Occupational licensing in the United States: too much of a good thing?

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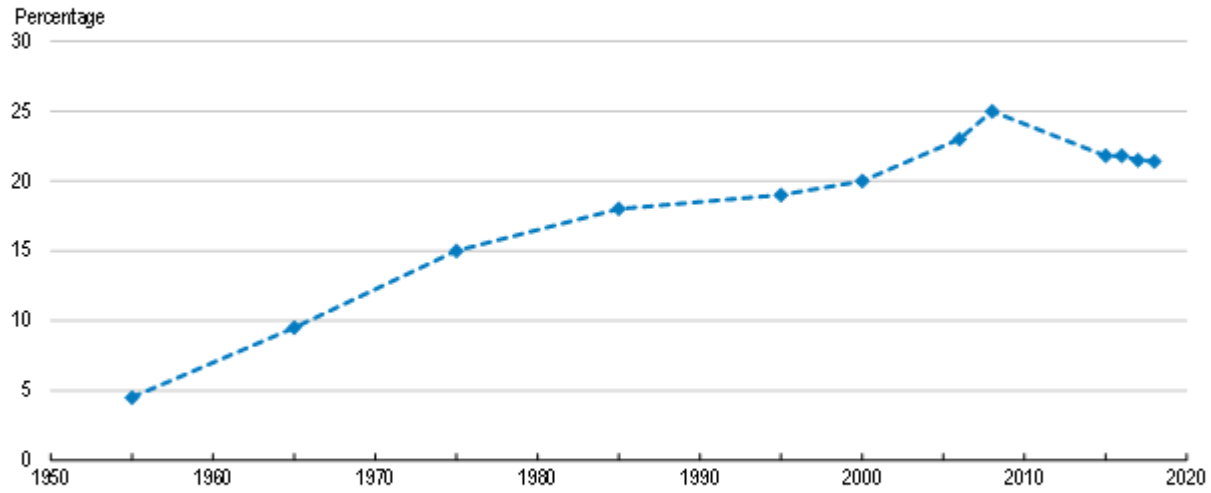
More than one fifth of all American workers now need an occupational licence to go to work (Figure 1). This type of regulation sets requirements – education, exams, work experience etc. – to practice a profession and use a protected title. Most OECD countries license doctors, dentists and lawyers, which is typically justified by the need to protect safety and ensure quality of services.

Figure 1. Occupational licensing now covers more than 20% of workers in the United States

Percentage of workers holding an occupational licence



Note: Based on various different sources. The peak around 2008 may reflect methodological differences as well as cyclical factors (unlicensed workers laid off disproportionately during the recession).
Source: White House (2015); BLS.

But licensing has spread to more and more occupations across the United States, including security guards, home inspectors,

interior designers and even florists in some States. Here the benefits of licensing are much less clear, while costs are likely to be sizeable in terms of lower job mobility, reduced competition and ultimately weaker productivity growth (von Rueden et al., 2020).

In a new working paper, I identify several statistical associations (Hermansen, 2019): all measures of job hire and job separations are negatively associated with higher coverage of occupational licensing as well as with stricter requirements of the regulation (Table 1). The analysis is based on administrative data from State unemployment insurance and thus covers almost all job transitions and regulated occupations in the United States.

Table 1. New empirical analysis finds a negative association with all measures of job mobility

Estimated association between occupational licensing indicators and job mobility measures

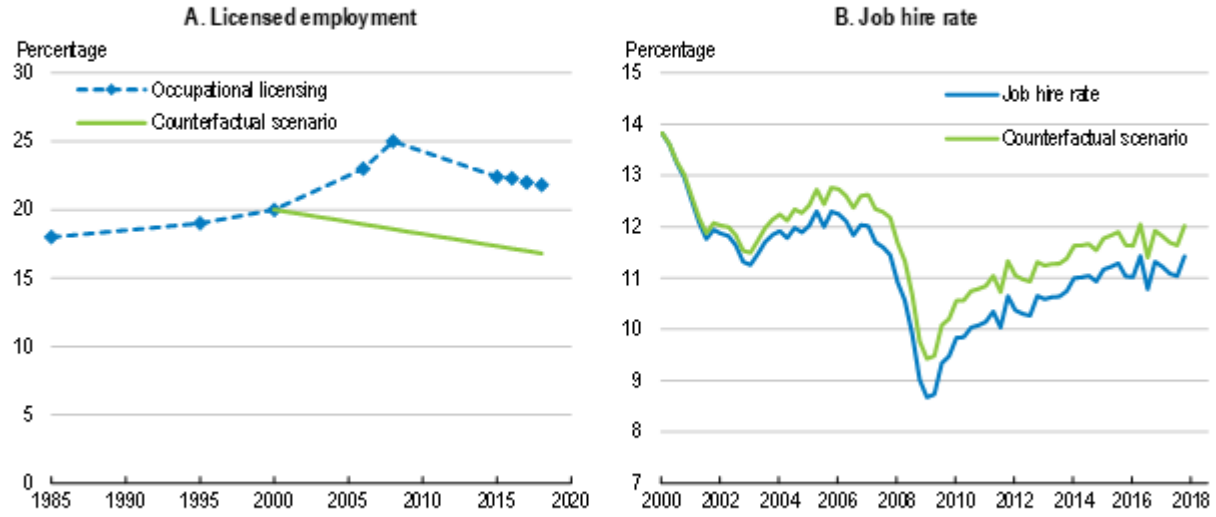
	Job hire			Job separation		
Occupational licensing indicator	Job hire rate	Job-to-job hire rate	Nonemployment hire rate	Job separation rate	Job-to-job separation rate	Nonemployment separation rate
Coverage of licensing regulation	–	–	–	–	–	–
Strictness of licensing regulation	–	–	–	–	–	–

Note: "–" refers to a negative association at the 5% level. The reported results are based on cross-sectional estimations across States and industries with sex/age or sex/education as controls.
Source: Hermansen (2019) based on Job-to-Job Flows data, Census Bureau; Occupational Licensing database, NCSL; careeronestop.org; Occupational Employment Statistics, BLS.

Has licensing then contributed to the secular decline in mobility? A simple simulation suggests that the results are indeed economically important (Figure 2). Consider the following experiment: suppose licensing coverage had declined during the 2000s to be 5 percentage points lower than the observed 22% in 2018 (Panel A). Taking the results at face value, this could have lifted the job hire rate by 0.6 percentage point – a sizeable boost amounting to a quarter of the decline observed since 2000 (Panel B).

Figure 2. How would job mobility look like if licensing coverage had been reduced in the 2000s?

Reform simulation reducing occupational licensing coverage by 5 percentage point



Note: The job hire rate is defined as the number of job hires per quarter relative to employment.
Source: Hermansen (2019) based on Job-to-Job Flow database, Census Bureau.

References

Hermansen, M. (2019), "Occupational Licensing and Job Mobility in the United States", *OECD Economics Department Working Papers*, No. 1585, OECD Publishing, Paris, https://doi.org/10.1787/4cc19056-en

von Rueden, C., G. Nicoletti, I. Bambalaite (2020), "Occupational Entry Regulations and their Effects on Productivity in Services: Measurement and Firm-Level Evidence", *OECD Productivity Working Papers*, forthcoming.