

The influence of occupational licensing and regulation

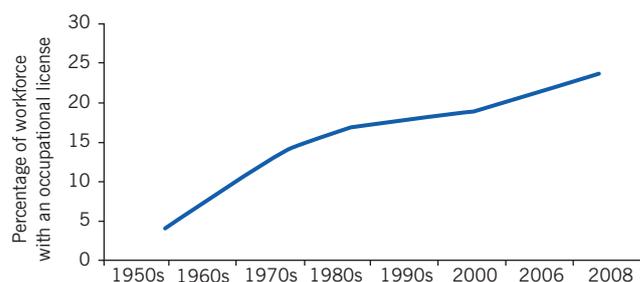
Occupational licensing may raise wages and benefits for those licensed but also reduce access to work without clear benefits to consumers

Keywords: occupational licensing, labor markets with regulation, wage determination with regulation

ELEVATOR PITCH

Since the end of World War II, occupational licensing has been one of the fastest growing labor market institutions in the developed world. The economics literature suggests that licensing can influence wage determination, the speed at which workers find employment, pension and health benefits, and prices. Moreover, there is little evidence to show that licensing improves service quality, health, or safety in developed nations. So, why is occupational licensing growing when there are such well-established costs to the public?

Occupational licensing has grown substantially in the US



Source: Department of the Treasury Office of Economic Policy, CEA, and DOL. *Occupational Licensing: A Framework for Policymakers*. White House Report, July 2015. Online at: https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf

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KEY FINDINGS

Pros

- + Wage premiums resulting from occupational licensing attainment are positively associated with the stringency of licensing requirements.
- + Gaining employment in a universally licensed occupation has been shown to increase hourly earnings compared to unlicensed individuals with similar education and skills.
- + Licensing raises long-term earnings and employment opportunities for low-income occupations.
- + Certification by government can provide information about the quality of the practitioner while reducing the monopoly effects of licensing.

Cons

- By making it more difficult to enter an occupation and move across political jurisdictions, employment opportunities may be reduced in licensed occupations.
- Licensing raises the prices of services with no clear demonstrated benefit in overall quality.
- The additional requirements needed to earn licensure may steer low-skilled or low-income workers into even lower-paying but more accessible jobs that do not require a license, such as janitors or waiters.
- Wage premiums resulting from licensing are primarily due to reductions in competition as well as perceived higher quality of service, which may be associated with increased income inequality.

AUTHOR'S MAIN MESSAGE

The wage benefits of occupational licensing are concentrated primarily among individuals who are already well paid. Evidence indicates that occupational licensing can hamper mobility, making it harder for workers to take advantage of job opportunities in other regions. Moreover, there is little evidence to show that occupational licensing has actually improved the quality of delivered services in many fields, although it has been shown to increase prices and limit economic output. Hence, governments should require cost-benefit analyses prior to new licensing rules, allow practitioners to cross borders without economic penalties, and reduce regulations on certain occupations.