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Analyzing the Labor Market Outcomes of Occupational Licensing

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The study of the regulation of occupations has a long and distinguished tradition in economics. Some economists have viewed such regulation through the prism of rent-seeking behavior and have empirically examined the economic effect of occupational licensing within that framework. In contrast, others have suggested that regulation provides incentives for workers to enhance their human capital through greater investment in their work. Under the first view, occupations can use political institutions to restrict the supply of and raise the wages of licensed practitioners, while under the second, licensing requirements contain elements of acquired general human capital, and then these workers may possibly raise the average skill level in their new occupation. Both imply that wages would go up, but the first implies that the wage gains are economic rents relative to the second.

Occupational licensing has become increasingly important in the regulation of services in the United States. The number of occupations requiring a license has grown since the 1970s, as has the percentage of workers who have attained or are covered by a governmental license. The number of studies analyzing occupational regulation, however, has not kept pace.

Perhaps the largest barrier has been the absence of appropriate data. Although the Bureau of Labor Statistics surveys workers on their union status, and also asks whether they are displaced from their jobs through the Current Population Survey, no information is currently available from this survey about whether individuals are certified or licensed as a condition of employment. Although occupational associations such as the American Bar Association and the American Dental Association collected wage and salary data, as well as the number of new entrants and pass rates by state through the early 1980s, the state pass-rate information is no longer tabulated or released to the public.

New data for addressing important licensing issues, however, have recently become available. We analyze several labor-market effects of occupational regulation using these data, the 2008 panel of the Survey of Income and Program Participation (SIPP), a large, nationally representative data set covering the period May 2008 through November 2013. We primarily utilize the Professional Certifications, Licenses, and Educational Certificates topical module linked with Core data from the 13th wave of the 2008 panel. We refer to previous topical modules in the SIPP to estimate the impact of license and certification attainment on nonwage benefits.

A key advantage of the SIPP is that the core data include a breadth of information about individuals and their labor-market outcomes. This improves our ability to control for observable characteristics that might corre-

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late with licensing or certification and with labor-market outcomes. The variety of data also expands our ability to analyze how the attainment of licenses and certifications relates to nonwage benefits, such as employer-sponsored health insurance, pension plans, or retirement plans.

Our empirical analysis finds that after controlling for observable heterogeneity, including occupational status, those with a license earn higher pay, are more likely to be employed, and have a higher probability of receiving retirement and pension plan offers. According to our estimates, where governmental licensing is required for the job it raises hourly wages by about 8.4 percent. In addition, licensing does not appear to have much effect on reducing wage inequality among various categories, but licensed workers in the bottom quartile seem to gain relative to similar workers.

The implications of our results is that occupational licensing raises wages and benefits of government-regulated workers and provides greater opportunities for employment for workers who attain a governmental license or certificate. It is for future research to determine whether these economic gains are the result of occupations using their political influence to restrict supply and raise the wages of licensed practitioners or if these workers have acquired reputations that are valued in the market place beyond those measured by standard human capital estimates.

NOTE

This research brief is based on Maury Gittleman, Mark A. Klee, and Morris M. Kleiner, "Analyzing the Labor Market Outcomes of Occupational Licensing," NBER Working Paper no. 20961 (February 2015), http://www.nber.org/papers/w20961. The views expressed in the working paper are those of the authors and not necessarily those of the Census Bureau, the Bureau of Labor Statistics, or any other agency of the U.S. Department of Labor, the National Bureau of Economic Research, or the Federal Reserve Bank of Minneapolis.