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Licensing Occupations: Ensuring Quality or Restricting Competition?

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Licensing Occupations: Ensuring Quality or Restricting Competition? By Morris M. Kleiner. Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research, 2006. 195 pp. ISBN 0-99099-285-9, \$40.00 (cloth); 0-88099-284-0, \$18.00 (paper).

This book provides what is probably the most complete overview and evaluation of occupational licensing to date. Considering that occupational licensing affects a large fraction of the labor force in the United States and other countries, it is a surprisingly under-studied subject. *Licensing Occupations* is therefore a much-needed addition to the literature.

The book is well-balanced, explaining both occupational licensing's potential value (higher quality) and its potential costs (higher prices and more restricted services). The author presents compelling analysis of the effects of occupational licensing as well as a complete literature review for the United States. While his analyses of occupational licensing for other countries are more limited, the author gathered data on three European countries—the United Kingdom, France, and Germany—to be able to contrast the impact of licensing across different institutional environments.

Of greatest value in *Licensing Occupations* is the original research it presents. One example is Kleiner's case studies of the Minnesota and Wisconsin legislatures, which are informed by interviews he conducted with industry and government representatives. Kleiner cleverly uses these case studies to illustrate occupational licensing's institutional origins and the political economy aspects of its introduction. By placing these case studies in the national context, he gives readers the means to evaluate their applicability to other states.

Moreover, Kleiner goes beyond case study research and uses new data to estimate both the benefits and the costs of occupational licensing. An original approach Kleiner takes to evaluate the benefits is to focus on insurance premiums. If licensing improves the quality of services, he reasons, insurance premiums for these services should go down. In fact, he finds little evidence of a relation between licensing and insurance

premiums. Although the analysis of insurance premiums only applies to three occupations, it is an original addition to the scarce evidence on the impact of licensing on quality. In addition, this new evidence is consistent with the conclusions of other studies by the author, most of which have attempted to measure quality directly and have found little evidence of improvement.

To assess one potential cost of occupational licensing, its restriction of the supply of workers, the author examines U.S. Census and NLSY data, considering, in particular, the earnings premiums earned by licensed individuals. He compares those working in non-licensed and licensed occupations, as well as those living in states with and without licensing requirements. He also compares individuals changing from licensed to non-licensed occupations and vice-versa. Kleiner explains the results in a very intuitive manner, so they can be understood by economists and non-economists alike. Particularly helpful in this regard are charts and graphs that should be easy to grasp even for readers with no econometrics background. For example, Figure 4.3 graphically compares the distribution of hourly wages across three groups: (a) licensed practitioners, (b) unlicensed practitioners in the same occupation, and (c) practitioners in a different occupation not requiring licensing.

The author also estimates the earnings premium attached to working in a licensed occupation in the United Kingdom, France, and Germany. The results of this interesting comparative analysis suggest that workers covered by licensing requirements enjoy a much greater relative earnings advantage in the United States than in Europe. While the author also considers the impact of licensing in terms of reduced employment in the United States, he cannot provide parallel analyses for Europe due to lack of good data. Given wage rigidities in Europe, we may expect licensing to work more through reduced employment and less through prices in Europe than in the United States. Thus, an interesting question for future work is whether occupational licensing has a more adverse impact on employment in the European context.

In the final chapter, Kleiner ties the chapters together through a cost-benefit analysis of occupational licensing. He concludes that the costs greatly exceed the benefits. To his credit, however, he does not leave it at that, but formulates and proposes an alternative to licensing—namely,

certification, which, he argues, offers many of the benefits of licensing but provides more competition and reduces barriers to entry.

Another strength of the book is that each chapter can be read on its own. The author repeats some of the material, when necessary, to give the complete story within a given chapter, rather than making readers go back to previous chapters to understand the background. At the same time, the chapters all fit together, so that one can also read the entire book for a complete picture on the topic. Overall, I highly recommend *Licensing Occupations* to academics and practitioners who wish to learn more about this increasingly important institution.

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Economic and Social Security and Substandard Working Conditions

When Work Is Not Enough: State and Federal Policies to Support Needy Workers. By Robert P. Stoker and Laura A. Wilson. Washington, D.C.: Brookings Institution Press, 2006. 214, viii pp. ISBN 978-0-8157-8191-2, \$24.95 (paper).

This book provides descriptions and analysis of “work support programs” in the United States. These programs are aimed at providing assistance to “needy workers,” allowing them “to combine earned income with means-tested tax and transfer benefits” (p. 1). The specific work support programs included in the book are minimum wage rates; the Earned Income Tax Credit (EITC); the child tax credit; Medicaid, transitional medical assistance for former welfare recipients, and state Children’s Health Insurance Programs (S-CHIP); food stamps and free and reduced-price school meals; earned income disregards under the main U.S. cash welfare program, Temporary Assistance for Needy Families (TANF); child care grants; and rental housing assistance.

After an introductory chapter, Chapters 2 and 3 explain how these programs were chosen for the book, sketch their history, and describe how they work. Chapters 4 and 5 provide estimates of the state-by-state total maximum benefits available from these programs for full-time and half-time minimum wage workers, both in nominal terms and adjusted for estimates of local price variation.

Chapters 6 and 7 provide estimates of, respectively, the decline in benefits as a household moves from welfare to work in the various states, and participation rates in these programs for households with at least one worker but with a total income below 200% of the poverty standard. Chapter 8 examines participation rates in these programs by state, and combines these estimates with estimates of state real benefits to produce an estimate of each state’s benefit generosity, as well as to identify the determinants of generosity. Finally, Chapter 9 presents some policy recommendations for improving the U.S. work support system.

When Work Is Not Enough provides useful descriptive information on the design of work support programs and the extent of their benefits. The book emphasizes the point that these programs have the potential to help pull many needy workers and their families above the poverty line. However, this potential will be realized only if many more needy workers participate in the programs. The book also points out that many states that provide more extensive work supports also have higher local costs of living, which significantly reduce the real value of those benefits.

Some of the analytical procedures in the book could be questioned. For example, some but not all of the analysis of cross-state variation in the real value of “work support” benefits assumes that all local prices vary the same amount as the prices of owner-occupied housing, which is an exaggeration. In addition, the discussion of implicit tax rates on work support benefits defines implicit tax rates in a way that will be confusing to many economists. The book focuses on benefit tax rates, defined as the percentage of these work support benefits that are lost as household work increases. In contrast, many economists would focus on how the reduction of work support benefits with work reduces the net wage rate from work, which economists would see as the crucial factor in affecting work incentives. Finally, the analysis of variations across states in participation in these work support programs only controls for whether households have children, not for the distribution of earnings among low-income households in the state. Therefore, it is unclear whether the book’s measures of state “generosity” in work support benefits reflect state policy, state prices, or the distribution of earnings in the state.

However, the book brings attention to an important issue: how well are we supporting needy workers? And the book’s bottom-line policy recommendations are valuable. As the book points out, if we want to provide needy workers with a higher standard of living, useful policy alternatives include expanding food stamp program partici-