

Regional Shocks & Regional Divergence

Occupational Licensing and State Policies

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Federal Reserve Bank of Minneapolis

Morris M. Kleiner, University of Minnesota, Twin-Cities, Federal Reserve Bank of Minneapolis, and NBER

Occupational Licensing 101

Occupational license: “a credential awarded by a government agency that constitutes legal authority to do a specific job”

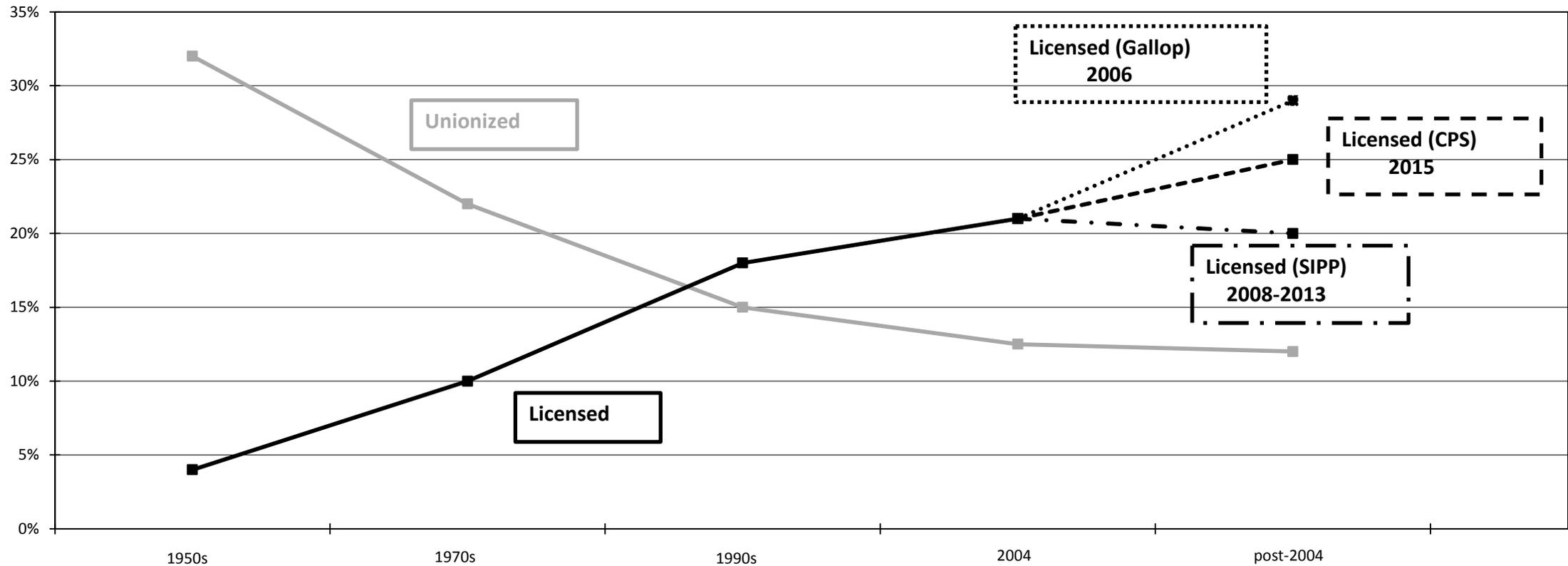
– U.S. definition (GEMEnA)

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.

Growth and Decline of American Labor Market Institutions

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



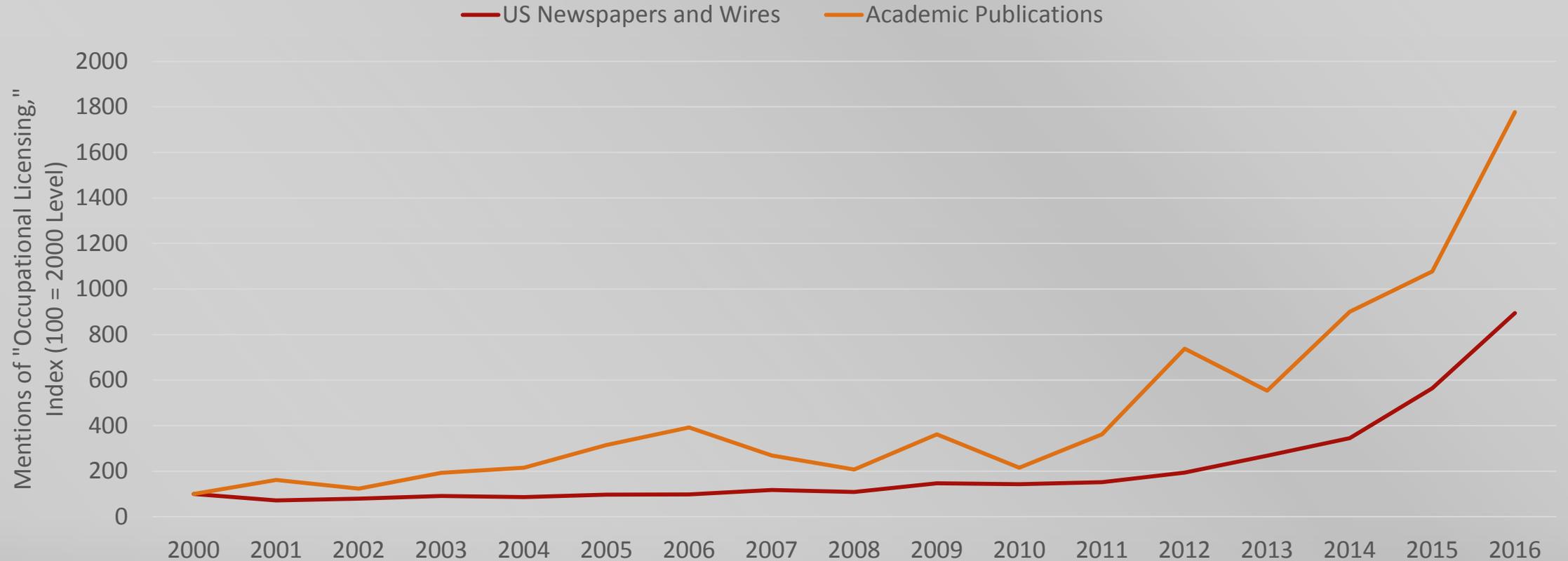
Extent of the Issue

- Over 800 occupations are licensed by at least one state
- Over 1,100 registered, certified, or licensed in at least one state
- 65 occupations licensed in all states

Why is occupational licensing important?

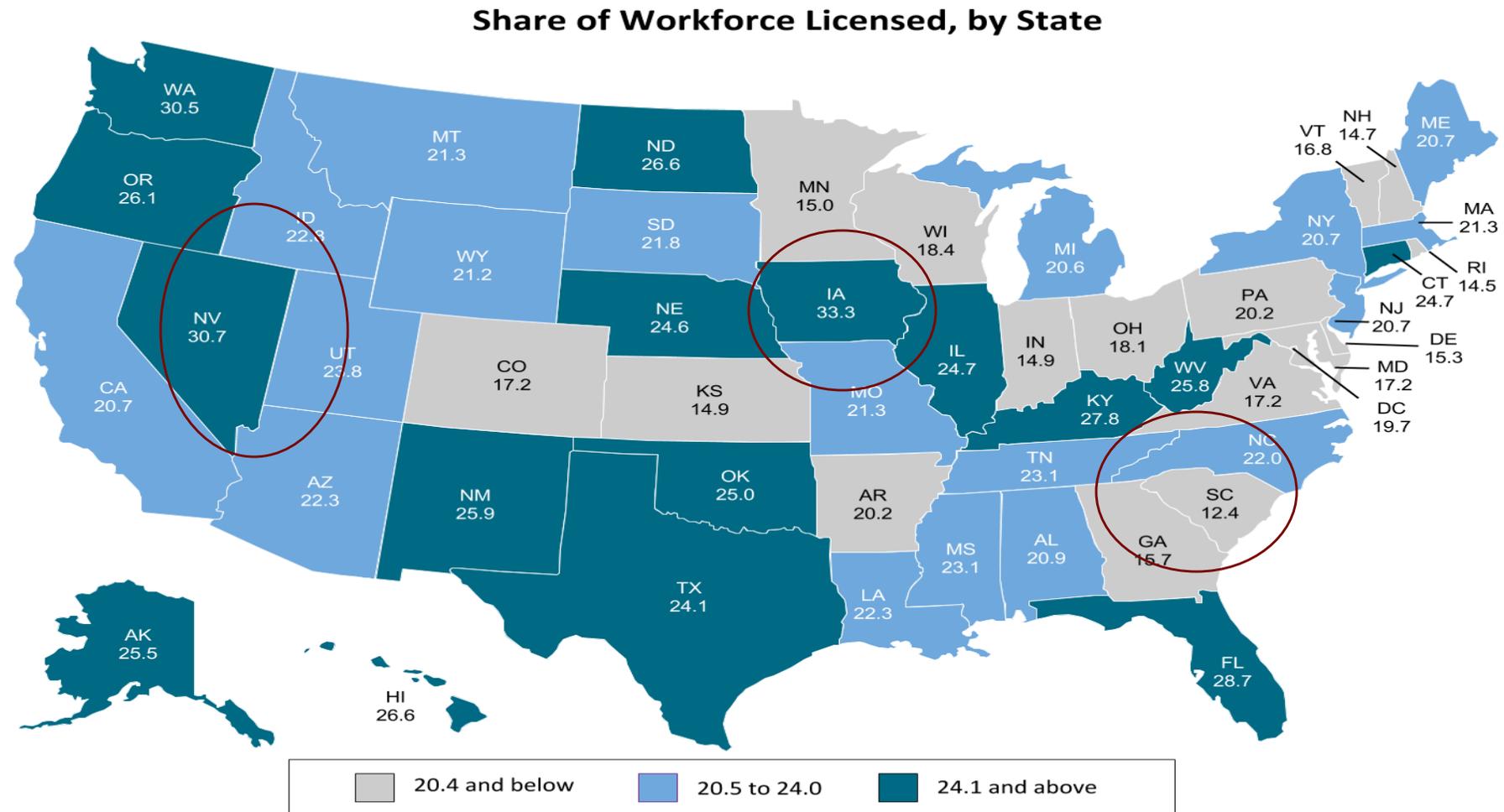
Since licensing influences many more individuals in the United States and in many other nations than **unions or the minimum wage**, its evaluation should be important for social science researchers, policymakers, and citizens!

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 June 12, 2018.

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.

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

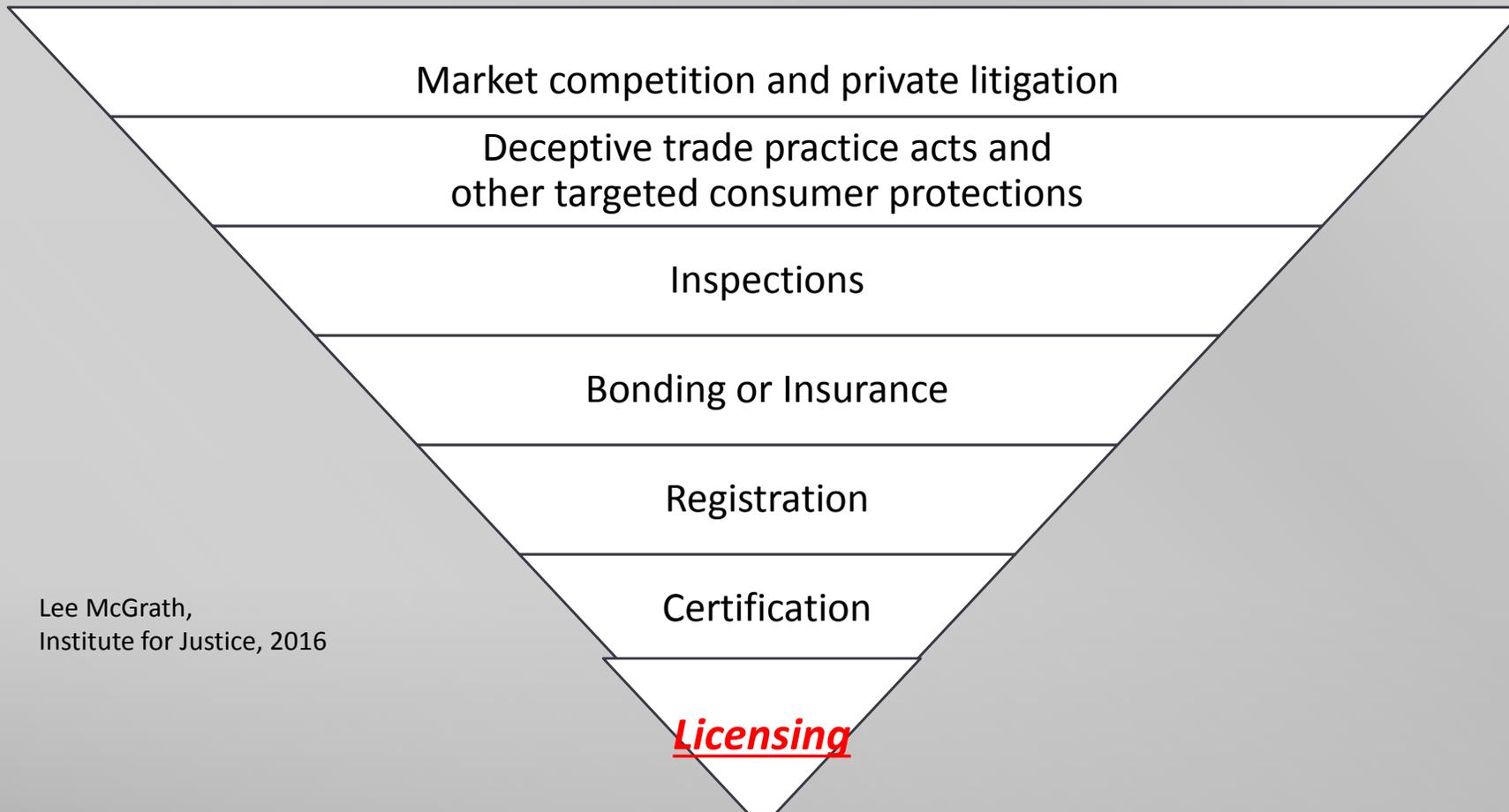
- Pyrotechnic operators
- Private detectives
- Shorthand reporters
- Vending machine operators
- Student athlete agents
- Professional wrestlers
- Tour guides

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

Licensed florist Monique Chauvin in Louisiana— florist only regulated in this state



State-based policies: Use of least restrictive form of regulation consistent with policy goals



Lee McGrath,
Institute for Justice, 2016

Former Supreme Court Justice Samuel 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.**”

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.*”**

Aggregate Impacts and Influence on Wages

Attainment versus Coverage

- 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, 9% on wages, small effect on increasing inequality

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, Kleiner and Solomon 2018)
 - ✓ Licensing and Yelp Ratings (Deyo 2016)

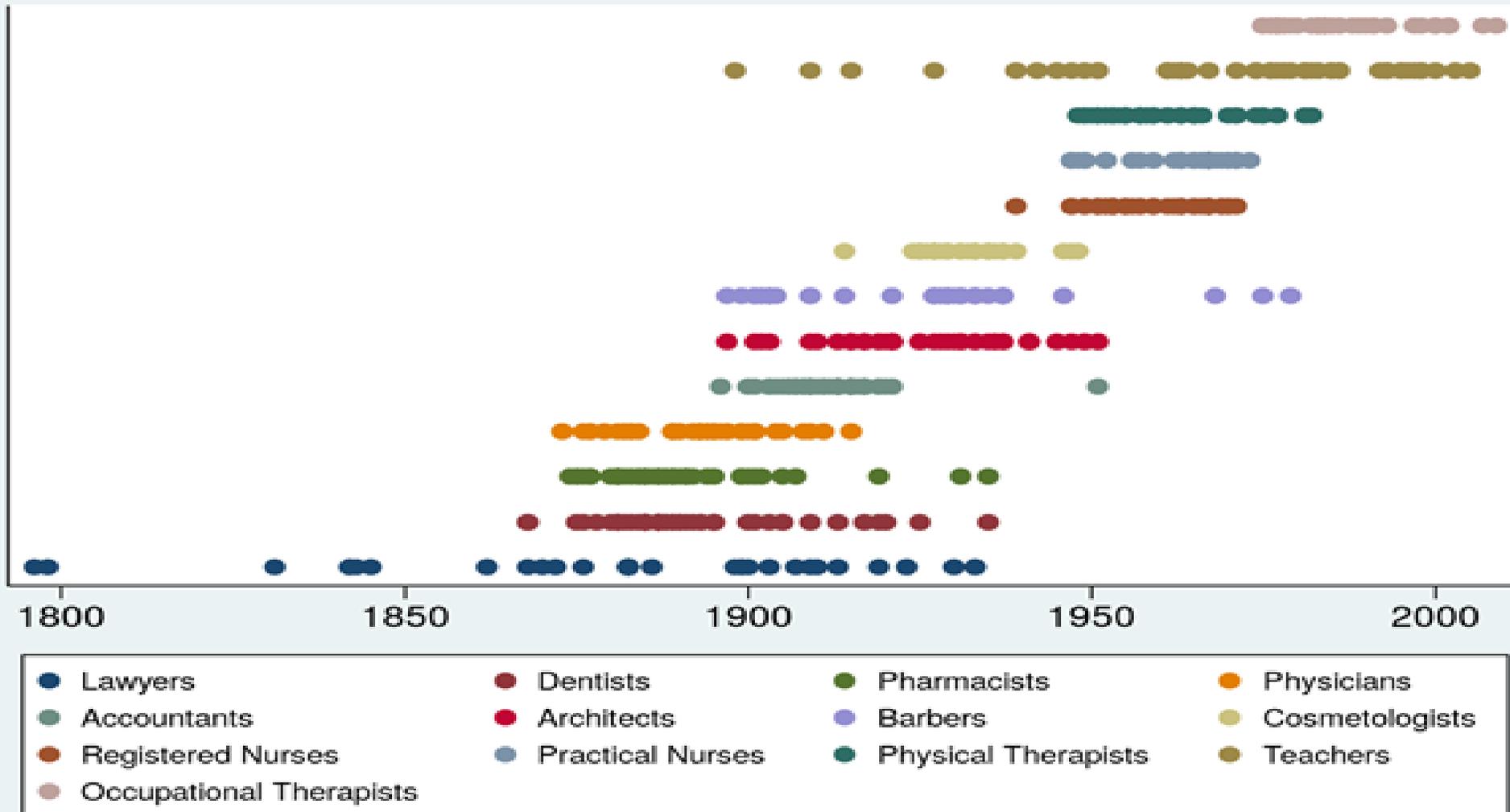
Space based Policies

Analyzing the Influence of Occupational Licensing Duration and Grandfathering on Labor Market Outcomes

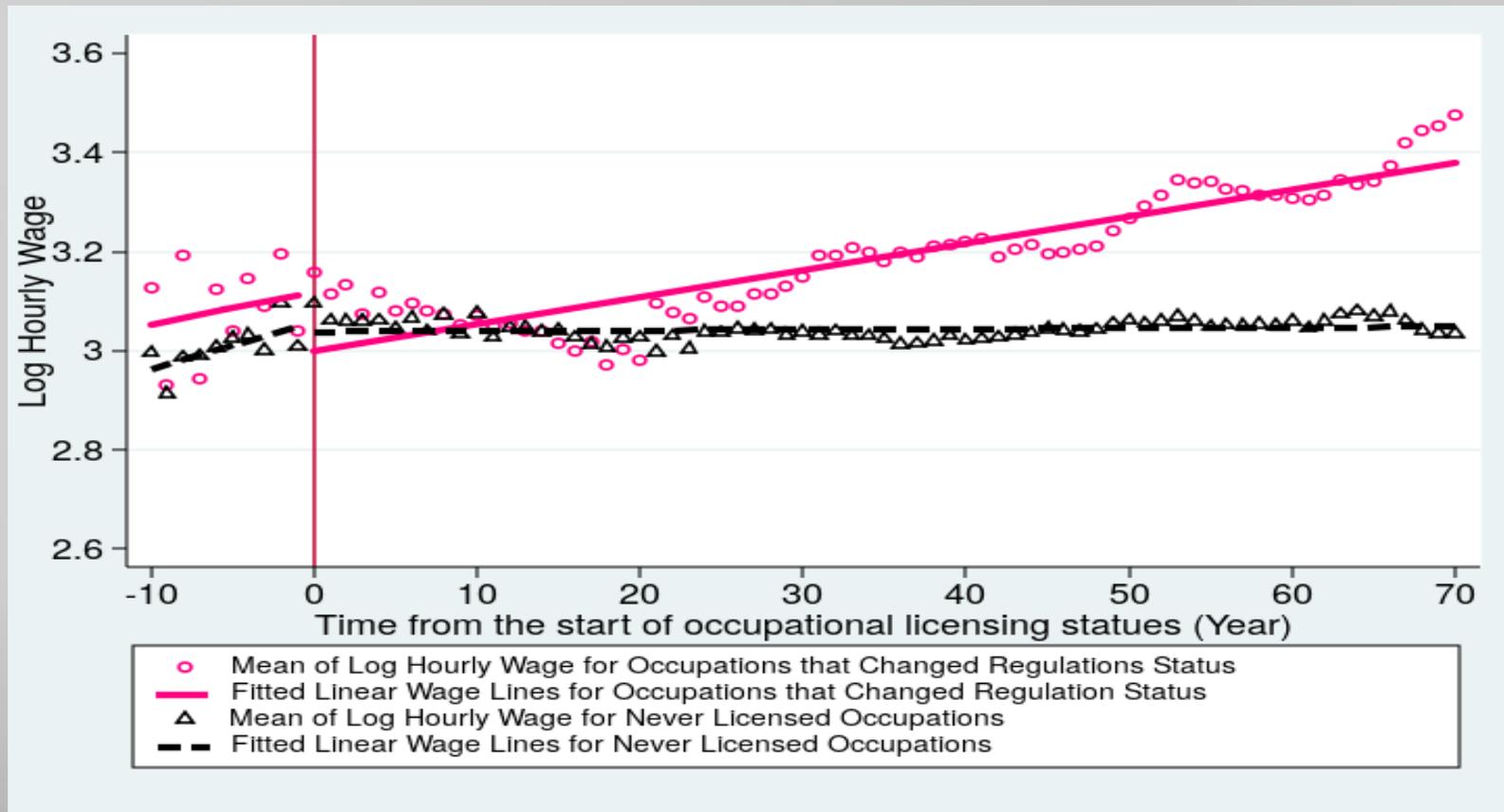
Suyoun Han, University of Minnesota

Morris M. Kleiner, University of Minnesota, Federal Reserve Bank of Minneapolis, and the National Bureau of Economic Research

When Occupations Became Licensed at the State Level

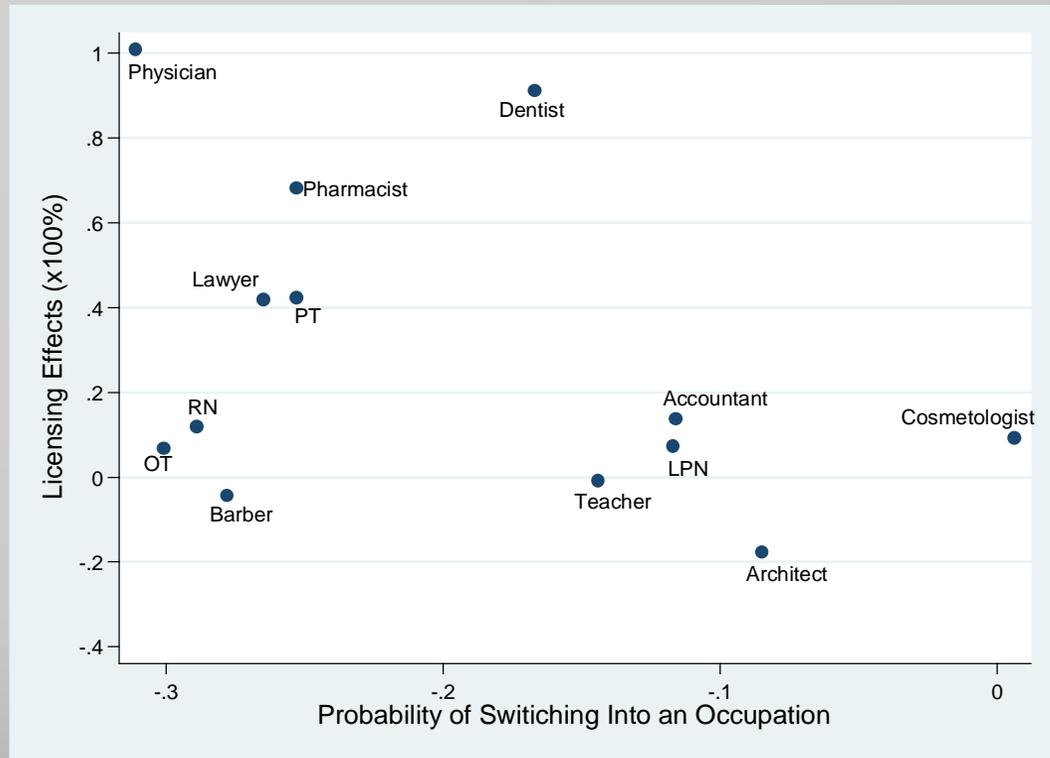


Plotting the Relationship between Earnings and Duration of Licensing Coverage in the U.S. (Han and Kleiner, 2018)

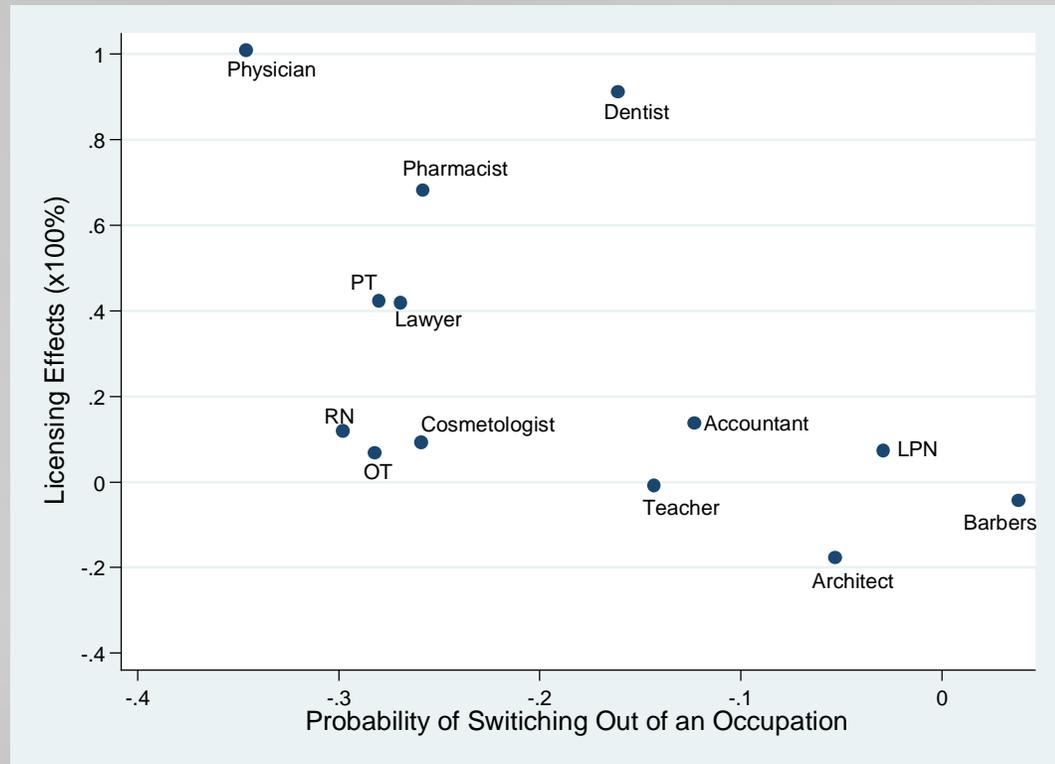


Labor Market Churning is reduced in licensed occupations

Licensing Wage Effects and the Probability of Switching into an Occupation



Licensing Wage Effects and the Probability of Switching out of an Occupation



Is Occupational Licensing a Barrier to Interstate Migration?

Janna E. Johnson¹

University of Minnesota

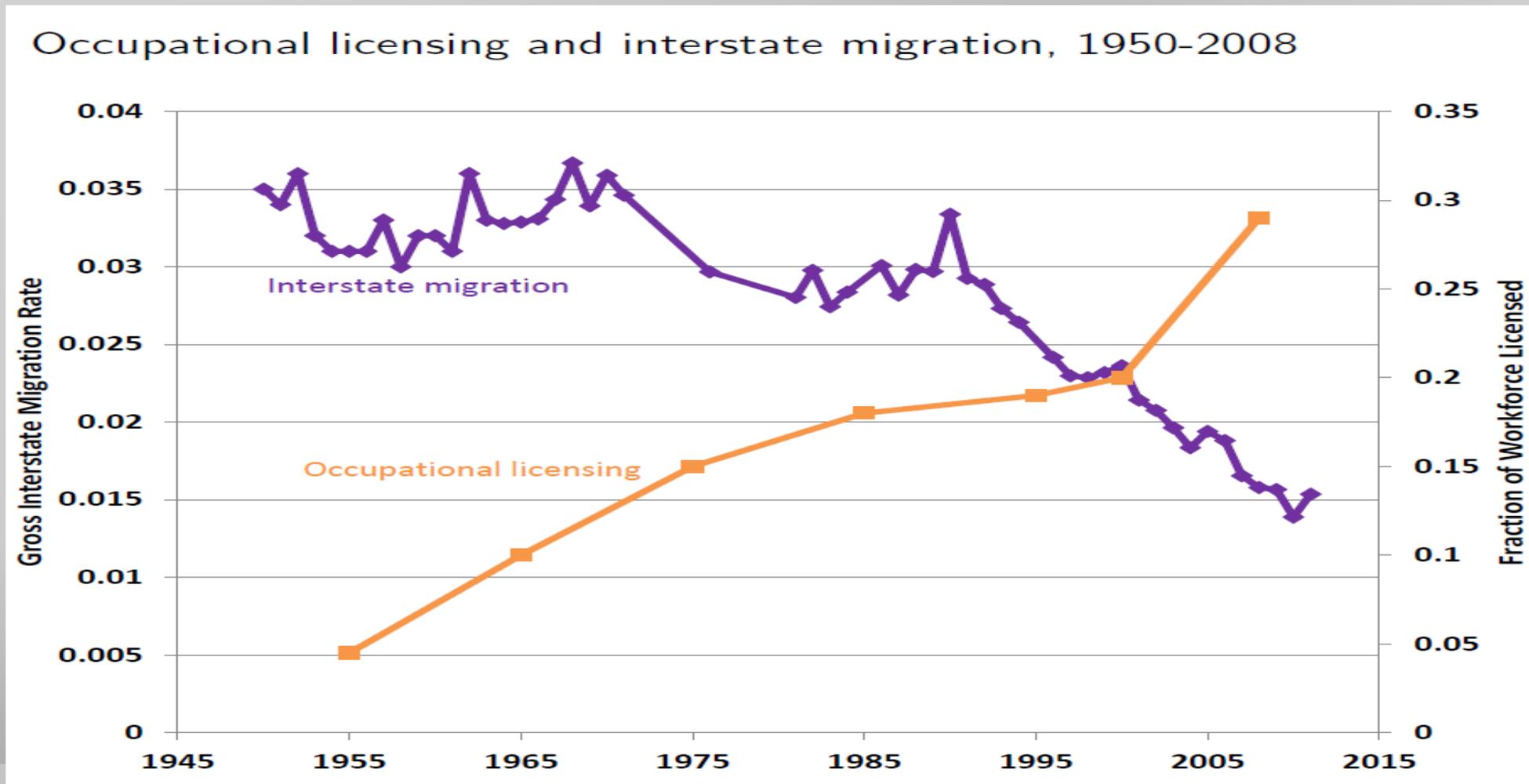
Morris M. Kleiner¹

University of Minnesota, Minneapolis Fed, and NBER

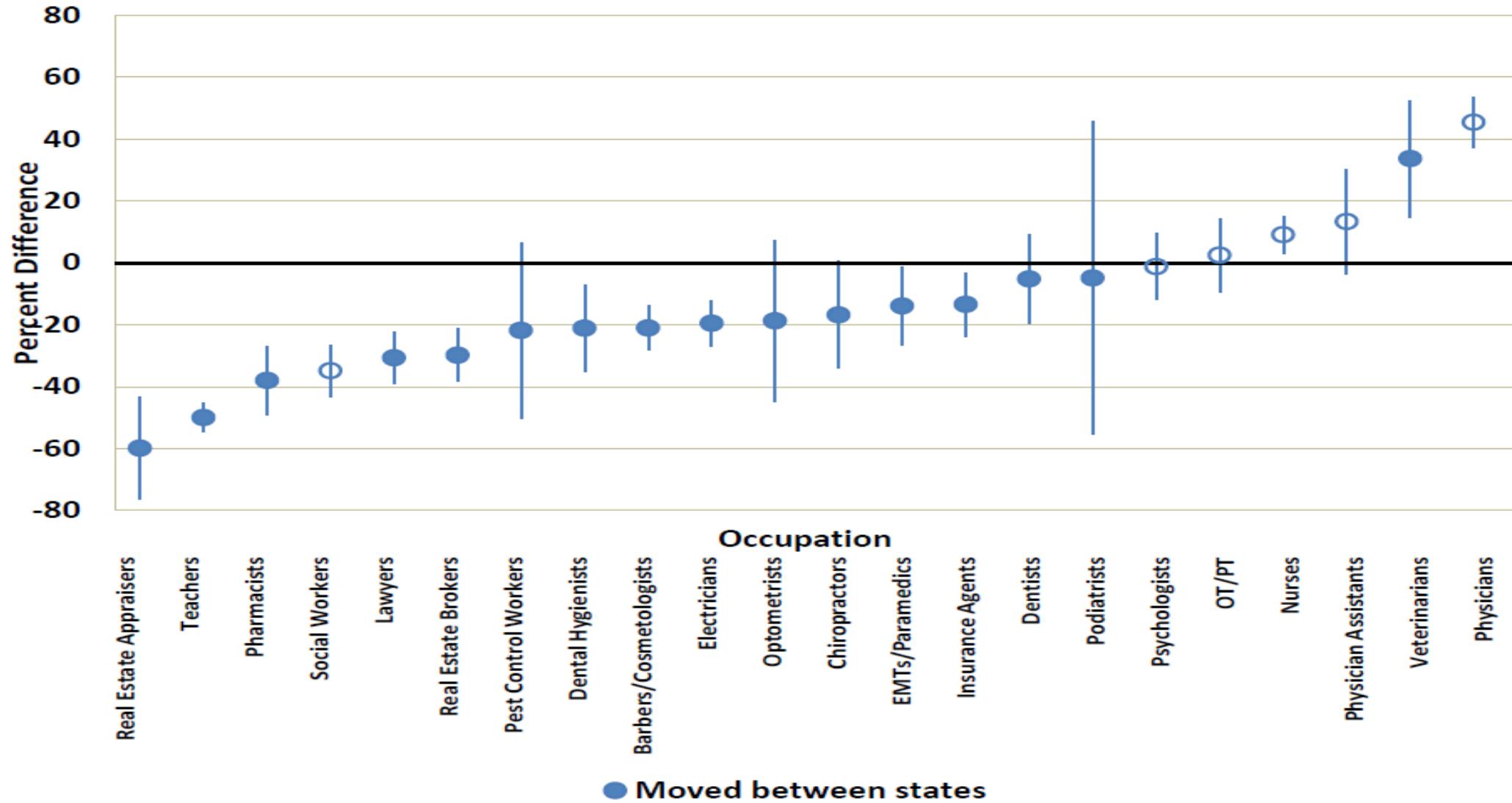
Does Occupational Licensing Reduce Interstate Migration in the U.S.?

(Johnson and Kleiner, 2018)

)



Occupation-specific results, ACS 2005-2015



Challenges in studying licensing's effect on interstate migration

- Ideally, have data documenting changes in reciprocity/endorsement requirements for every state and occupation
- Each occupation overseen by different agency/board in each state, no incentive to maintain historic records of reciprocity requirements
- Many occupations/states determine re-licensure requirements on a case-by-case basis ("board discretion")
- Interstate migration is a rare event, need big samples

Our paper

- Analyze geographic mobility of 22 universally state licensed occupations
 - ▶ 16 “state-specific” occupations
 - ▶ 6 “quasi-national” occupations
- Exploit detailed migration information in the American Community Survey to mitigate two big likely sources of negative bias
- Estimate effects for two groups above as well as for the 22 occupations separately

Findings

- Among those who move a long distance, licensed occupations move between states at a 5 percent lower rate relative to other occupations
- Unadjusted difference in interstate migration rates is -28 percent
- State specific licensed occupations: -7 percent, Quasi-national: -2 percent
- Heterogeneity in effect size across individual occupations appears tied to state specificity of licensing requirements

RESULTS: A Welfare Analysis of Occupational Licensing in U.S. States*

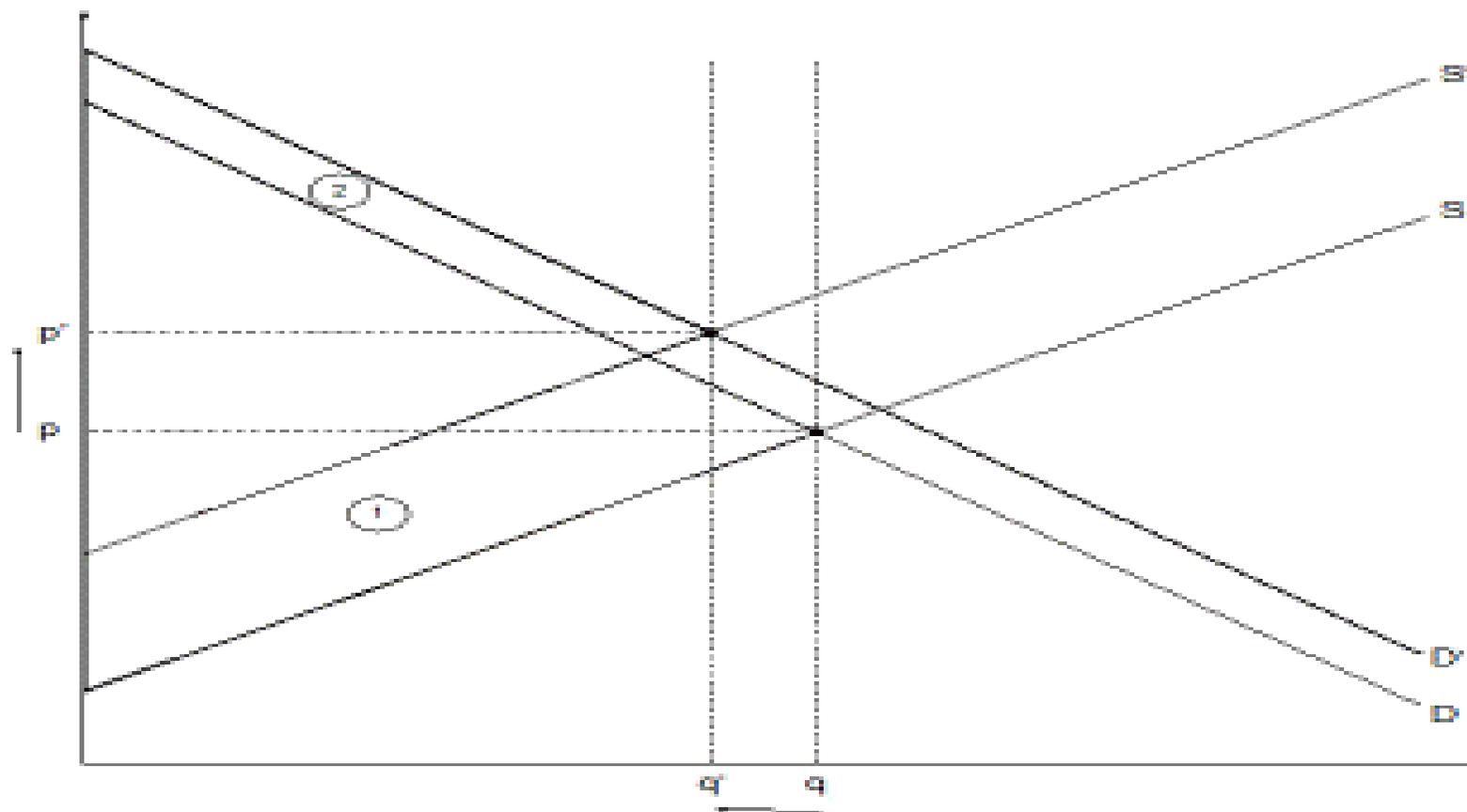
Morris Kleiner, Minnesota .

Evan Soltas, MIT

August 2018

Link: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3140912

Figure 1: Economic Analysis of Occupational Licensing Policy



Notes: This figure depicts the effects of occupational licensing policy on labor supply and demand in a licensed occupation. The two solid black dots indicate equilibria in the occupation-specific labor market with and without licensing. Labor supply declines due to the resource cost of licensing, but labor demand may increase due to higher WTP for licensed, relative to unlicensed, labor. Regions (1) and (2) reflect respectively the welfare cost of the reduction in labor supply and the welfare benefit of the increase in labor demand.

Findings and Implications of Occupational Licensing for the Labor Market ---Use of new government data that includes occupational licensing questions

- Shifting an occupation in a state from entirely unlicensed to entirely licensed increases state **average wages in the licensed occupation by about 13.6 percent**, increases hours per worker by 4.2 percent, and *reduces employment and total labor hours by respectively 11.4 and 5.1 percent.*
- Net loss of 3.3% welfare loss
- Large cost of licensing: 1.7 years or 18% of lifetime labor income --- required investment in occupation-specific human capital
- Little evidence of a willingness-to-pay effect

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Thank you for your attention!

Any Questions?