

Labor Market Frictions: The Case of Licensing Occupations

Morris M. Kleiner
Humphrey School of Public Affairs
University of Minnesota

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Labor Market Trends & the Future of Work
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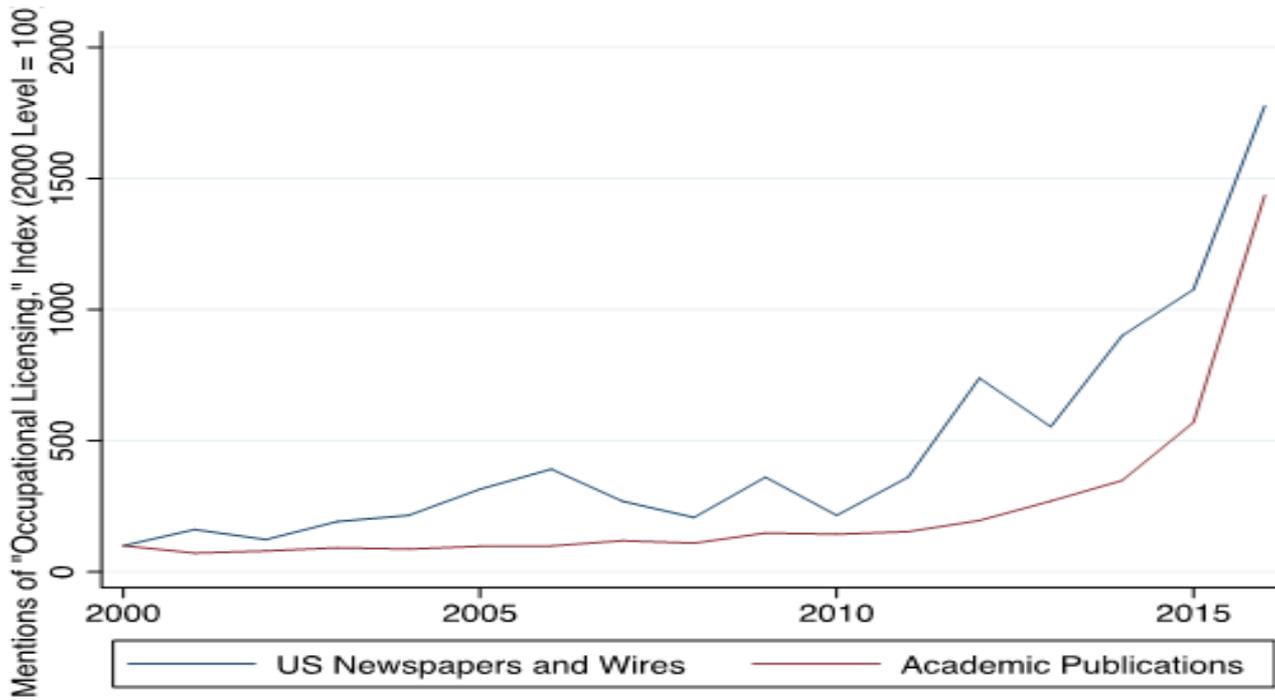
What is Occupational Licensing?

- Government regulators **require** practitioners to obtain a license to work in many occupations—
Legally related to *work for pay*
- Workers usually obtain licenses by satisfying minimum human capital requirements (*e.g.*, education, exams).
- *Example: Lawyers* in the U.S. are licensed by:
 - attending an approved law school and
 - passing examinations.

Why is occupational licensing important

Since licensing influences many more individuals in the United States and in many other nations than **unions or the minimum wage**, its evaluation should be important for social science researchers, policymakers, and citizens!

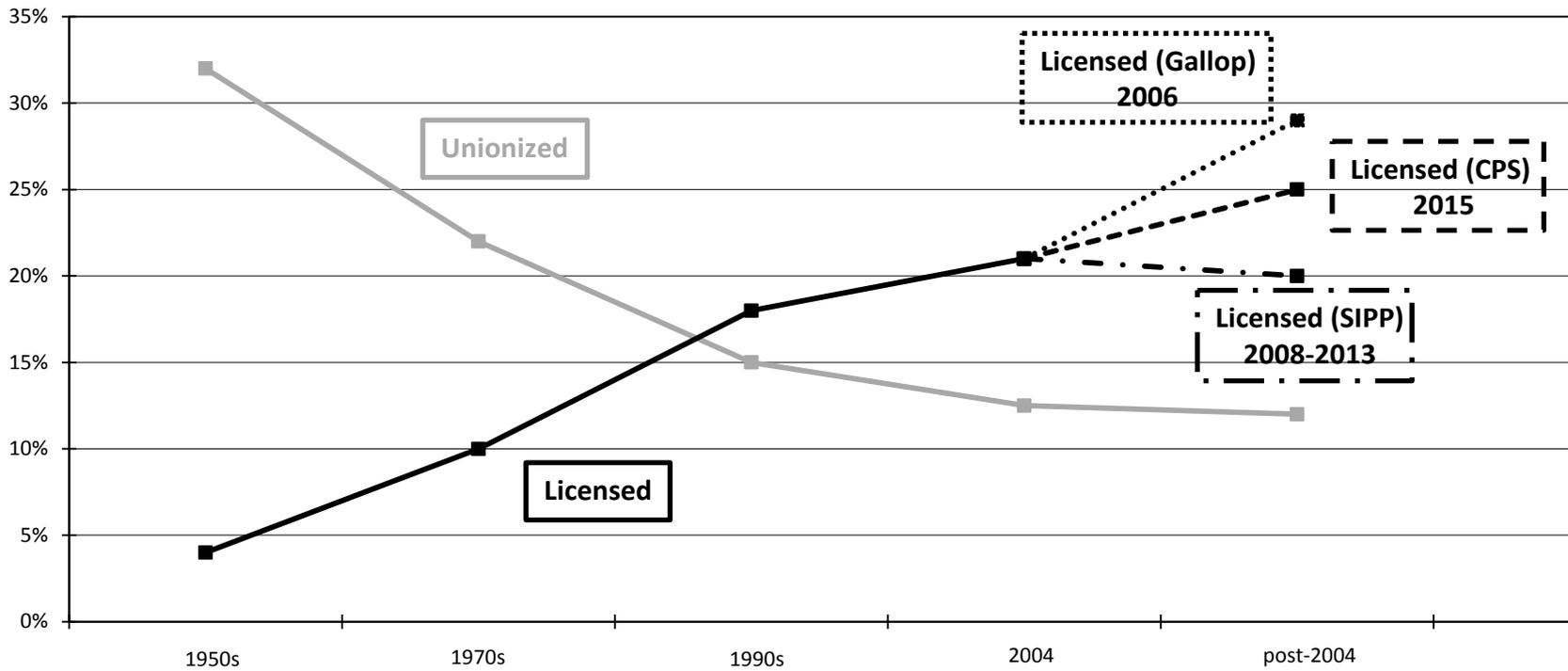
Popular and Academic Interest in Occupational Licensing



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.

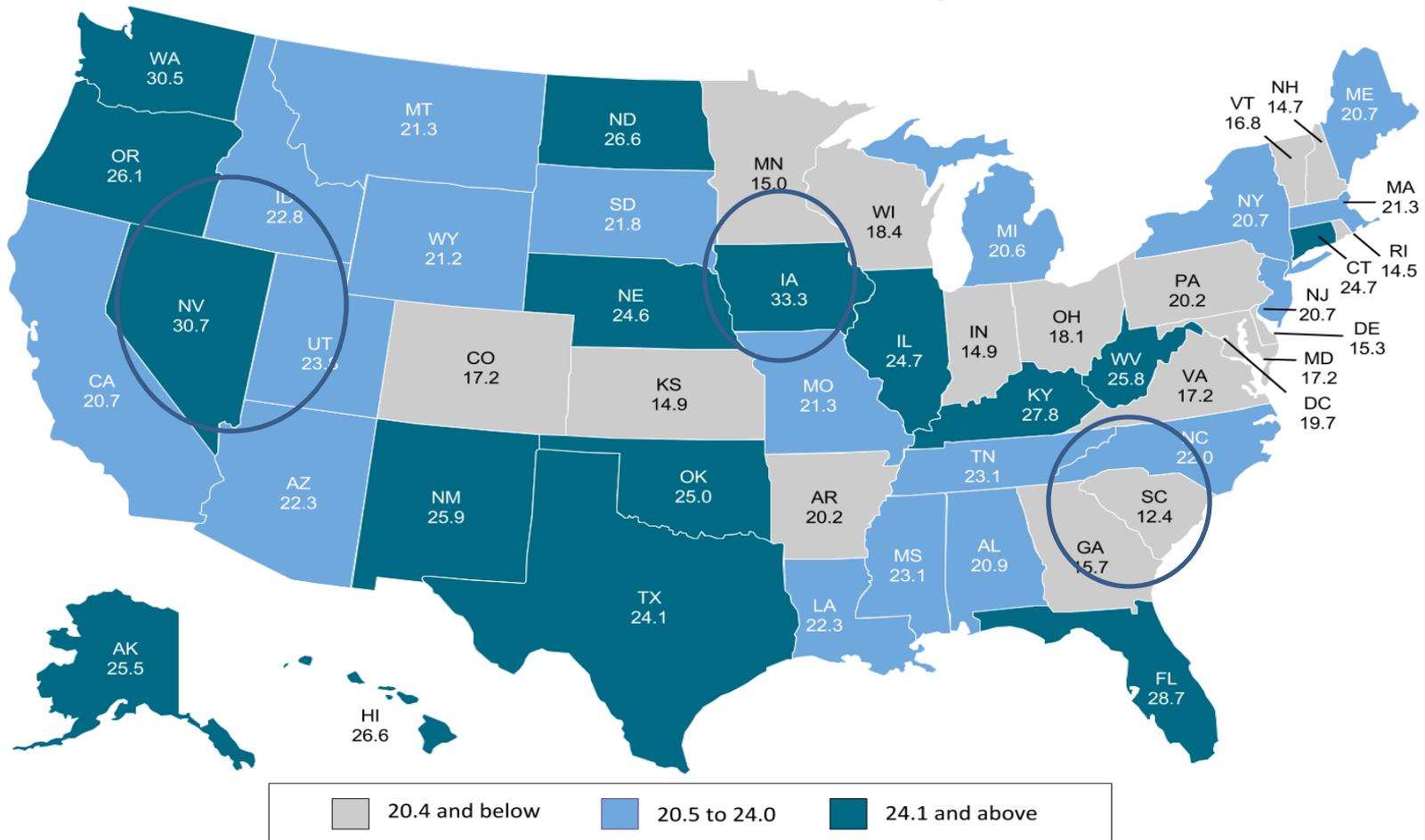
Growth and Decline of Labor Market Institutions

Comparisons in the Time-Trends of Two Labor Market Institutions: Licensing and Unionization



Harris Survey Estimates of Percent Licensed by State

Share of Workforce Licensed, by State



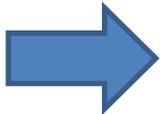
Source: Kleiner and Vorotnikov (2015) based on an analysis of data from a Harris poll of 9,850 individuals conducted in the first half of 2013.
Note: The three categories were constructed to contain roughly the same number of states.

Legal Perspective:

- “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.**” Former Supreme Court Justice Samuel Jackson

Market Economist Perspective

- “ The puzzle is not why we have so many silly licensure laws, but why we don’t have far more.”
- 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.***



**Milton Friedman, *Capitalism and Freedom*,
University of Chicago Press, 1962**

Key Issues

- Does occupational licensing raise wages?
- Does occupational licensing raise prices?
- Does it impede labor market efficiency and equity?
- Does occupational licensing improve quality and safety?

Aggregate Impacts and Influence on Wages

Attainment

- Kleiner and Krueger, 2010 and 2013, 15% on wages, no effect on inequality
- Kleiner and Volotnikov, 2017, 11 % on wages, increases inequality for highest income group
- Gittleman, Klee and Kleiner, 2018, 8% on wages, small effect on increasing inequality

Coverage

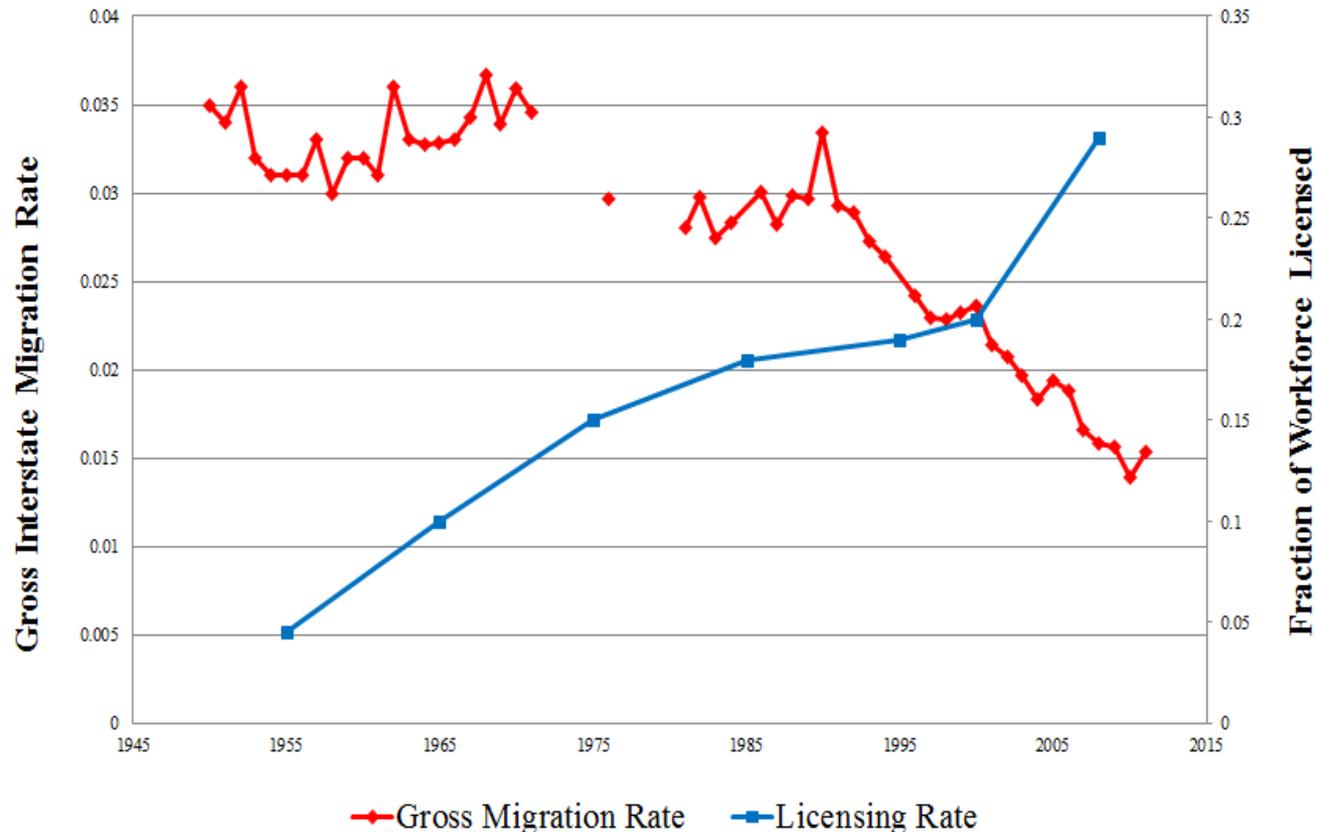
- Redbird, 2017, no effect on wages, greater access for minorities

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

(Johnson and

Kleiner, 2017)—NBER chart

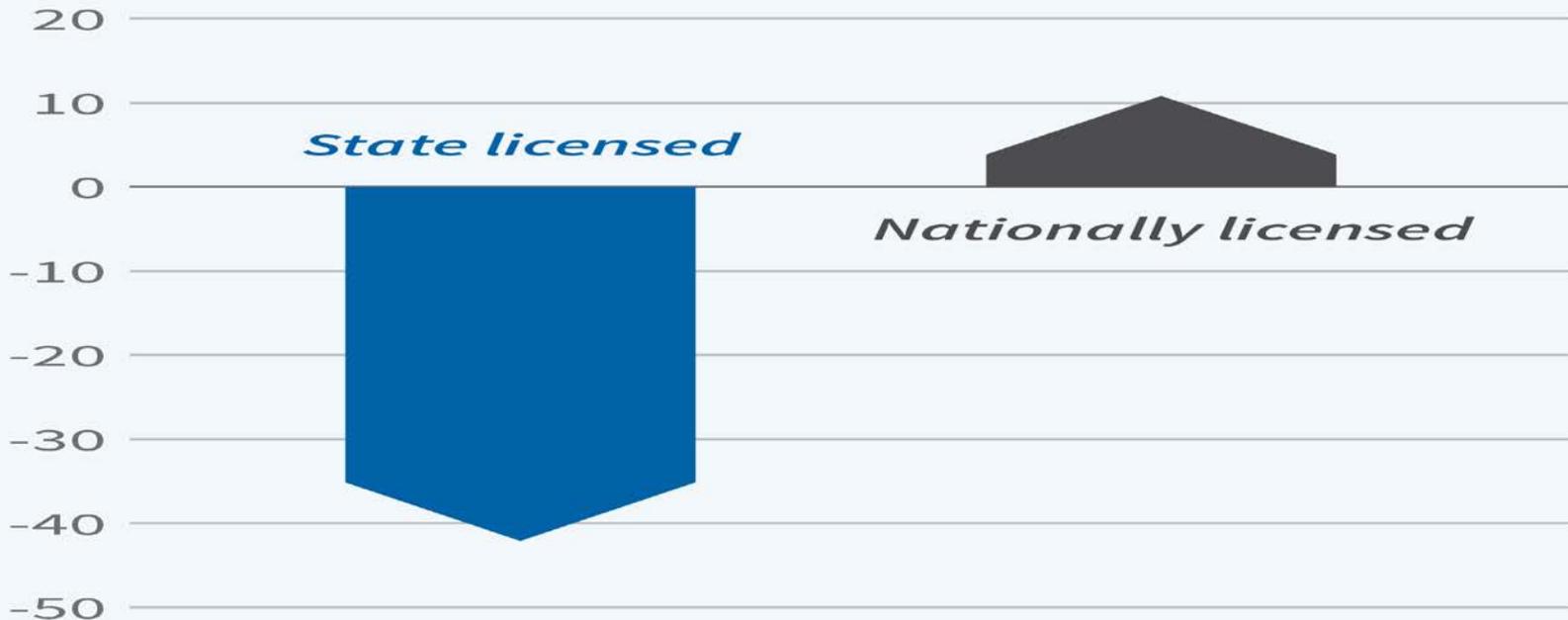
Interstate Migration Rates and Occupational Licensure, 1950-2008



We find that the between-state migration rate for individuals in occupations with state-specific licensing exam requirements is 36 percent lower relative to members of other occupations (*Johnson and Kleiner, 2017*)

Occupational Licensing and Migration Rates

Migration rate difference between licensed and non-licensed occupations (%)



Influence on Prices (from White House Report, 2015)

- Increase prices in medical health care 3 to 16 percent (Kleiner, et. al. 2016)
- Increases prices for mortgage brokers zero to 5.5 percent (Kleiner and Todd, 2009)
- Increase prices for dental services 4 to 11 percent (Kleiner and Kudrle, 2000)

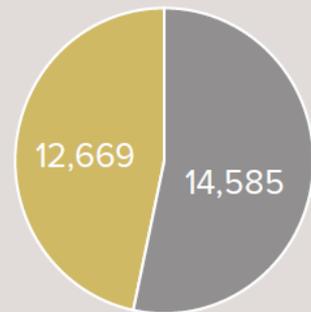
Direct Quality Effects

- Health Care Sector
 - ✓ Early Midwifery and Maternal Mortality (Anderson et al. 2016)
 - ✓ Dentistry and Dental Outcomes (Kleiner & Kudrle 2000)
 - ✓ Nurse Practitioners and Infant Mortality (Kleiner et al. 2016)
- Education
 - ✓ State Certification Requirements and Teacher Quality (Angrist & Guryan 2007, Larson 2015)
- Service/ Finance Based Occupations
 - ✓ Occupational Licensing of Uber Drivers (Hall, Hicks and Kleiner 2018)
 - ✓ Licensing and Yelp Ratings (Deyo 2016)
 - ✓ Fund Managers and Required Information Disclosure (Berk and van Binsbergen 2017)

Licensing Laws Often Contain Overly Broad Exclusions for People with Criminal Records

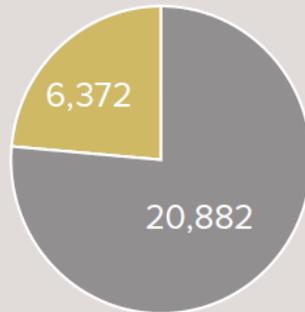
Types of Disqualifications Among State Licensing Restrictions

Felony



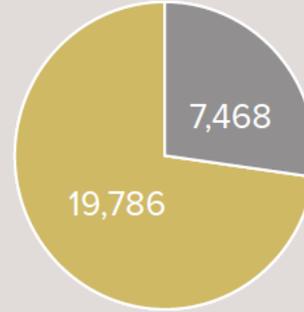
■ Any Felony
■ Other

Misdemeanor



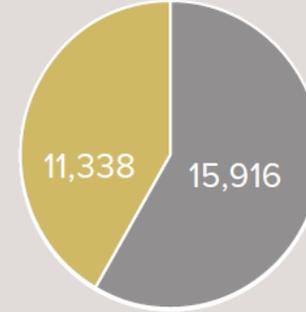
■ Any Misdemeanor
■ Other

Permanent



■ Permanent
■ Non-Permanent

Mandatory

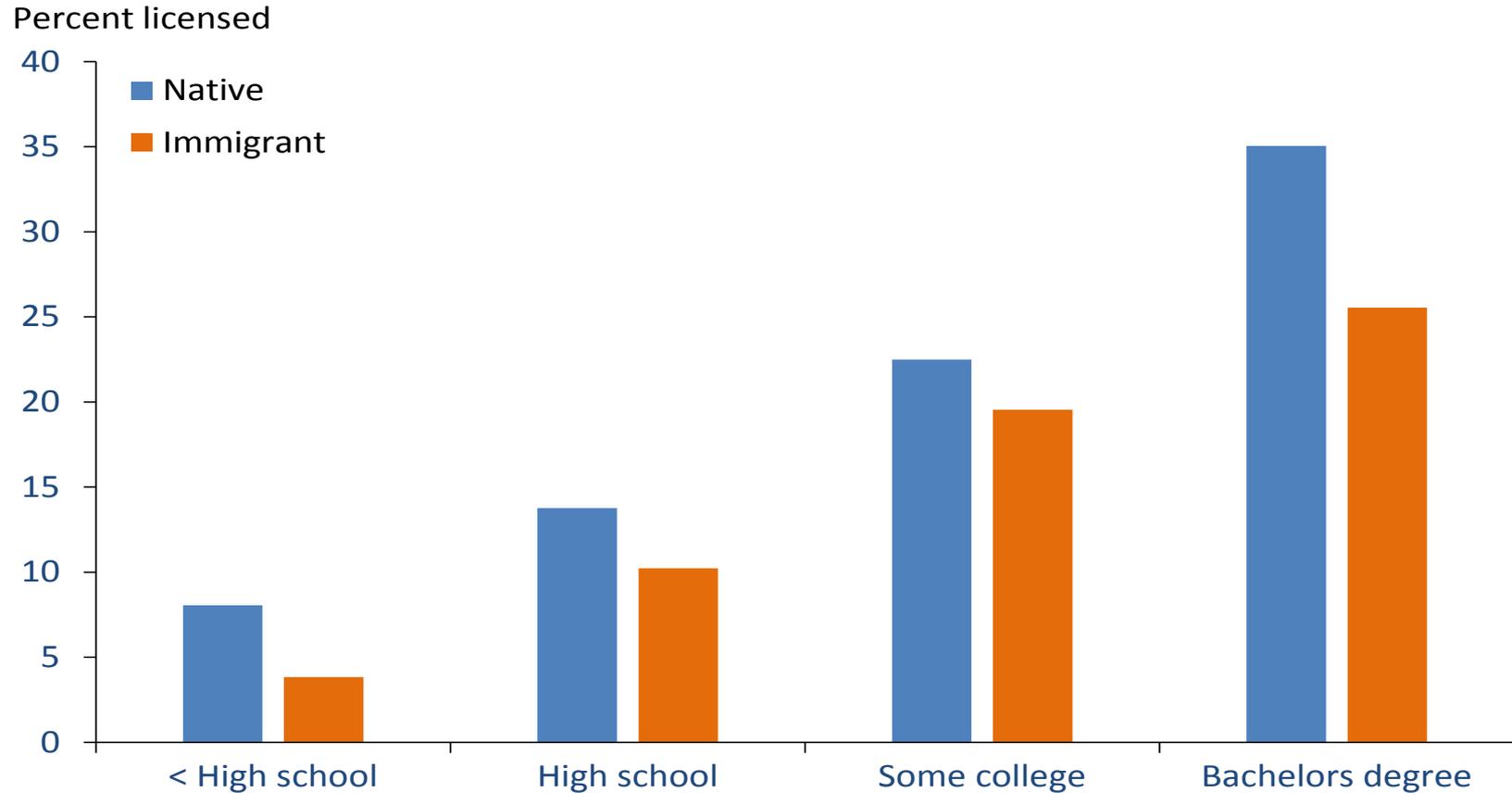


■ Mandatory
■ Discretionary

The ABA Inventory documents 27,254 state occupational licensing restrictions. Of these restrictions, over 12,000 are for individuals with any type of felony, over 6,000 are based on misdemeanors, over 19,000 are permanent disqualifications, and over 11,000 are mandatory disqualifications.

Licensure System Also Prevents Immigrants from Applying their Skills in the U.S.

Percent Licensed by Immigrant Status and Education



Source: Bureau of Labor Statistics; CEA calculations

Future Research Agenda

- Influence of licensing on access for individuals who have a criminal record
- Influence on income inequality
- Race and gender based influence (access and wages)
- Overall effects for the economy and society