

# Occupational Licensing

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Would you believe there are no good measurements available for a government regulation that affects more workers than either the minimum wage or unions and has affected an increasing number of people every year since the 1950's? Occupational licensing remains under-researched, despite its significant affect on the economy, because there are no satisfactory measurements of the requirements for licensure.

Licensing has quietly become the most important labor market policy today. Governments at the county, state, and federal levels license over 800 different occupations. Some licensing is common, such as regulations on medical doctors, but other, more novel occupations, such as Fortune Tellers and Hair Braiders have recently implemented licensing requirements.

Restricting entry into a field increases prices and reduces services provided. Morris Kleiner, the leading economist working on licensing, surveys the literature and finds that licensed occupations are consistently more expensive than non-licensed counterparts in other states, and there is little to no improvement in the quality of licensed services. Kleiner estimates nation-wide costs from dead-weight losses of \$34.8 to \$41.7 billion a year (Kleiner 2006, 115). In addition, theories of rent-seeking (Tullock 1967) and regulatory capture by special interests (Stigler 1971) suggest there are substantial social costs in implementing licensing.

Despite the inefficiencies associated with licensing, there are no good state-level measurements of them. There are listings of occupational licensing by state, but not the magnitude of the requirements. Without having a measure of the magnitude of the requirement, there can be no good estimate of how restrictive the licensing actually is and what the affects are. According to Kleiner, "perhaps the largest barrier standing in the way of analysis of occupational licensing is that there is no well-organized national data set waiting to be exploited" (2000).

There are several reasons why a measure of licensing does not exist. First, licensing laws entail requirements along several dimensions, e.g. education, apprentice work, fees, age, and on-going education. In contrast to the single-dimension minimum wage, the multiple dimensions of licensing make it more difficult to compare across regions. Second, because each licensing law can differ in each state, there are many more data points to collect than for minimum wage laws. (While this makes the data collection more difficult, the greater number and variation in the data promises more effective econometric analysis). Third, a researcher might not think or know to look for licensing in some of the more obscure trades. Who would guess, for instance, that a Manure Applicator has to be licensed? Finally, many state licensing boards are hesitant to provide researchers with this information (Kleiner 2000).

Surveys provide an effective method for measuring the requirements imposed by licensing laws. Researchers can obtain a list of licensed occupations by state from the

website CareerOneStop sponsored by the U.S. Department of Labor. Although the listing is not complete, it provides a large amount of information about which occupations are licensed in which states. Though this doesn't ensure identifying all licensed occupations, it will identify both a large number of occupations and the most important ones. Once these occupations are identified, researchers can contact licensing boards directly with a survey. The survey will ask about requirements along many dimensions, including age, education, training, finances, etc. These requirements can be coded and then formatted into a Licensing Index much like the Fraser Institute's *Economic Freedom of the World Report*. The data is available to accomplish a nationwide measure, and the biggest barrier to accomplishing it is simply a shortage of labor to collect the information. Once created, however, researchers can use this index to examine licensing across states to identify how this prominent policy affects the economy.

### References

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