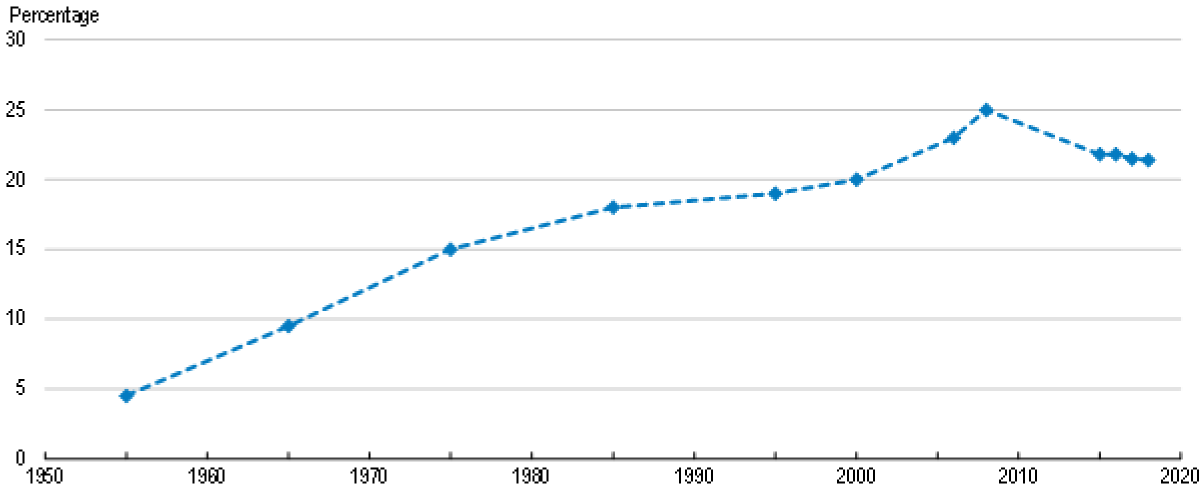
Occupational licensing in the United States: too much of a good thing?

By Mikkel Hermansen, Economics Department

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

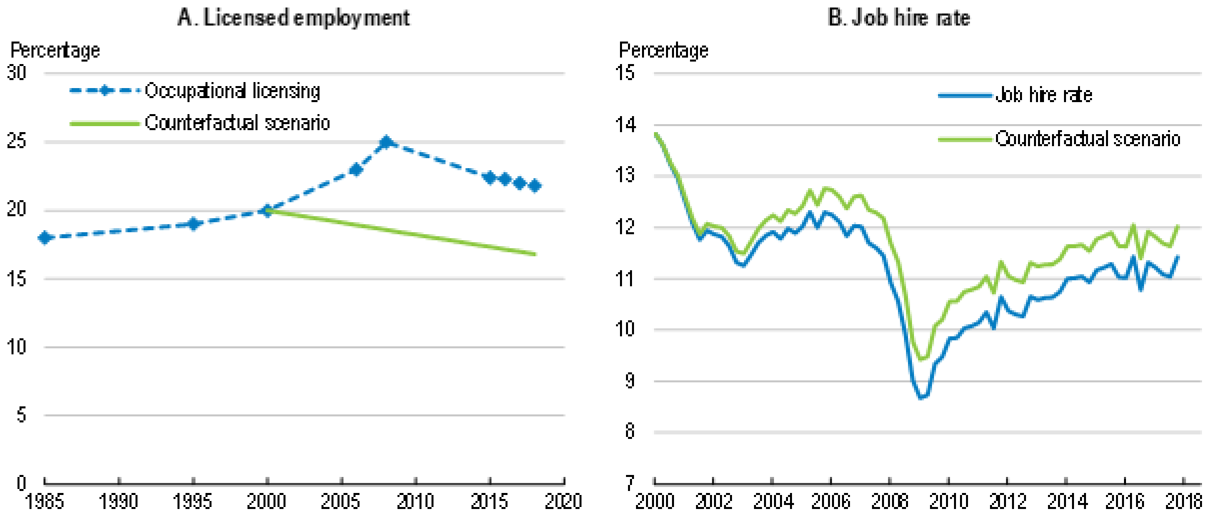
	Job hire			Job separation		
Occupational licensing indicator	Job hire rate	Job-to-job hire rate	Nonemployment hire rate	Job separation rate	Job-to-job separation rate	Nonemployment separation rate
Coverage of licensing regulation	–	–	–	–	–	–
Strictness of licensing regulation	–	–	–	–	–	–

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

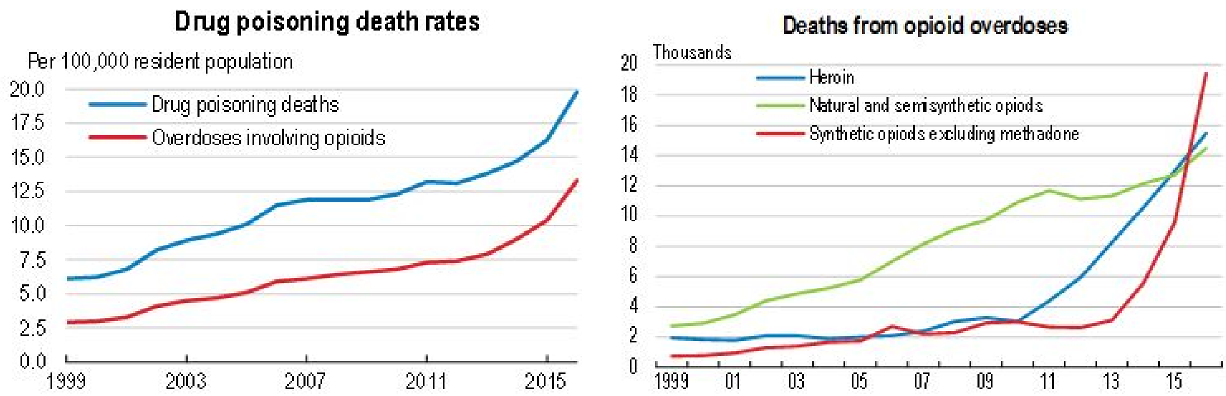
Hermansen, M. (2019), "Occupational Licensing and Job Mobility in the United States", *OECD Economics Department Working Papers*, No. 1585, OECD Publishing, Paris, https://doi.org/10.1787/4cc19056-en

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.

Opioid addiction costs many lives and harms livelihoods

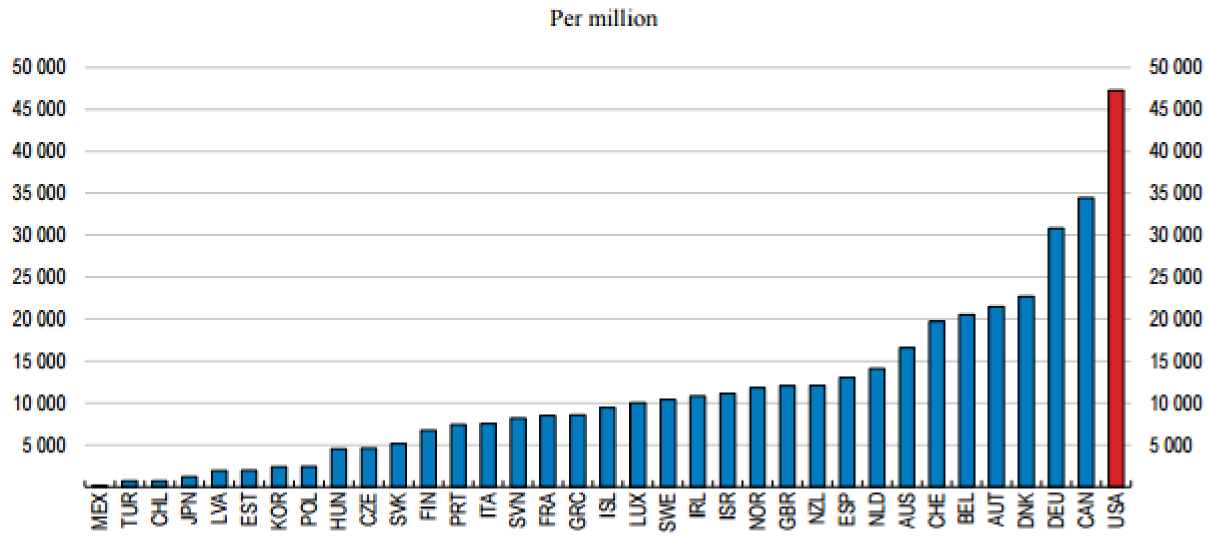
by Douglas Sutherland, Senior Economist, US Desk, Economics Department.

Case and Deaton (2017) highlighted increasing midlife mortality due to suicides and drug and alcohol abuse since the late 1990s contributing to relatively modest gains in life expectancy. In the past decade, overdose deaths have surged, particularly as (illicit) synthetic opioids have become more available. Opioid-related deaths touch urban and rural communities alike and are spreading to affect all demographic groups.



Opioids are far more commonly prescribed in the United States than elsewhere in the OECD. Between 1999 and 2014, opioid prescriptions in the United States quadrupled. This was compounded by relatively liberal policies on the number of opioids being prescribed, the long duration of treatment and aggressive marketing. Ultimately millions of individuals were exposed to addictive substances, either the intended patient or through unused drugs being taken by family members or others.

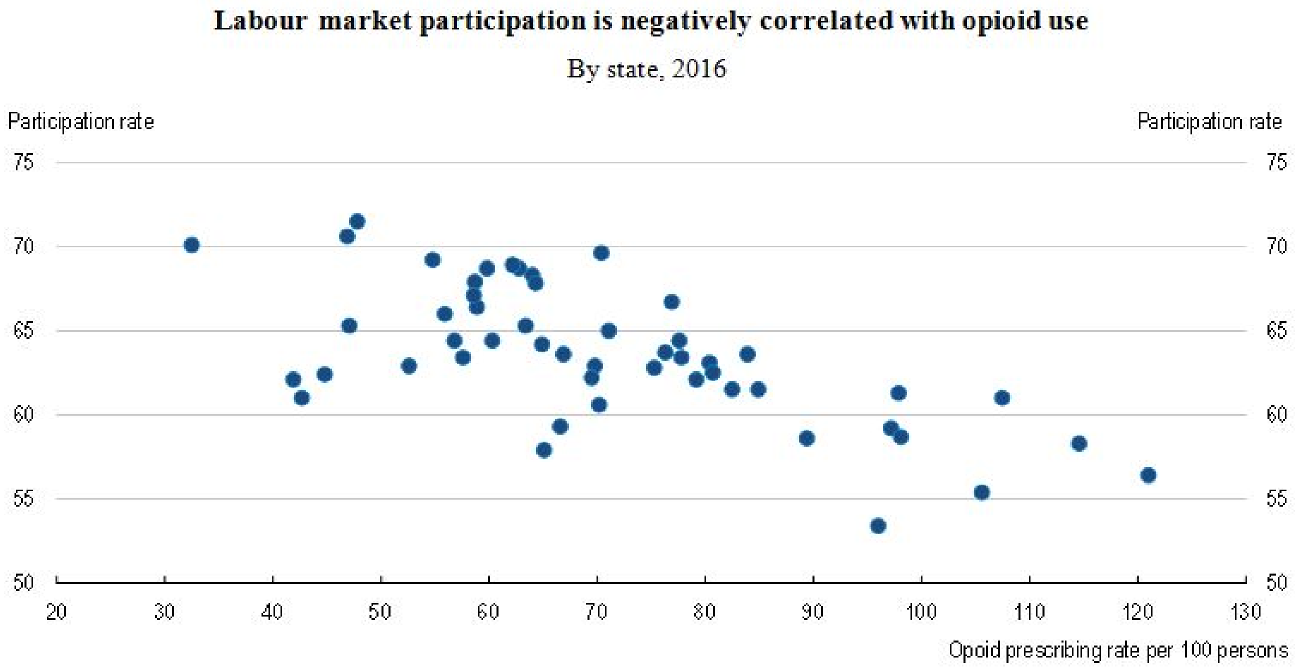
Opioid prescriptions are substantial in the United States



Source: INCB.

StatLink http://dx.doi.org/10.1787/888933732688

The consequences of the opioid epidemic are felt through deaths, the impact on livelihoods and by breaking up homes and communities. Opioid use appears to be connected to labour market conditions with prescription rates typically higher where labour force participation is lower. Krueger (2017) found that around one-fifth of the non-participating prime age males were regularly taking opioid painkillers. While causality is difficult to establish opioid addiction ultimately impairs participation. This contributes to costs to the economy of lost wages and productivity, as well as fiscal costs from foregone revenue and spending on emergency care and the treatment of addiction. Estimates suggest an annual cost of around $80 billion, but if the loss of life is also taken into account then the cost of the crisis in 2015 could be over $500 billion (CEA, 2018).



Source: Bureau of Labor Statistics, Centers for Disease Control and Prevention.

Such losses of lives and enormous impact on society justify taking action. To address the immediate challenge, making drugs that can reverse the effects of overdoses more widely available can reduce avoidable deaths. Efforts to tighten access to opioids will reduce the inflow of patients developing opioid dependence. For those already suffering from addiction, medically-assisted treatments are proven options, but may require relaxing administrative barriers in order to expand their reach. These efforts will need to be complemented by re-integrating former addicts into employment and housing to prevent relapse. Research on the causes and effects of widespread addiction should also be encouraged.

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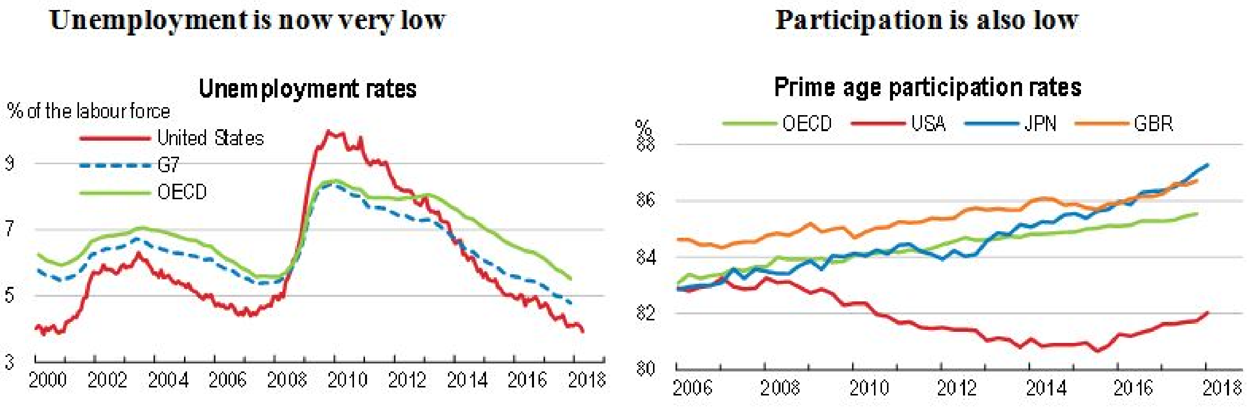
Helping Americans Work Again

Douglas Sutherland, Senior Economist, US Desk, Economics Department.

The economic expansion in the United States is now one of the longest on record, although it has been sluggish in comparison with previous recoveries. While job growth has reduced the unemployment rate to historically-low levels, many people still remain on the sidelines of the labour market, as shown by the low participation rates of prime age workers.



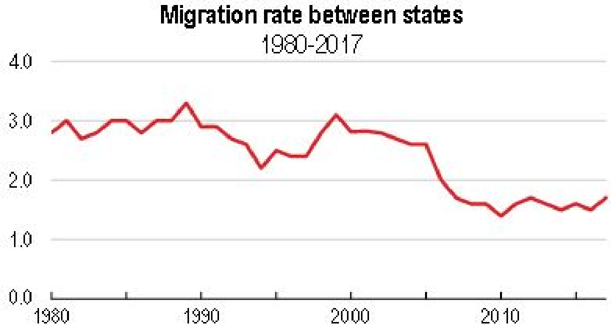
Note: OECD refers to a simple average.
Source: OECD Analytical Database, OECD Employment and Labour Market Statistics.

The participation of women has increased, but many men remain out of the labour force. This is especially the case for young men with no college education and in states hit particularly hard by economic shocks, such as West Virginia where only 53%

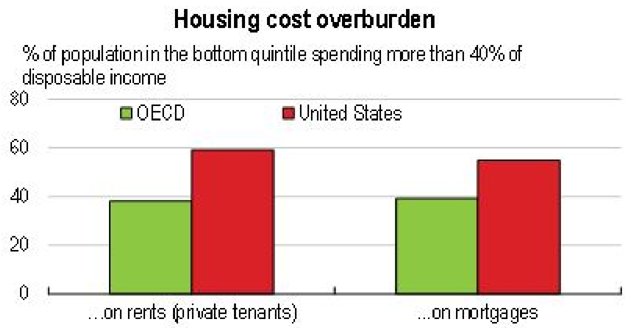
of working-age individuals participate (Varghese and Sutherland, 2018). Globalisation and automation have displaced workers, especially in the industrial heartland, and many of these workers have experienced difficulties in finding new employment. As they adjust only slowly to these shocks, these locations are characterized by high unemployment, low participation and poverty. This is partly explained by the limited amount of support provided to workers in the United States to find new jobs, compared to other OECD countries.

The interstate migration response to employment shocks, which contributed to the reallocation of workers to places with strong job growth, appears to have diminished during the past decade. Furthermore, these migration patterns show less of a population shift to urban agglomerations than elsewhere in the OECD. One factor contributing to this is that changing jobs has become more difficult over time. One of the constraints of interstate migration has been the availability of affordable housing, particularly in booming areas (Guichard, 2018). Restrictive zoning policies appear to be hindering the provision of more affordable housing, limiting employment opportunities and ultimately undermining growth. Sprawling cities can also make accessing jobs by public transport very difficult. Improving mass transit systems where appropriate would help improve accessibility and federal spending could be used to encourage States and localities to move towards mixed-use planning permissions to address housing affordability concerns.

Inter-State migration has slowed



Housing can be expensive



Source: Bureau of Labor Statistics, OECD Affordable Housing Database.

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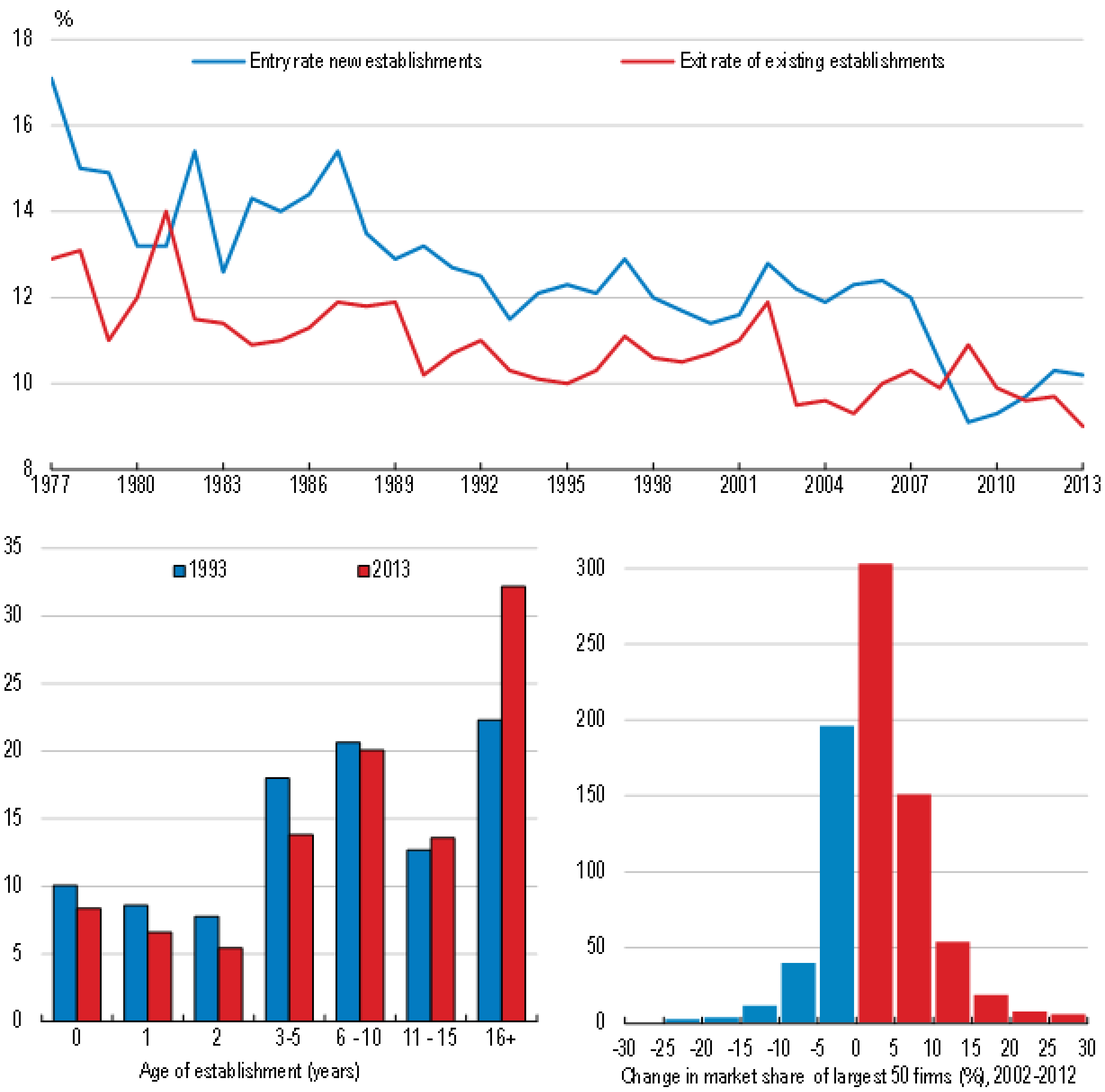
Unleashing private sector productivity in the United States

By Douglas Sutherland, Head of the United States Desk, OECD Economics Department

With the global economy mired in low- growth and no signs of strong acceleration, a lot of attention has been paid to the meagre pace of productivity growth in OECD countries. In the United States, the most watched indicator of productivity (nonfarm business productivity growth) decelerated about ¾ percentage point from 2009 to 2014 relative to the preceding 5-year period. This is not just the result of the crisis holding back investment. Productivity growth had already been slowing from the early 2000s.

Economic research reveals competitive markets stimulate productivity: faced with competitors, firms survive by becoming more efficient and bringing new products to the market. Competitive markets see a lot of firm entry and exit. However, this dynamism has declined: new firms are not being created as frequently as in the past (See figure, top panel) and the most productive of these firms are not growing as fast as they once did. This matters because advances in productivity typically result from the rapid growth of young dynamic firms. Instead, start-ups appear to be failing more often and the remaining firms are getting older with larger firms increasingly dominating markets (See figure, bottom panels).

Business dynamism is slowing, firms are ageing and market concentration is rising



Source: Census Bureau, Bureau of Economic Analysis.

When this happens, markets become more concentrated, with large incumbent firms gaining market power. This has many disadvantages because gains in productivity are not being passed onto consumers in lower prices or to workers in higher wages. Faced with these worrying trends, competition/antitrust policy needs to adapt. This is particularly the case in markets transformed by digitalisation, financial innovation and globalisation – such as e-commerce and those dependent on access to information. The decline in business dynamism sometimes comes from barriers to competition being erected by the States. For example, state-level prohibitions on municipalities creating their own fixed broadband networks have hindered the development of stronger competition in this sector. In other cases, States have blunted competitive pressure through imposing state-specific occupational licensing requirements.

Amongst other factors, changes to bankruptcy laws have also contributed to more sluggish business formation. Reforms in 2005 increased the cost of bankruptcy for failed entrepreneurs and made it more difficult for them to try again (see the recent Ecoscope blog on the importance of this for productivity growth). The reforms appear to have stymied the creation of sole proprietorships and partnership, particularly in States that do not exempt some of the entrepreneur's assets from bankruptcy proceedings. Given the importance of bankruptcy for long-run prospects, a better balance needs to be stuck between supporting entrepreneurship and creditor rights.

References:

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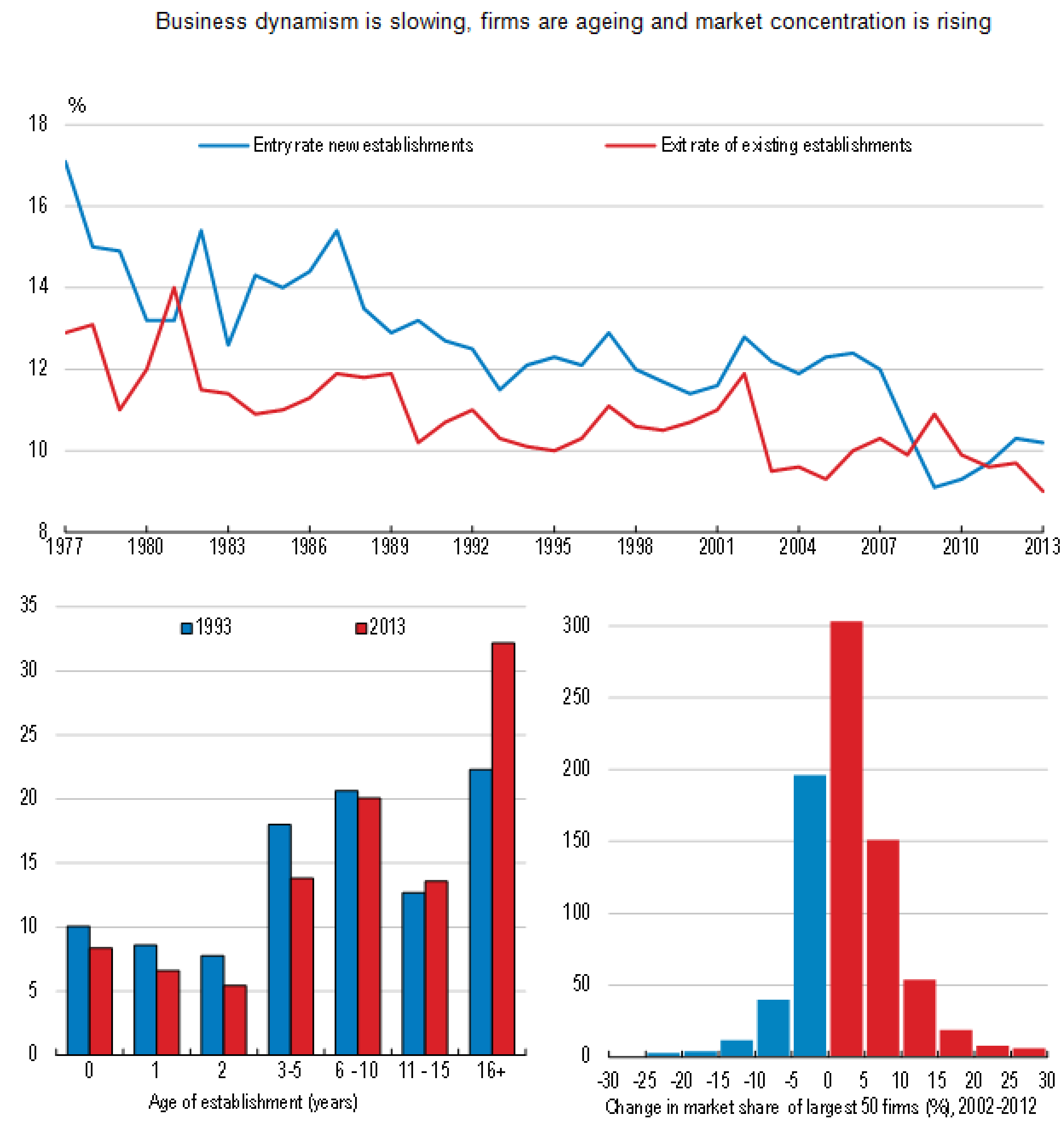

Source: Census Bureau, Bureau of Economic Analysis.

When this happens, markets become more concentrated, with large incumbent firms gaining market power. This has many disadvantages because gains in productivity are not being passed onto consumers in lower prices or to workers in higher wages. The US is often considered as a very competitive and dynamic marketplace – and it is to a large extent – but it has become less so for some time because of developments such as digitalilisation facilitating “winners take all” and anti-trust becoming less stringent than it used to be. Faced with these worrying trends, competition/anti-trust policy needs to adapt. This is particularly the case in markets transformed by digitalisation, financial innovation and globalisation – such as e-commerce and those dependent on access to information. The decline in business dynamism sometimes comes from barriers to competition being erected by the States. For example, state-level prohibitions on municipalities creating their own fixed broadband networks have hindered the development of stronger competition in this sector. In other cases, States have blunted competitive pressure through imposing state-specific occupational licensing requirements. As a result dynamism and competition can vary across states because of the importance of local administration in regulating markets with some states being very dynamic whereas others are not.

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