

		<p>London, England</p>
<p>7-8 July 2011</p>		<p>International Congress on Professional and Occupational Regulation</p> <p><i>Occupational Licensing: Protecting the Public or Protectionism?</i></p> <p>Presenter: Morris M. Kleiner, University of Minnesota and The Upjohn Institute for Employment Research</p> <p><i>Promoting Regulatory Excellence</i></p>

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<p><i>Overview</i></p>
<ul style="list-style-type: none"><li>• Occupational licensing provides an example of one of the essential tasks of democratic societies, which is to establish a proper balance between freedom and order.</li><li>• The policy issue of occupational regulation involves the role of government in reconciling the special interests of the members of the occupation with the general concerns of the public.</li></ul>

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<p><i>Overview of Occupational Licensing</i></p>
<ul style="list-style-type: none"><li>• The regulation of occupations by government has a long and varied history in the US and Great Britain.</li><li>• In the US, occupational licensing began at the state level in the late 19<sup>th</sup> Century with the regulation of traditionally licensed occupations such as doctors and lawyers (Council of State Governments, 1952).</li><li>• Milton Friedman stated that “there has been retrogression, an increasing tendency for particular occupations to be restricted to individuals licensed to practice them by the state” (Friedman, 1962).</li></ul>

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*Competition and Regulation?*



Front of the Federal Trade Commission Building  
Washington D.C.

The "Forces of the Market and Regulating those Animal Spirits"

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*Origins of Issue*

Occupational Licensing as a topic in economics dates to the comments by Adam Smith that trades conspire to reduce the availability of "skilled craftsmen" in order to raise wages (Smith, 1937).

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*Rationale for Occupational Licensing*

"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." (Robert Jackson, Associate Justice, U.S. Supreme Court, 1945).

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Could my frequent co-author, Alan Krueger, who is the author of a major high school textbook on introductory economics regularly teach from it in the public schools?




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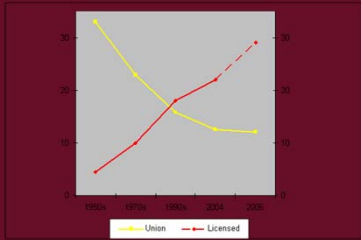
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Trends in Two Labor Market Institutions



\* Dashed line shows the value from state estimates of licensing to the Gallup Survey results

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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 (mpalman); Getty Images (all others)

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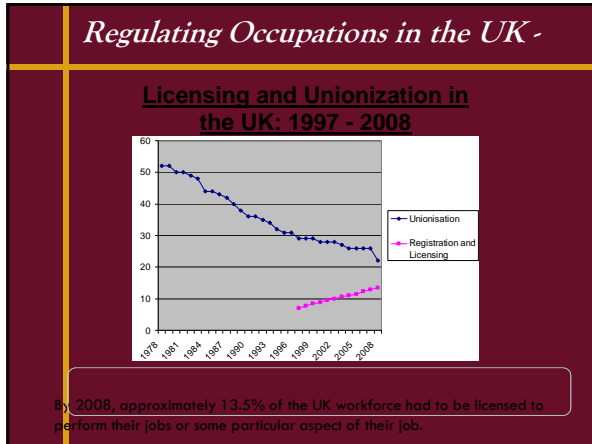
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*Similarities & Differences*

Occupational Licensing in the ...

<u>US</u>	<u>UK</u>
<ul style="list-style-type: none"> <li>• Wage effect is 15-18%</li> <li>• No clear effects on income inequality</li> <li>• Licensing effect about the same as for unions</li> <li>• Licensing drives up prices</li> </ul>	<ul style="list-style-type: none"> <li>• Similar to the closed shop</li> <li>• Wage effect is 13%</li> <li>• Raises income inequality</li> <li>• Licensing effect is much larger than unions</li> <li>• Licensing raises wages of highly skilled and paid workers</li> </ul>

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*Why licensing has grown*

The financial contributions and volunteers from the occupational association has a significant ability to influence legislation, especially when opposition to regulatory legislation is absent or minimal (Wheelan, 1998)

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*Conclusions – Quality Effects*

- In the case of the US, professional associations exert substantial influence in the regulatory process through intense lobbying and campaigning in the first instance as well as through entry standards.
- Licensing can potentially increase costs in the service sector and the benefits in terms of quality are uncertain.

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*A Licensing Fable...*

- “Not long ago the Governor of a Midwestern state was approached by a representative of a particular trade anxious to enlist the Governor’s support in securing passage of legislation to license their occupation.

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*A Licensing Fable...*

- “Governor,” they said, “passage of this licensing act will ensure that only qualified people will practice this occupation; it will eliminate charlatans, incompetents or frauds; and it will thereby protect the safety of the people of this state.”

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*A Licensing Fable...*

- The Governor, from long experience, was somewhat skeptical. “My distinguished guests,” he asked, “are you concerned with advancing the health, safety and welfare of the people under the police powers of this state or are you primarily interested in creating a monopoly situation and eliminate competition and raise prices?”

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*A Licensing Fable...*

- The spokesman for the occupational group smiled and said, “Governor, we’re interested in a little of each”
- —*adapted from Council of State Governments Report, 1952.*

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