Economic Scene

Do You Need a License to Earn a Living? You Might Be Surprised at the Answer

by Alan B. Krueger

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It is well known that doctors, dentists, and lawyers must be licensed to practice their professions. But what about occupational therapists, manicurists and barbers? How about fortune tellers, massage therapists, shampoo assistants, librarians, beekeepers, electrologists and movie projector operators? These are just a sampling of the hundreds of occupations that require a license in at least some states or counties.

In a new book, "Licensing Occupations: Ensuring Quality or Restricting Competition?" (Upjohn Institute, 2006), Morris M. Kleiner, an economist at the University of Minnesota, questions whether occupational licensing has gone too far. He provides much evidence that the balance of occupational licensing has shifted away from protecting consumers and toward limiting the supply of workers in various professions. A result is that services provided by licensed workers are more expensive than necessary and that quality is not noticeably affected.

Licensing standards vary by state and occupation, but typically require a minimum level of education in a specified field and a passing score on a test of competence. Licenses also typically require payment of a fee. Some states recognize licenses from other states in various job categories, while others do not.

Although the exact number of workers in jobs that require a license is not available, Professor Kleiner conservatively estimates that 20 percent of workers in 2000 were in an occupation that was covered by a state licensing requirement, up from 5 percent in the 1950's.

He said that licensing has mushroomed because the service sector, where licensing is more prevalent, has grown rapidly and because more occupations have started requiring licenses.

The percentage of workers who are licensed varies considerably across states, ranging from a high of 30 percent in California to a low of 6 percent in Mississippi.

A state-by-state list of the occupations covered by licensing requirements is available from www.acinet.org/acinet/licensedoccupations.

Taking into account local and federal government requirements raises the number of

licensed workers even higher. For example, a survey conducted by the Woodrow Wilson School at Princeton University last fall found that 31.6 percent of New Jersey workers said that they were in a job requiring a federal, state or local license; Professor Kleiner estimated that 18.4 percent of workers in New Jersey were required to have a state license.

Perhaps as many as 3 of every 10 workers nationwide are required to obtain a license to do their job.

The usual rationale for occupational licensing is that it helps protect the public from unqualified providers. When it comes to matters of life and death, like jobs in the medical fields, this rationale is on stronger ground than when it comes to a manicure or a shampoo.

Several studies have examined the effect of license requirements on performance in occupations like dentists and teachers. In one study, Professor Kleiner and a colleague, Robert T. Kudrle, found that stricter state licensing requirements for dentists did not noticeably affect the dental health of 464 Air Force recruits. Other studies have found at best weak evidence that students in classes taught by licensed teachers performed better than those taught by unlicensed teachers.

Summarizing the literature, Professor Kleiner concludes, "there is little to show that occupational regulation has a major effect on the quality of service received by consumers."

At the same time, the hurdles imposed by occupational licensing reduce the supply of workers in many regulated professions, which drives up wages in those jobs and the price of services. Dentists, for example, were found to earn and charge 11 percent more in states with the most restrictive licensing requirements. While tough licensing standards may help higher-income consumers avoid low-quality providers, it also appears to prevent lower-income consumers from gaining access to some services.

Professor Kleiner said that a frequent pattern was for workers who have common interests and provide a homogeneous service to form an association. That association then seeks regulation to restrict the number of people who can work in the occupation. The state legislature and governor have little incentive to resist this pressure because the state gains revenue from license fees.

The most notable opposition to licensing comes from large buyers like hospitals, which object to the monopolization of their suppliers. In most cases, however, consumers are diffuse and have little individual incentive to oppose licensing.

Another factor driving the growth of occupational licensing is the decline of labor unions. Apparently, the labor market abhors a vacuum; it needs some institutions and rules to function. Occupational licensing has replaced unions as the main labor market institution. There are now more than twice as many workers covered by occupational licensing provisions as are covered by a labor union contract.

"There is a lot more flexibility with unions than occupational licensing," Professor Kleiner said. Unions, he pointed out, negotiate at the company level and can be decertified, whereas occupational license requirements are typically statewide and rarely repealed.

While it is unlikely that the tide of occupational licensing will be reversed anytime soon, one practical solution would be to require licensing boards to have some representatives of the public serve as members to look out for consumers' interests. In addition, states could require that the boards verify that successful completion of their licensing requirements is linked to better job performance.

Professor Kleiner also recommended that certification be considered as an alternative to licensing. Certification sends a signal that workers have certain qualifications, but does not prevent consumers from purchasing services from uncertified providers if they so choose.

In a rational world, as I wrote in a blurb on the back cover of Professor Kleiner's book, the available research should provoke a reconsideration of whether occupational licensing is beneficial for society as a whole or only for those lucky enough to hold licenses.

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