

in brief...

Government regulation of occupations

Occupational licensing – where working for pay in an occupation (such as teaching, dentistry, accountancy and the law) requires government permission – is a growing phenomenon. **Alex Bryson** and **Morris Kleiner** organised a symposium at CEP to explore the impact on earnings, employment and access to services.

The regulation of occupations has a long and varied history. Among the oldest evidence of rules governing occupations is the Babylonian Code of Hammurabi, which stipulates both the fees that patients were obliged to pay for medical services and the punishments that practitioners faced for negligent treatment. And in *The Wealth of Nations*, Adam Smith commented on the ability of the crafts to lengthen apprenticeship programmes and limit the number of apprentices per master, thus ensuring higher earnings for people in those professions.

In modern times, occupational regulation has become pervasive in western industrialised nations. In the United States, for example, the proportion of workers whose occupation requires them to have a licence from the government to perform their work has grown nearly six-fold during the last 50 years to reach about 29% of the workforce. Adding in people whose occupation involves some kind of government certification means that about 38% of the workforce has some permission requirements from the government to work for pay.

Earlier this year, a symposium at CEP explored the role that governments and non-profit organisations play in precluding individuals from working in an occupation for pay. It also examined whether occupational regulations provide higher quality services and greater health and safety benefits, as well as eliminating consumer uncertainty about the services.

Building on the strong industrial relations tradition of multidisciplinary interactions between academics and practitioners, the symposium included scholars from industrial relations, economics, public policy and sociology as well as practitioners and officials from the Council on Licensure, Enforcement and Regulation (CLEAR), an international organisation of occupational regulation professionals.

The papers ranged from analyses of national-level occupational licensing institutions to specific issues within specific occupations – and from an analysis of the avenues for enforcing occupational regulation of the offshoring of radiology in different countries to access to care within a country's dental profession. This diversity underscores the complexity of the globalisation of occupational regulation and the need for fresh analytical approaches to a topic that is at the core of labour market regulation.

Occupational licensing in the United States

In the 1950s, one in 20 US workers were required to have a licence from an agency of the US government to be able to do their job. A paper by Morris Kleiner and Alan Krueger finds that in 2006, the proportion was nearing one in three workers. Occupational regulation in the United States now affects many times more workers than unionisation, which encompasses roughly 12% of the workforce. Moreover, the effect of licensing on wages – raising them by around 15% – is similar to the impact of unions on wages.

A paper by Joseph Hotz and Mo Xiao examines childcare provision in the United States and finds that the effects of state-level quality standards that specify the labour intensiveness of childcare services are strikingly different from those that specify staff qualifications. Requirements for higher staff-child ratios deter entry of new providers and reduce the number of operating childcare establishments. Requirements for higher staff educational qualifications do not deter new entry, but they do have the unintended effects of discouraging accreditation, reducing owners' profits and driving firms out of business.

Comparison of cross-national approaches to occupational regulation is a key issue in the internationalisation of work. A paper by Kyoung-Hee Yu and Frank Levy examines variations in a specific case – the offshoring of diagnostic radiology in Singapore, the UK and the United States – to show how differences in national institutions continue to affect market transactions of professional services in a globalised world.

All three countries are offshoring diagnostic radiological readings, but primarily for reasons other than cost. The United States offshores radiology to US board-certified radiologists who are located abroad. The UK offshores radiology largely to radiologists trained in other European Union (EU) countries. But only Singapore of the three countries offshores any significant amount of work to India.

Occupational regulation in the European Union

In contrast with the long history of research on occupational licensing in North America and the detailed data that are available there, there has been relatively little examination of occupational licensing in the EU.

A paper by Francis Kramarz and colleagues examines the influence of the abolition of compulsory conscription (the draft) in France on the acquisition of driving licences by young men (something that had been effectively subsidised through their acquisition while in the army) and the effects on both labour supply and the demand for driving instructors. The results show that abolition of the draft resulted in increased rents for driving instructors because heavy entry regulations ensured that demand for driving instructors outstripped supply.

A paper by David Metcalf discusses how in the UK, policies are being adopted on immigration that take into account the relative supply and demand aspects of the occupation. Moreover, occupations regularly lobby to limit the numbers within the occupation in government agencies.

Case studies

Occupational regulation influences wages, employment and consumers differently depending on the stage and level of regulation. For example, funeral directors in the United States are required to learn practices such as embalming that are used infrequently, but are expensive in terms of both money and time to master. The result, according to a paper by Alison Cathles and colleagues, is a reduction in the supply of female practitioners and an increase in the earnings of funeral directors. Similarly, a paper by Tanya Wanchek shows that the number of hygienists is limited by state laws that reduce consumers' access to dental care, but raise the earnings of this female-dominated occupation.

A key overarching aspect for the labour market is the influence of occupational licensing on wage determination. A paper by Mario Pagliero finds that for US attorneys, more difficult state-by-state exams directly translate into higher salaries for lawyers. Similarly, a paper by Robert Thornton and Edward Timmons shows that for barbers in the United States, tougher statutory restrictions for barbers are associated with higher salaries.

Policy implications

The papers presented at the symposium support the interpretation that occupational licensing serves as a means to enforce entry barriers to a profession that raise wages and reduce employment without any demonstrable benefits to consumers. For occupations to continue to be licensed or for licensing of occupations that are currently unlicensed, it must be shown that they are enhancing consumer well-being.

The estimates of the relationship between occupational licensing and wages is consistent with the idea that members of an occupation raise wages by using the powers of government to drive up requirements and capture work for the regulated workers. These estimates suggest a strong role for the monopoly face of licensing in the labour market. Indeed, the wage premium associated with licensing is strikingly similar to that found in studies of the effect of unions on wages.

Occupational licensing introduces entry barriers to a profession that raise wages and reduce employment



This article summarises the issues and papers discussed at 'The International Symposium on the Government Regulation of Occupations', jointly organised by CEP and the *British Journal of Industrial Relations* and held at CEP in March 2009 (http://cep.lse.ac.uk/_new/events/event.asp?id=66).

Alex Bryson of the National Institute of Economic and Social Research is a visiting research fellow in CEP's labour markets programme. **Morris Kleiner** of the University of Minnesota is the author of *Licensing Occupations: Ensuring Quality or Restricting Competition?*, Upjohn Institute for Employment Research (2006).