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Occupational Regulations

Testimony of:

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Chair and members of the Little Hoover Commission

My name is Morris Kleiner. I testify before you today on my own behalf and not as a representative of the University of Minnesota or any other organization with which I am affiliated.

I have a Ph.D. in economics from the University of Illinois. I have worked in government and consulted for many public and private sector organizations. I am a professor at the Humphrey School of Public Affairs at the University of Minnesota. I also teach at the University's Center for Human Resources and Labor Studies. I am a visiting scholar at the Federal Reserve Bank of Minneapolis and a Research Associate at the National Bureau of Economic Research headquartered in Cambridge, Massachusetts, and a Visiting Scholar at the Upjohn Institute for Employment Research in Michigan. My research specialty includes the analysis of institutions, such as occupational licensing in the labor market. I have published in the top academic journals in labor economics and industrial relations, and I am the author, co-author, or coeditor of eight books. Three of these books focus on occupational regulation and were published in 2006, 2013, and 2015. These books are the leading volumes on occupational regulations based on sales and citations to the work by others in Google Scholar.

Let me start with my conclusions because it establishes a preference for certification over licensure of occupations. Certification is better than occupational licensing for three reasons.

1. First, certification has benefits over licensing for workers. Certification does not fence out workers or cause the type of problems in labor markets that licensing does. Licensing may cause workers to lose the opportunity to move into the middle class because of the barriers to entry. A reduction in licensing requirements could reduce unemployment in the State. Licensing further

reduces the ability of workers to move across state lines, and engage in work that is the most beneficial to them and to society. Certification of practitioners does not have these negative features.

2. Secondly, certification is better for consumers than occupational licensing. Similar to licensing, certification sends a signal to consumers about who has met the government's requirements to work in an occupation. However, it does not reduce competition and it does not cause prices to increase the way licensing does. It gives consumers more choices for the kinds of services they need. It gives consumers the right to choose the level of quality they think is appropriate for them rather than having members of an occupation decide what is the level of skill that is necessary for consumers. Also, all consumers do not demand the same level of quality. When members of the legal profession told the Nobel laureate economist Milton Friedman that every lawyer should be of Cadillac quality, he famously replied that many people would be better off with a Chevy (a cheaper but clearly functional alternative). If licensure "improves quality" simply by restricting entry into the profession, then some consumers will be forced to pay for more "quality" than they want or need.
  
3. Thirdly, certification is better for state government than occupational licensing. It reduces the unnecessary and often excessive lobbying by trade associations to try to convince legislators to enact and the governor to implement licensing regimes under the assumption of protecting the public. Often lobbyists claim that licensing is needed to screen out frauds and incompetents. There is little evidence to support this claim. But licensing laws do offer lobbyists and their trade associations a way to deliver less competition and higher earnings for their members or clients.

There is an important difference between occupational licensing and certification. Licensing restricts the practice of an occupation. Certification restricts the use of the title such as “certified financial analyst.” or “certified interior designer.” Anyone can do financial analysis or interior design but only those who meet the government’s requirements can call themselves a “certified financial analyst” or “certified interior designer.”

The proposal to establish a portal that would facilitate the use of private and voluntary certification as a complement to other state-authorized occupational licensing regimes is an important issue for the Indiana state economy, practitioners and consumers. Beyond my conclusions, I would like to provide some details:

First, occupational licensing reduces employment growth thereby contributing to unemployment. These barriers fence out people who may be qualified but have not gained the credentials through the exact means identified in a licensing law such as a written test, internship, or undergraduate or graduate degree.

Estimates developed by Professor Alan Krueger of Princeton University and the former Head of President Obama’s Council of Economic Advisers, and former chief economist in the Department of the Treasury and Labor and Professor Alexander Mas, also at Princeton and former Chief Economist at the Department of Labor and Chief Economist at Office of Management and Budget under President Obama and me, showed the cost of licensing nationally in the form of lost jobs to be 0.5% -1.0%. Applying that lower number to California would result in a reduction in the unemployment rate in the state or a gain of approximately 39,000 jobs if licensing were reduced in the state relative to certification or other less restrictive forms of regulation.

Secondly, occupational licensing causes consumers to pay higher prices. By shrinking the available supply of labor, licensing increases prices by 7 percent or more. Certification does not clearly influence wages and then prices. Less competition means that consumers pay more and have less variety to choose for the services they need. A

number of years ago, students at the Humphrey School analyzed the cost of licensing to consumers in Minnesota. They found that the extensive use of licensing cost consumers in Minnesota to pay an incremental \$3 billion a years in higher prices that are redistributed to those with licenses with no clear benefits.

Third occupational licensing alleges that it will increase consumer protection by screening out incompetents and frauds. Unfortunately and although we may want this to be true, there is little to no evidence for it. Additionally, some legislators tend to grandfather in everyone working when licensing is enacted thus eliminating screening altogether and when they ratchet up the requirements current members are excluded. Also, licensing boards are often captured by licensees and rarely revoke licenses. Most telling about their priorities, nearly all boards depend on the licensees to fund their operating budgets through the payment of licensing fees.

Among the many professions that I have studied are mortgage bankers. What my research at the Federal Reserve Bank of Minneapolis with Vice-President Richard Todd showed is that those states that licensed mortgage bankers had similar default rates as those states that did not license brokers. A major difference is that in states with licensed brokers the fees that consumers had to pay for loans were higher. I have generally found those same findings in the other occupations that I have researched or seen in the research of others.

The reality is that occupational licensing reduces employment growth and contributes to unemployment and increases costs to consumers. The main groups that win under licensing are those who are licensed through higher wages and greater job opportunities for those fortunate to become licensed. Certification has none of the problems of licensing such as raising prices or restricting overall employment. It provides consumers more choice at a lower price than occupational licensing. I am, of course, delighted to answer questions about occupational regulation and its consequences.

## **Addendum**

Hierarchy of occupational regulations from least to most restrictive:

**“Registration”** means a requirement established by a legislative body in which an individual gives notice to the government that may include the individual's name and address, the individual's agent for service of process, the location of the activity to be performed, and a description of the service the individual provides. “Registration” does not include personal qualifications but may require a bond or insurance. Upon approval, the individual may use “registered” as a designated title. A non-registered individual may not perform the occupation for compensation or use “registered” as a designated title. “Registration” is not transferable and is not synonymous with an “occupational license.”

**“Certification”** is a voluntary program in which the government grants nontransferable recognition to an individual who meets personal qualifications established by a legislative body or private certification organization. Upon approval, the individual may use “certified” as a designated title. A non-certified individual may also perform the lawful occupation for compensation but may not use the title “certified.” “Certification” is not synonymous with an “occupational license.”

**“Occupational license”** is a nontransferable authorization in law for an individual to perform a lawful occupation for compensation based on meeting personal qualifications established by a legislative body. It is illegal for an individual who does not possess an occupational license to perform the occupation for compensation. Occupational licensing is the most restrictive form of occupational regulation.