

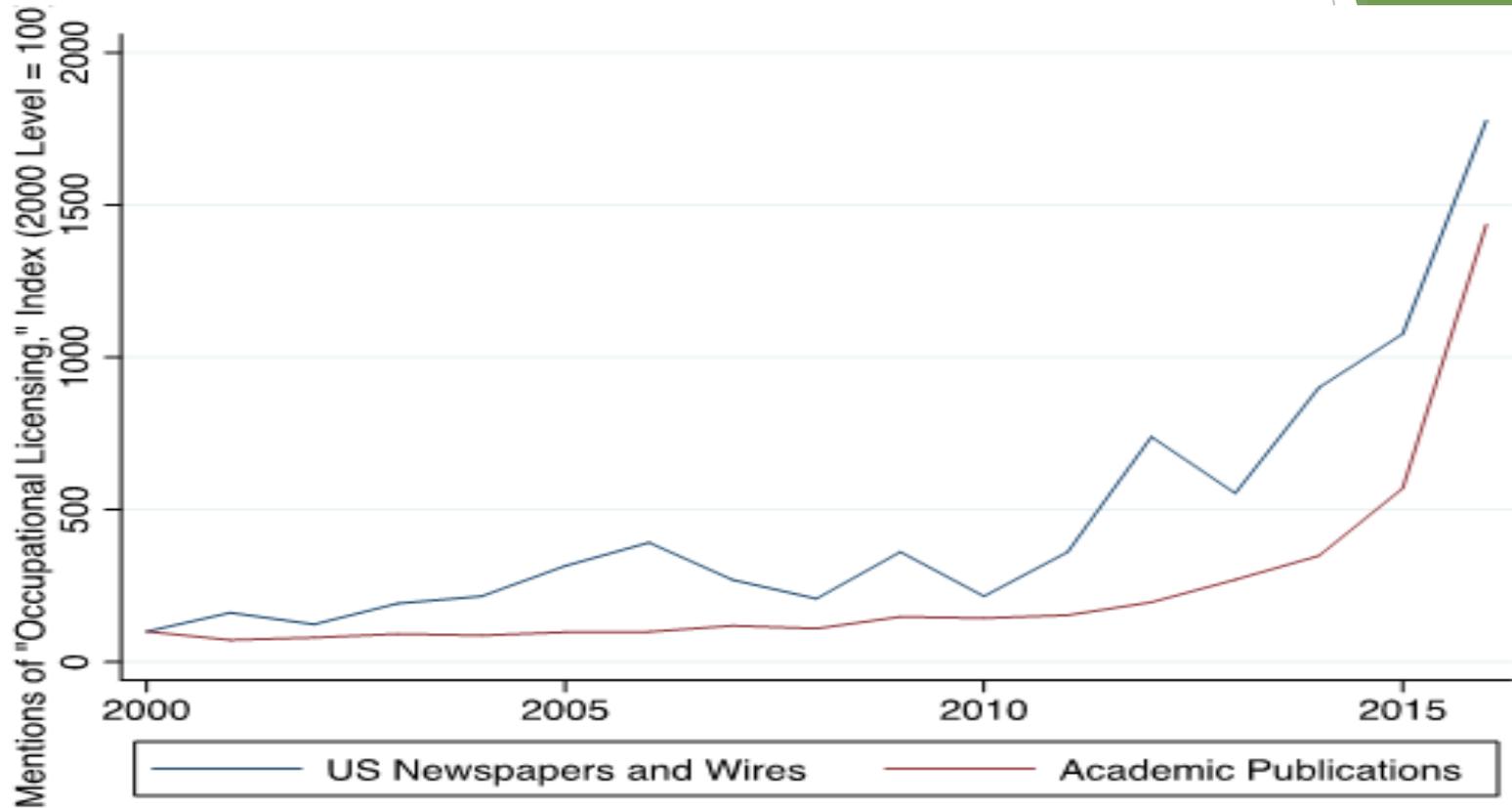
Regulatory Barriers to Competition in Professional Services: Measurement and Reform Experiences



A Welfare Analysis of Occupational Licensing in U.S. States

*Morris M. Kleiner, University of
Minnesota based on work with Evan
Soltas, MIT*

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.

Has Licensing Gone Too Far?

- ▶ “[O]verly burdensome licensure requirements weaken competition without benefiting the public.”
- U.S. Labor Sec. Alex Acosta, 8 Jan 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.”
- U.K. Chief Sec. to the Treasury Elizabeth Truss, 26 Jun 2018

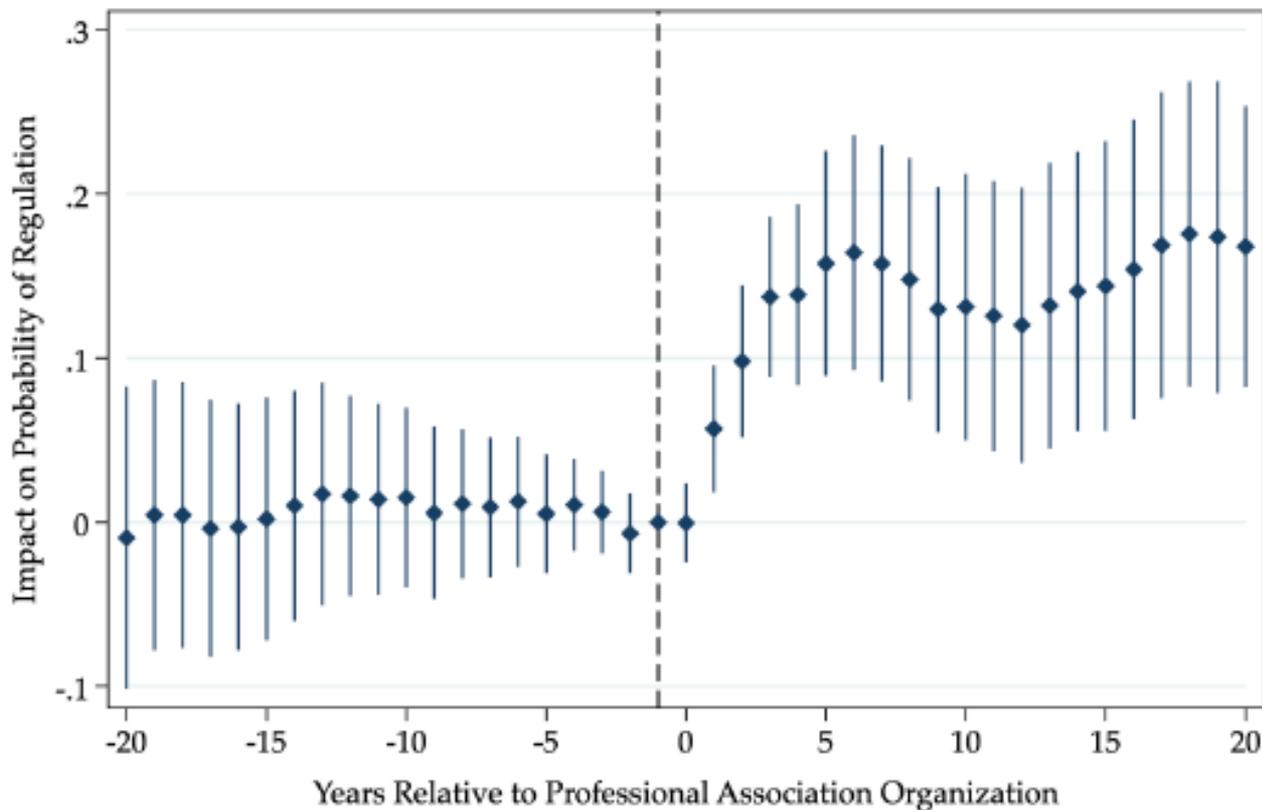
Key Research and Policy Questions

Does licensing influence social welfare?

- ▶ Some occupations very likely should (not) be licensed but how/where to draw the line?
- ▶ Do professional associations help cause licensing and how do they evolve?
- ▶ *Existing theory: Explains how licensing might affect outcomes, but no data exist to test for the predictions (Leland 1979, Shapiro 1986)*
- ▶ *Existing evidence: Identification is a challenge, no link to costs/benefits/welfare (Kleiner & Krueger, '10/'13, Gittleman & Kleiner '16, Gittleman et al '18)*

Do the Origins of Licensing Suggest Rent Capture?*

Figure 2: Professional Association Event Study



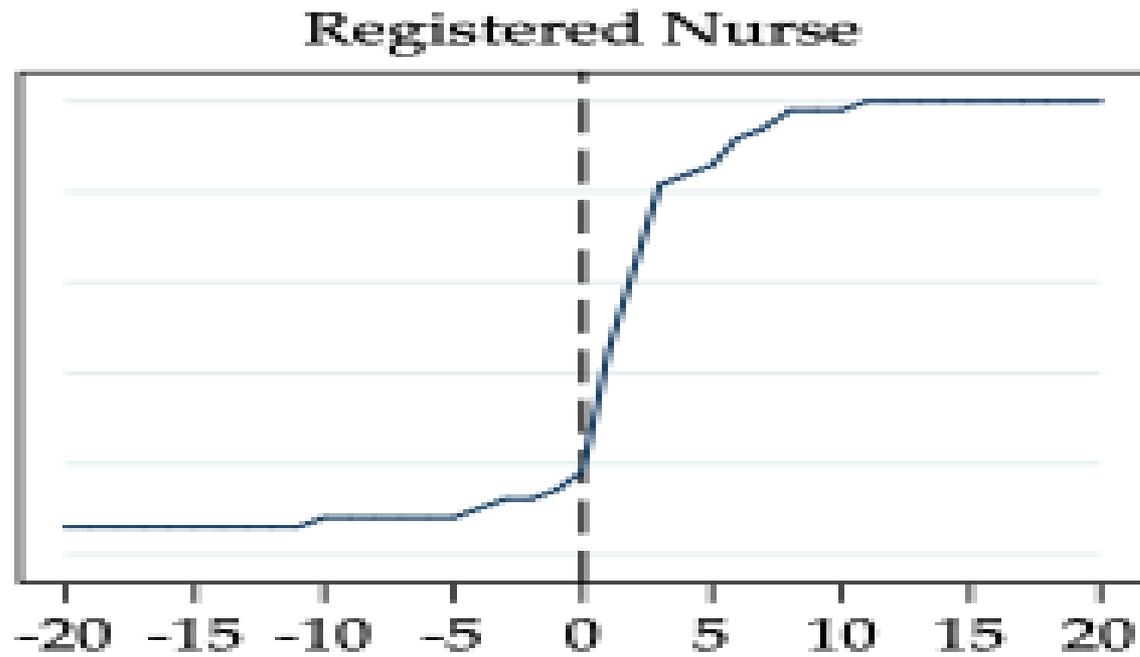
*The Origins and Evolution of Occupational Licensing in U.S. States by Carollo, Hicks, Karsh, and Kleiner, 2021

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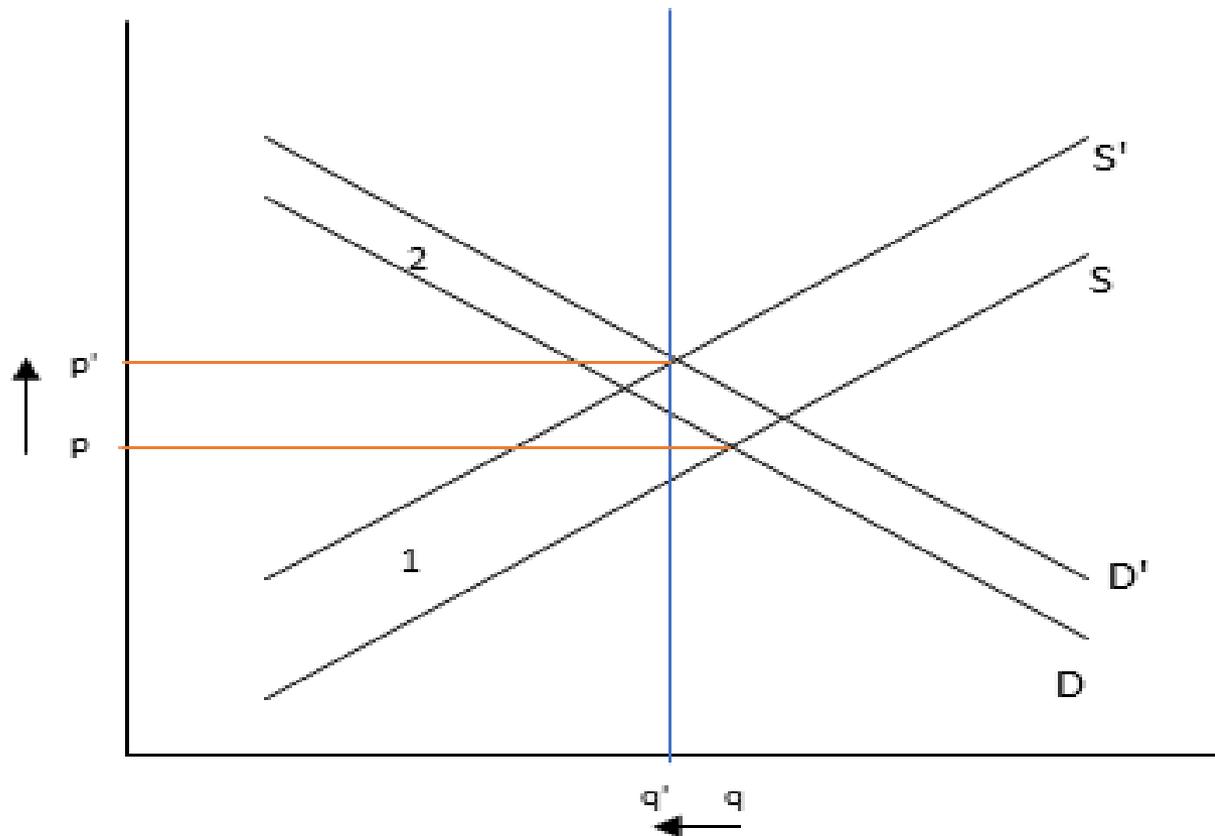
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Summary of the Basic Model

Figure 1: Economic Analysis of Occupational Licensing Policy



Findings and Implications of Occupational Licensing for the 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)
 - ✓ *Exception:* Historical initial licensing of physicians and nurse midwives (Anderson et al., 2016; Law & Kim, 2005)

Figure 2: Effect of Licensing on Highest Level of Educational Attainment

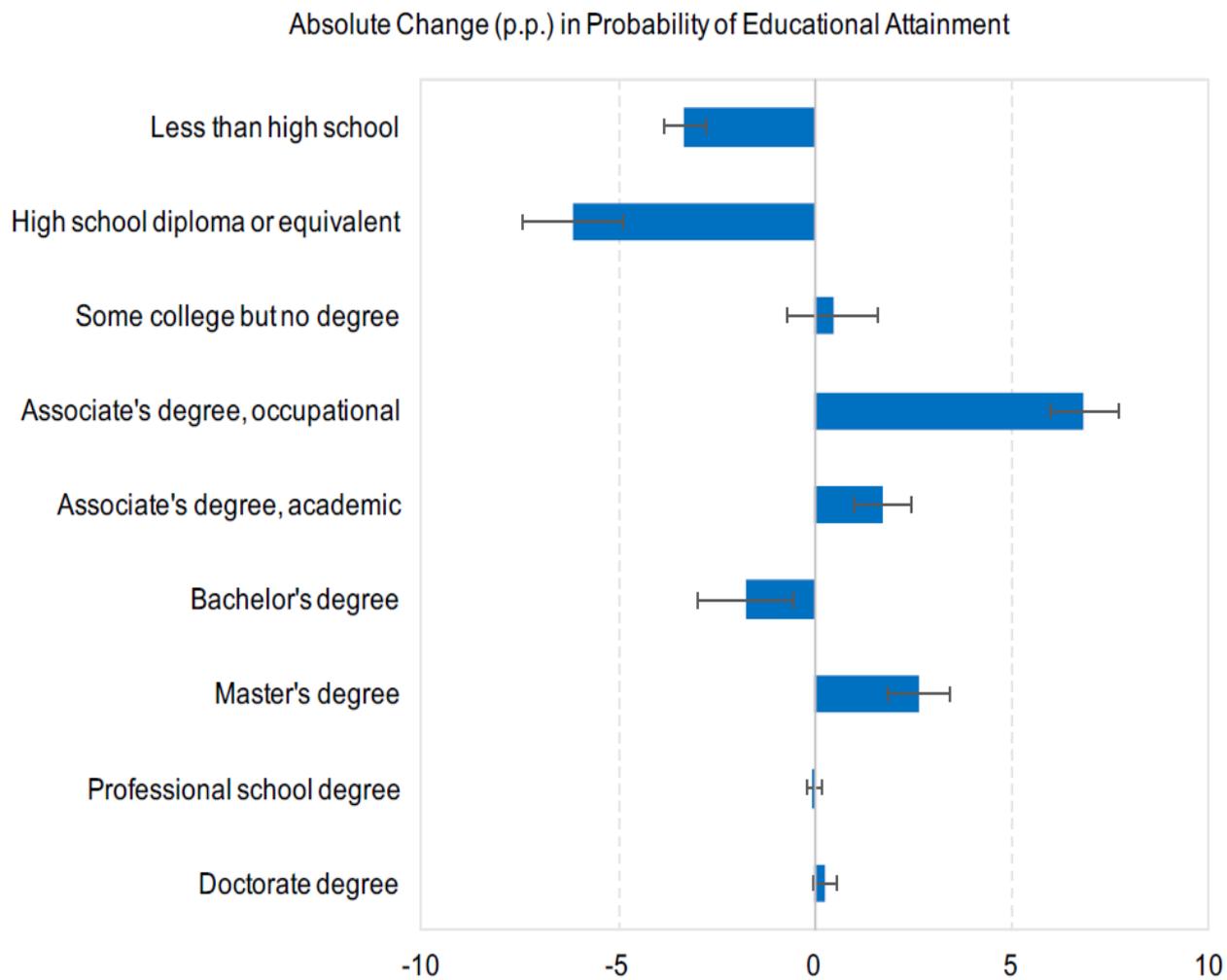
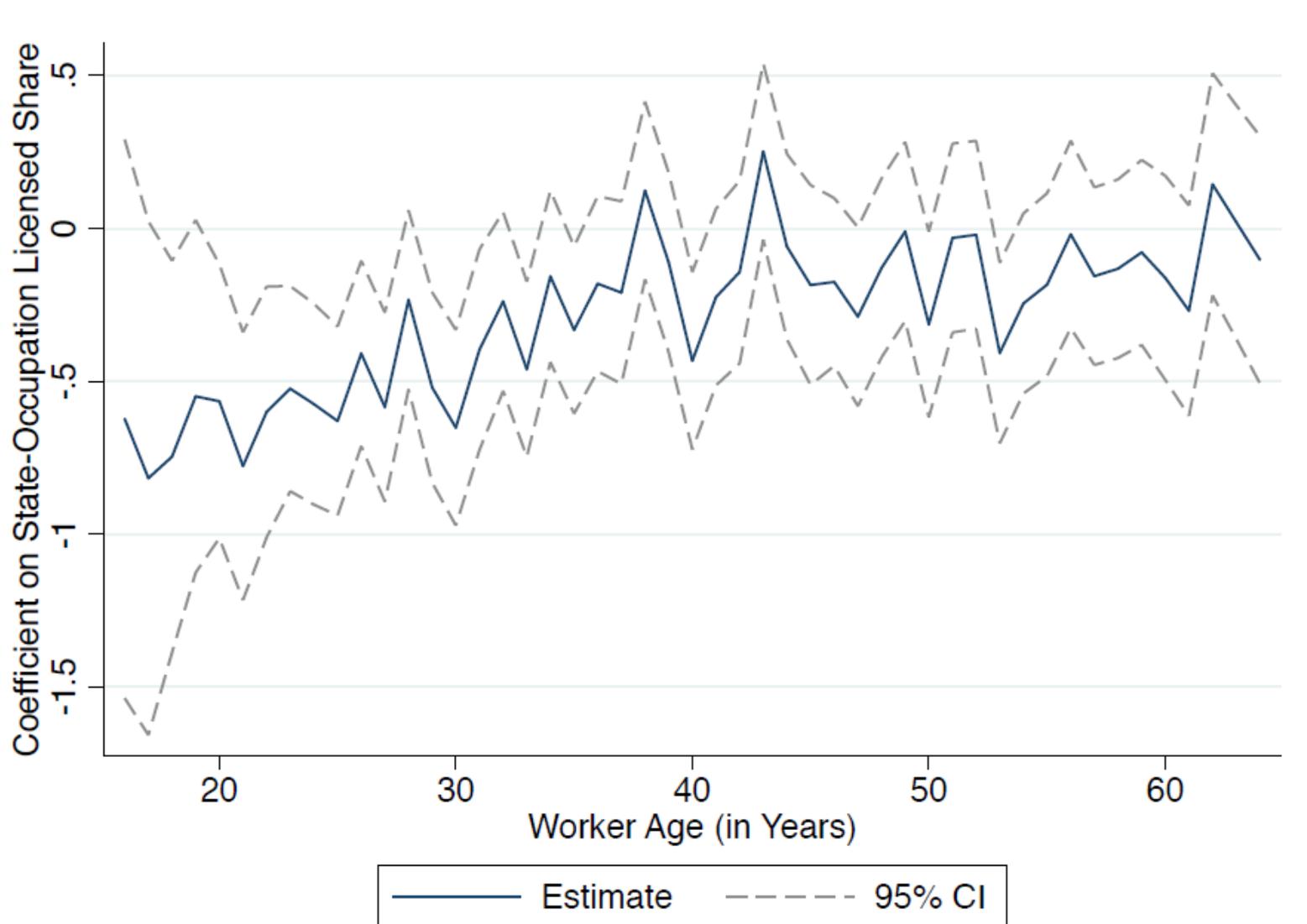


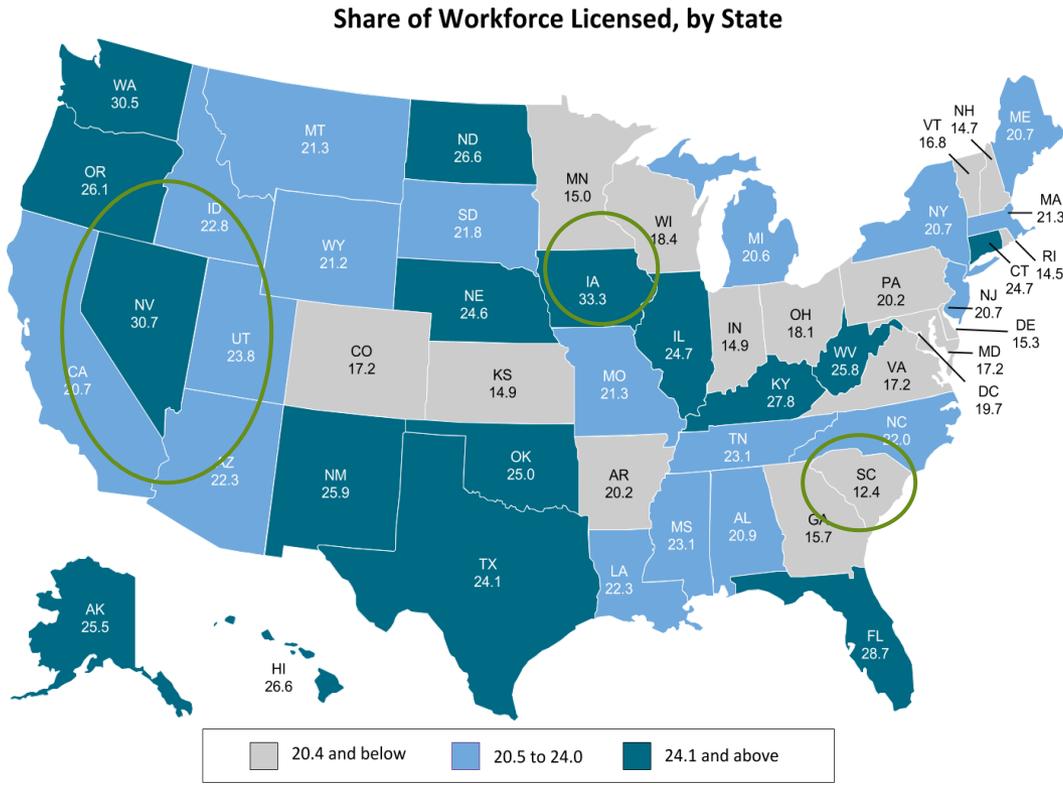
Figure 3: Effect of Licensing on Employment Age Profile



Sources of Welfare Losses of Occupational Licensing over time

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

Variations across states: Harris Survey Estimates of Percent 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.

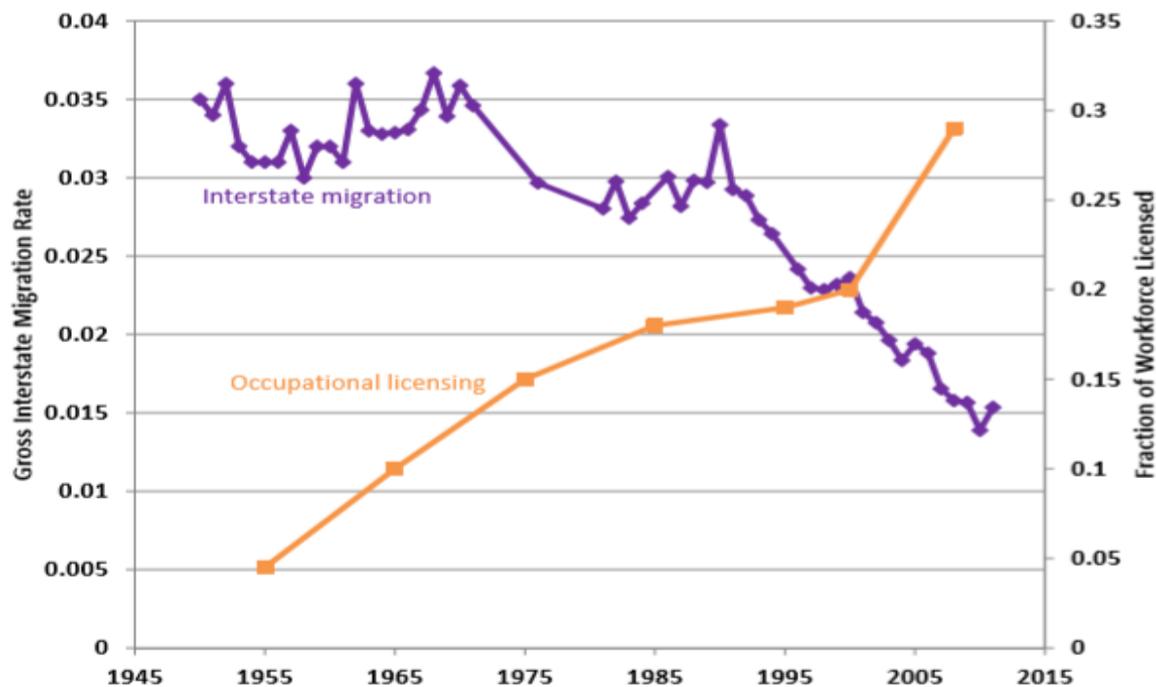
Effects on Labor Market Efficiency

- ▶ Geographic mobility
- ▶ Movement between occupations

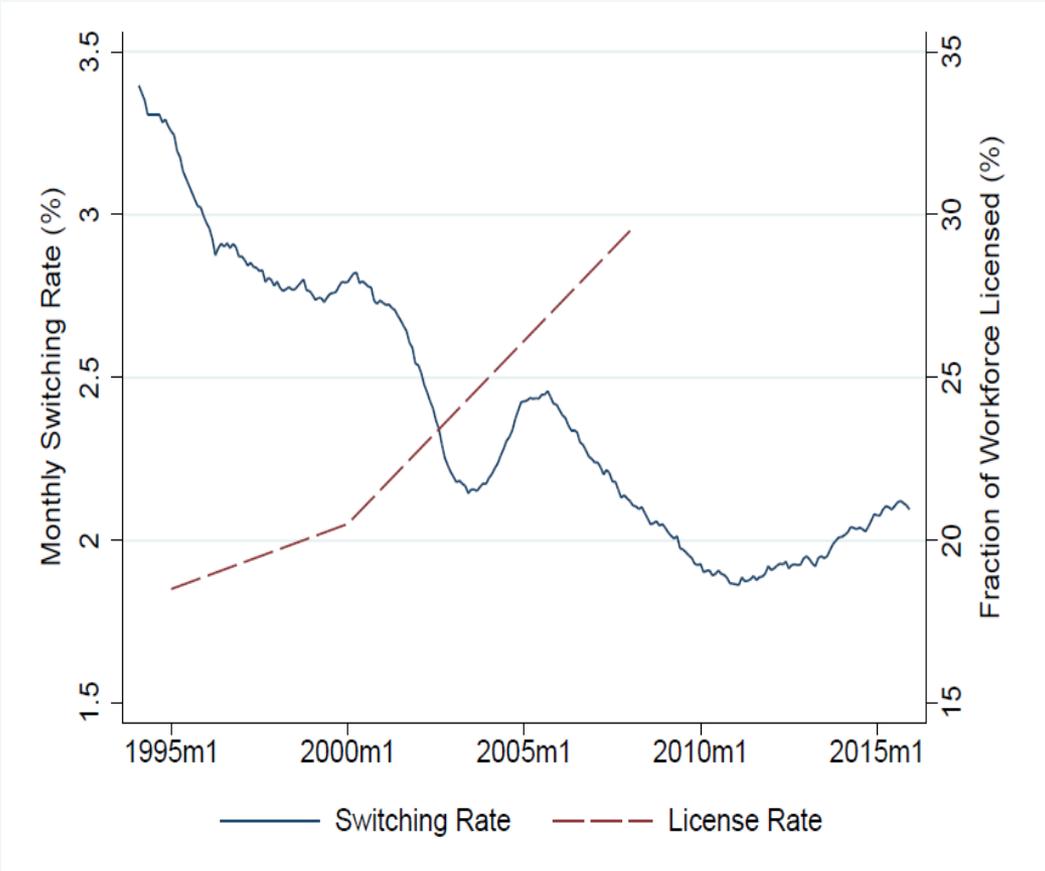
Does Occupational Licensing Reduce Interstate Migration in the U.S.?

(Johnson and Kleiner, 2019, *AEJ Policy*)
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Figure 1: Occupational licensing and interstate migration, 1950-2008

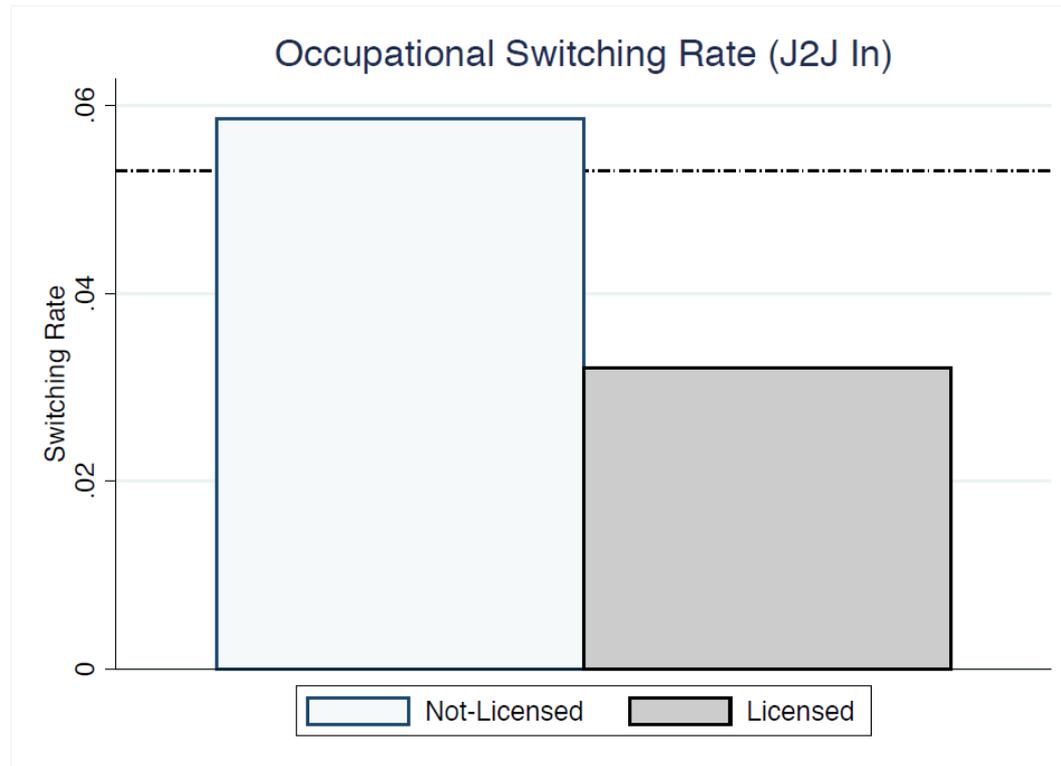


Licensing Growth and Occupation Switching Rate



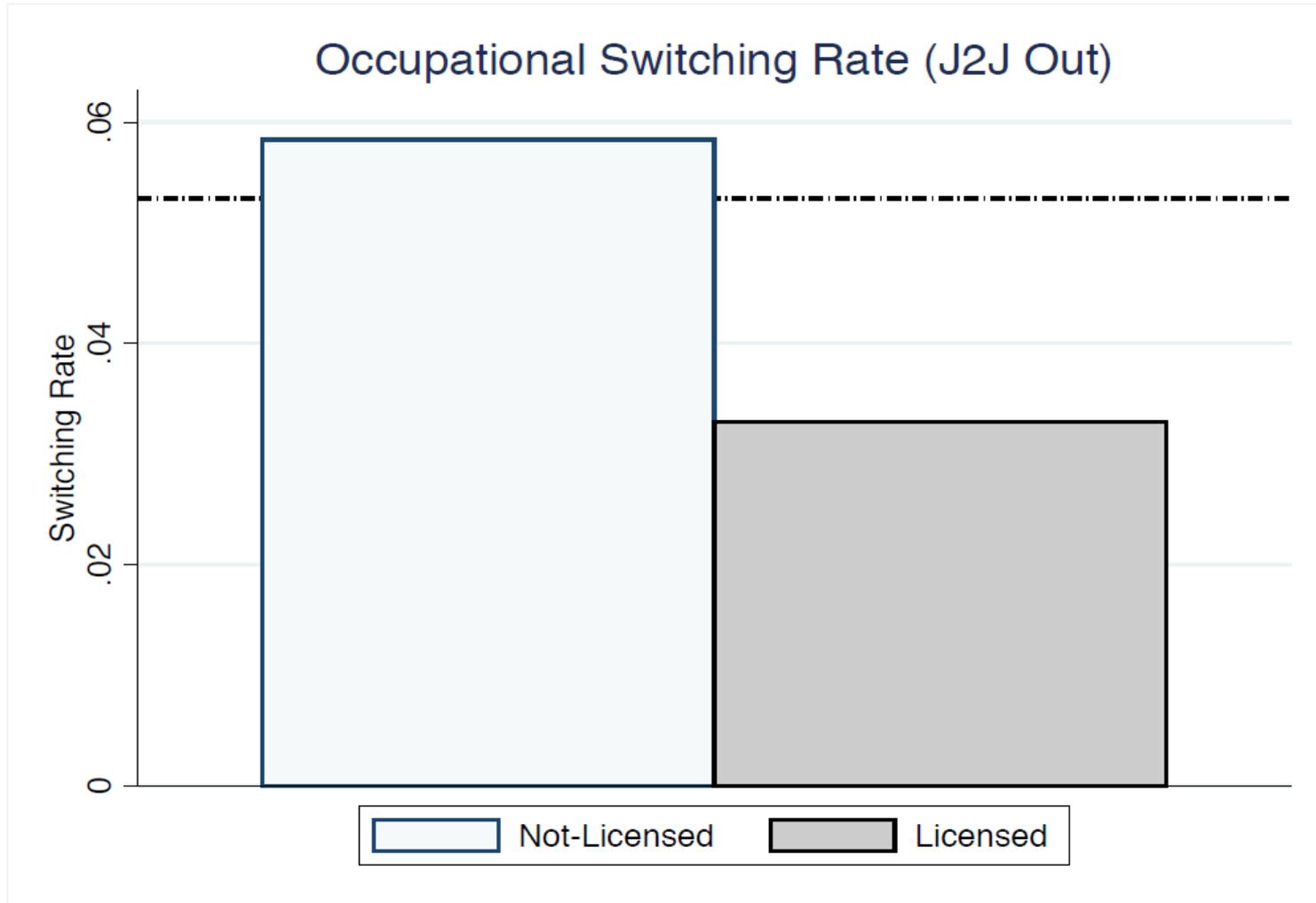
Licensing
and Labor
Market
Dynamics

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 the opportunity to discuss implications of occupational regulation with OECD researchers!
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