim, 2005)

Sources of Welfare Losses of Occupational Licensing over time

- Duration and Grandfathering
- Battles Among Occupations—Scope of practice
- Reduction in Labor Market Efficiency

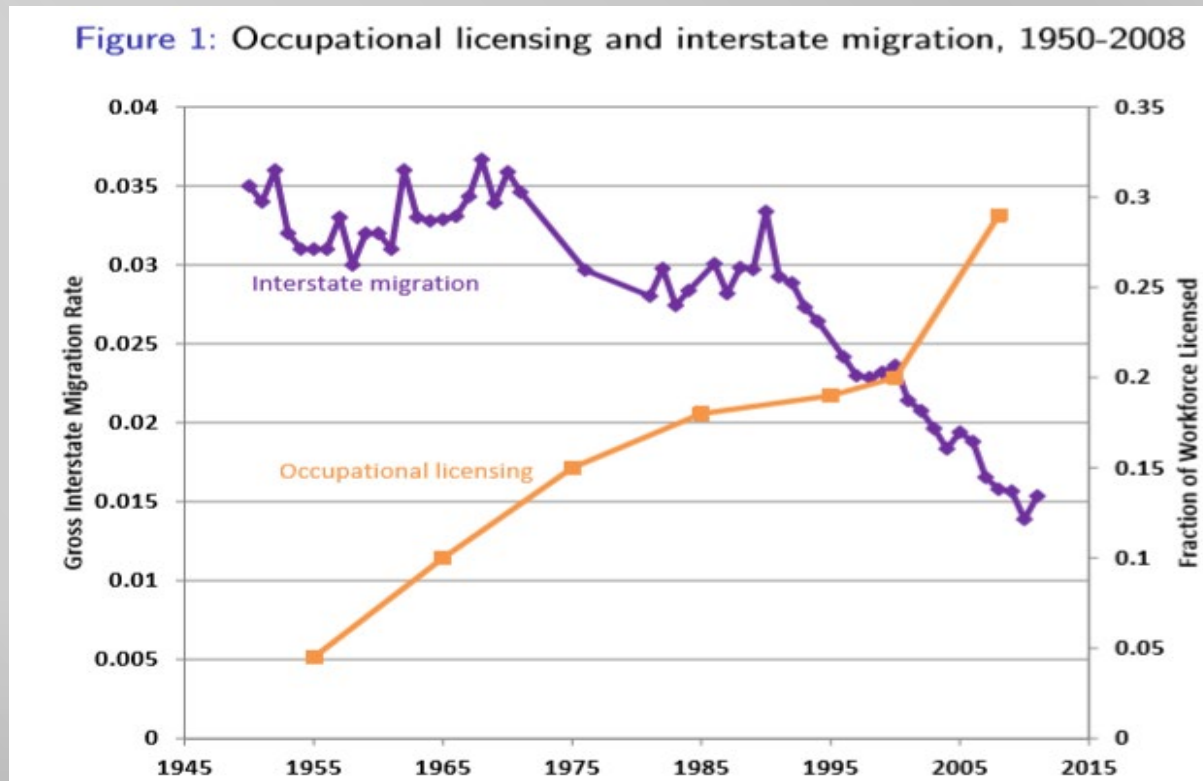
Effects on Labor Market Efficiency

- Geographic mobility
- Movement between occupations

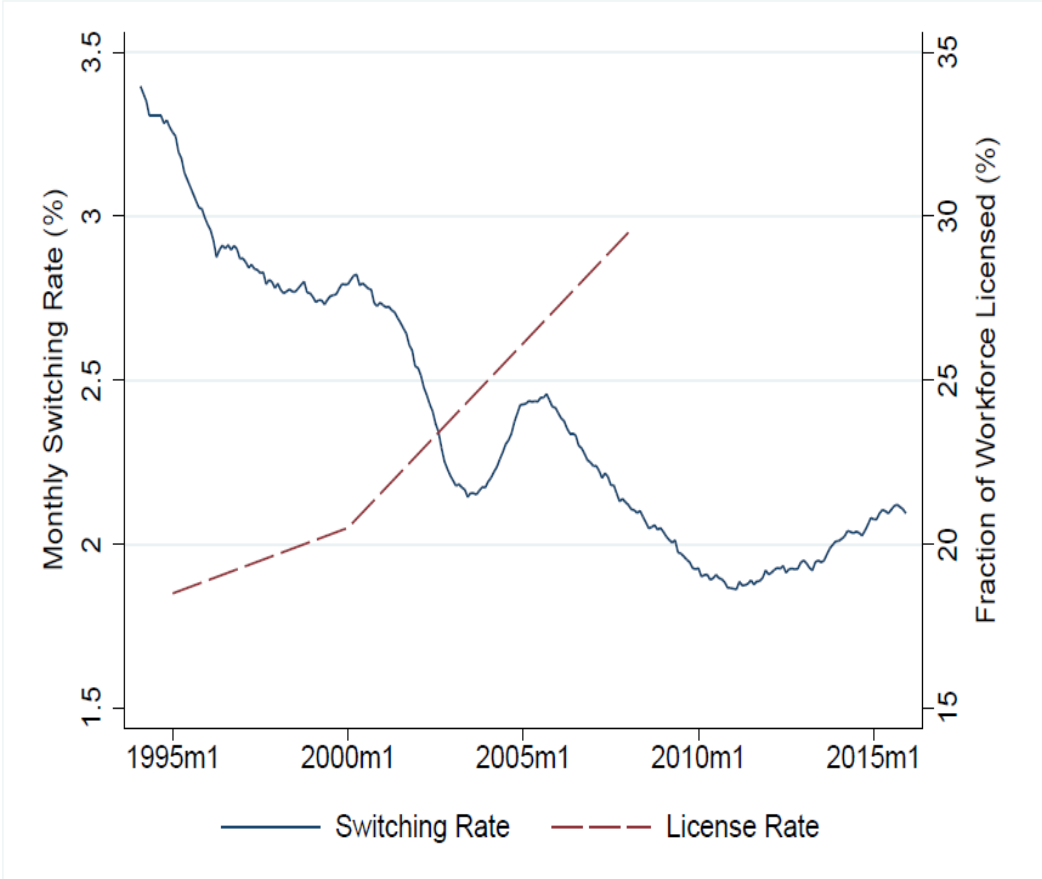
Does Occupational Licensing Reduce Interstate Migration in the U.S.?

(Johnson and Kleiner, 2019, *AEJ Policy*)

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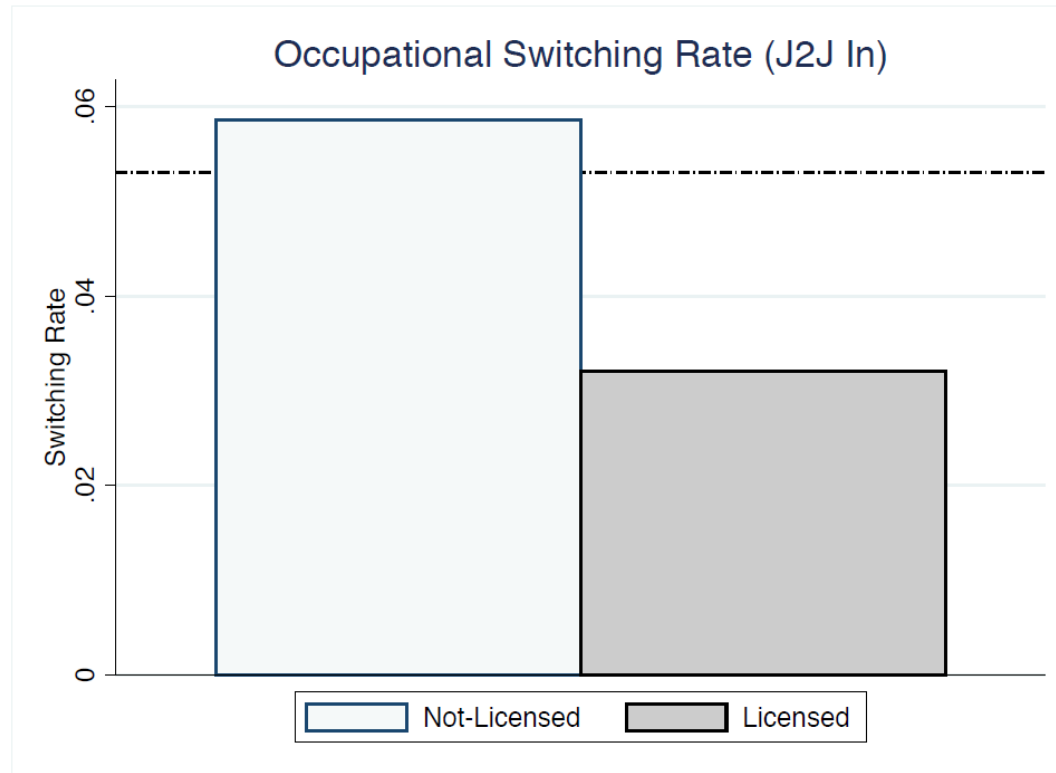


Licensing Growth and Occupation Switching Rate



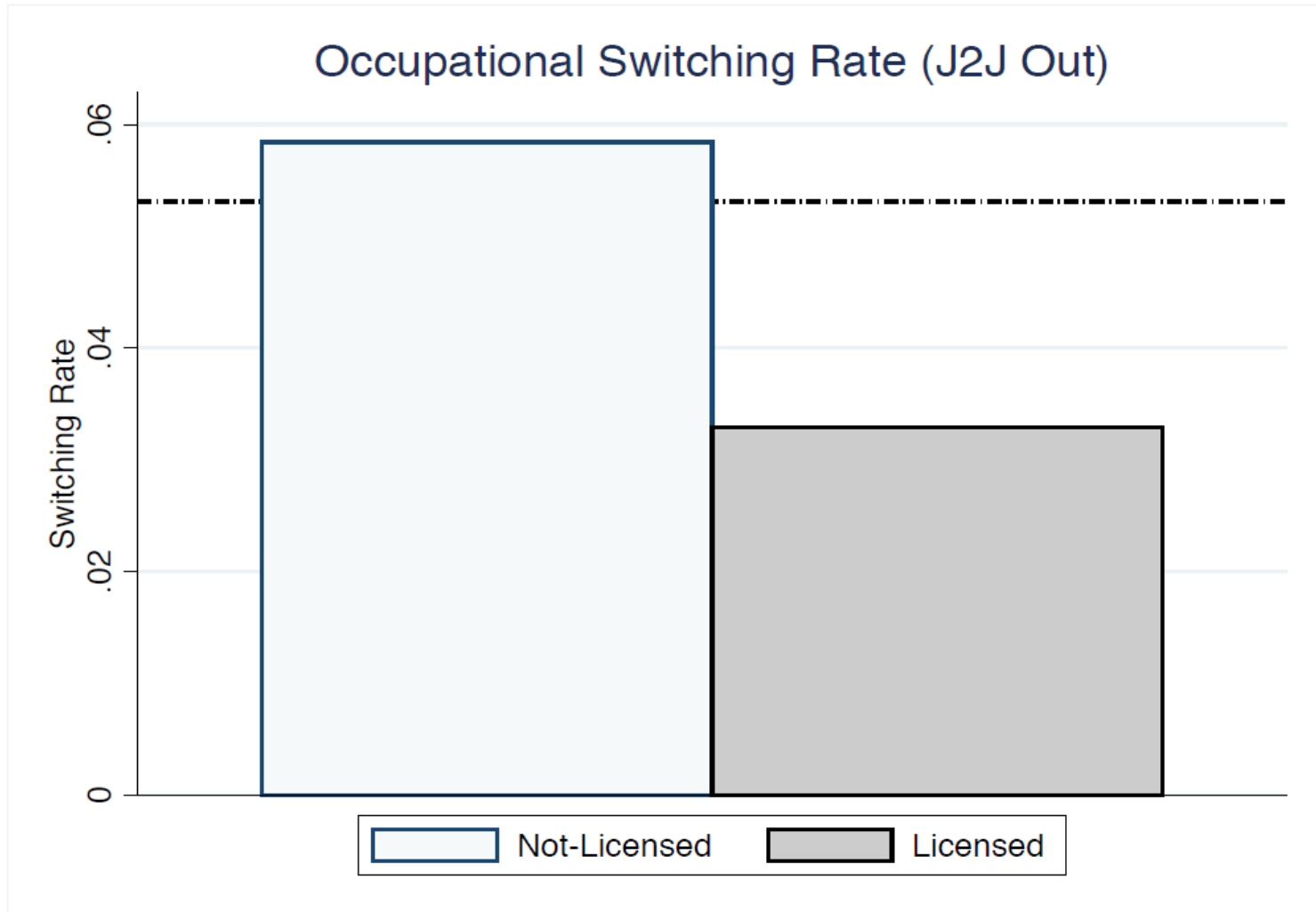
Licensing
and Labor
Market
Dynamics

Empirical Evidence - Occupational Switching Rate



Kleiner and Xu, 2021

Empirical Evidence - Occupational Switching Rates



Conclusions

- *The results underscore that, for occupations that are not already licensed, it is worth doing a careful cost-benefit analysis of licensing before moving forward with such regulations. The results are not an ideological argument against occupational licensing in general -- but rather a toolkit for using economic reasoning and data in a policy area that previously has been otherwise mostly evidence-free assertions about consumer protection.*

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- Thank you for your attention!
- Any Questions?