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Occupational Licensing: Assessing State Policy and Practice

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OCCUPATIONAL LICENSING: A FRAMEWORK FOR POLICYMAKERS

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Defining Terms

- Regulation of occupations by the **government**—not licensing by firms where individuals have an opportunity to purchase unregulated services—**Microsoft licensed programmer**. There are generally three types of regulation by the government—
  - **registration** (the government provides a list of individuals—much like Angie’s list),
  - **certification**, where the government gives a right to title, an example is certified financial analysts, who can only use this title. but others are allowed to provide the service.
  - **Licensing**, right to practice, requires all who receive pay to get permission from government for providing the service.
What is Occupational Licensing by Government?
License to Work

Licensed Occupational Professions

Occupational Licensing, Antitrust, & Innovation
Use of least restrictive form of regulation consistent with policy goals

- Market competition and private litigation
- Deceptive trade practice acts and other targeted consumer protections
- Inspections
- Bonding or Insurance
- Registration
- Certification
- Licensing

Lee McGrath, Institute for Justice, 2016
Trends in Two Labor Market Institutions

Dashed line shows the value from state estimates of licensing to the Gallup and Westat Survey results—more than 800 occupations are licensed in at least one state level according to the Council of State Governments; Union Data from the CPS
Why is it important?

Since licensing influences many more individuals in the United States and in some other nations than unions or the minimum wage, its evaluation should be important for social science researchers, policymakers, and citizens. When analysts control for education and other human capital factors, licensing raises the earnings of individuals who attain it by 10 to 18 percent depending on the time period and methodology. Licensing has no effect or it raises wage inequality!
Extent of the Issue

• Over 800 occupations are licensed by at least one state
• Over 1,100 registered, certified, or licensed in at least one state
• 65 occupations licensed in all states
Licensed florist Monique Chauvin in Louisiana
Meet the Experts | Some of the jobs that require licensing in one or more states

- Wig specialists
- Hair braiders
- **Shampoo specialists**
- Body piercers
- Naturopathic doctors
- Hearing aid dispensers
- Athletic trainers

- Nuisance control specialists
- Wildlife rehabilitators
- Dog handlers
- Land surveyors
- **Florists**

- Appliance repair technicians
- Windshield installers
- Bedding supply dealers
- Computer repair technicians
- Handymen
- Locksmiths
- Automotive parts recyclers

- Pyrotechnic operators
- Private detectives
- Shorthand reporters
- Vending machine operators
- Student aid specialists
- Professional wrestlers
- Tour guides

Source: WSJ research; Photos: Associated Press (repairman); Getty Images (all others)
Harris Survey Estimates of Percent Licensed by State

Share of Workforce Licensed, by State

Source: Kleiner and Vorotnikov (2015) based on an analysis of data from a Harris poll of 9,850 individuals conducted in the first half of 2013.
Note: The three categories were constructed to contain roughly the same number of states.
Does Occupational Licensing Reduce Interstate Migration in the U.S.? (Johnson and Kleiner, 2017)

**Occupational Licensing and Interstate Migration from 1950-2008**

- **Gross Interstate Migration Rate**
- **Fraction of Workforce Licensed**

Year:
- 1945
- 1955
- 1965
- 1975
- 1985
- 1995
- 2005
- 2015
Different Views
Former Supreme Court Justice Samuel Jackson

• “The modern state owes and attempts to perform a duty to protect the public from those who seek for one purpose or another to obtain money. When one does so through the practice of a calling, the state may have an interest in shielding the public against the untrustworthy, the incompetent, or the irresponsible.”
Opposition to occupational regulation

• “All professions are conspiracies against the laity”
  George Bernard Shaw

Milton Friedman, Nobel Prize winning economist at the University of Chicago
• “The impossibility of any individual or small group conceiving of all the possibilities, let alone evaluating their merits, is the great argument against central governmental planning and against arrangements such as professional monopolies that limit the possibilities of experimentation. On the other side, the great argument for the market is its tolerance of diversity; its ability to utilize a wide range of special knowledge and capacity. It renders special groups impotent to prevent experimentation and permits the customers and not the producers to decide what will serve the customers’ best.”
Two Case Studies

• Battles Between Two Licensed Occupations---Implications for workers, prices, and quality

• The Occupational Licensing of Uber Drivers—Licensing in the Gig Economy
Case 1

• Relaxing Occupational Licensing Requirements: Analyzing Wages and Prices for a Medical Service
Importance of the policy issue

• “What in the world happens when we have 30-35 million additional Americans eligible for primary care coverage in 2016?” “How in the world will we be ready for that? We already have a shortage in too many parts of the country of primary care practitioners.”

• Former Secretary of Health and Human Services Kathleen Sebelius in remarks at “Issue Briefing: Reinventing Primary Care,” May 4, 2014
Health Care and the Economy

• Health care was about 18% of U.S. GDP in 2011

• 21% goes to physician/clinical services

• In 2009, the United States federal, state and local governments, corporations and individuals, together spent $2.5 trillion—small savings can have large absolute effects
Applications to Health Care

• Occupational regulations are particularly prevalent in the health sector.
  - All first tier medical service providers are required to attain a license (doctors, dentists, nurses)
    – Over 76% of non-physician health care workers require a license.
Trends In Occupational Regulation In The Health Sector

- A “partial deregulation” movement or relaxation of some licensing requirements is under way.
  - Not a movement away from licensing regulations. Rather it has evolved into “Battles Among Licensed Occupation” eg. doctors and dentists, doctors and nurses, Occupational Therapists v. Physical Therapists
  - The active concerns for policy are the scope of practice, independence and supervision, and task authority.
Battles Among the Occupations

- 4 states changed their regulation of nurse practitioners over the years of the sample (CO, KY, MD, MO)

- **2008** — *Missouri* expanded nurse practitioner scope of practice, allowing them to prescribe controlled drugs, “including pain relievers like Vicodin and prescription-strength cough and nausea medicines.” (AP, May 9, 2008)

- **2010** — *Maryland* eliminated the requirement of formal collaborative agreements between nurse practitioners and physicians.
Maryland Law defines “The practice of a nurse practitioner” as meaning “to independently”

1) conduct physical examinations.
2) diagnose common chronic or short-term health problems.
3) prescribe drugs as provided under § 8-508.
4) Refer individuals to MDs.

5) determine eligibility for

Major battleground between NP and MD: retail-based clinics (RBC)

We make health care a little easier for people with a lot going on. Our family nurse practitioners and physician assistants are trained to diagnose and treat common illnesses, minor injuries and skin conditions. We offer health screenings, vaccinations and physicals to help you stay healthy all year round.
Market structure

• As an advanced nurse practitioner with offices in Illinois and Missouri, I have a unique perspective. … Treatment for bronchitis can include cough syrup with codeine, and back pain may require a pain medication. In Illinois, after examination and diagnosis, I can write prescriptions [for drugs such as cough syrup with codeine.] In Missouri, I need to delay the patient and interrupt the physician to have him prescribe the medications. This creates unnecessary delays and may require extra trips for the patient.

• Terry McQuaide, *St. Louis Post-Dispatch*, October 31, 2007
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Health and Safety or Economic Factors?

Proposal of the *Missouri State Medical Association* on Antibiotic resistant strains bacteria... economic interests trump concerns over quality of medical care:

“The medical association wants limits on how much nurse practitioners could prescribe capping the amount of medicine to enough for three to five days, for example, just to fill an immediate need before the patient could see a physician, Howell said.”

(Lieb, David, A. 2008. “Mo. Senate endorses bill to expand nurse prescription powers, AP, February, 12)
The Labor Market Influence with Licensing Regulations

Nurse Practitioner and Physician Hourly Wages and Annual Hours Worked

Quantity of new MDs fixed due to residency constraints
Summary of Wage Results

• Allowing nurse practitioners to practice independently is associated with increases in the wages of nurse practitioners by about 5%.

• Allowing nurse practitioners to practice independently is associated with reductions in the wages of Medical Doctors of up to 3%.
Summary of Wage Results

• One Interpretation: nurse practitioners and MDs are substitutes in the production of health services.
  – Rationale:
  – More competition for certain tasks for general practitioners and internists

--Note that wages are a “bundled” price. NPs and MDs can be substitutes for some services and complements for other services.
Why Focus on Well Child Care Exams?

• Performed by both nurse practitioners and MDs.

• Typical transaction prices are $85-$120

• We analyze “allowed amounts”, which is the amount reimbursed by the insurance company.
Overall Conclusions

• Regulations that allow independent practice and prescription authority decrease the price of child well care visits by 3% to 16% depending on the model specification with no obvious effects on quality—cost saving estimates of $600 million per year under the Affordable Care Act
Case 2

• The Occupational Licensing of Uber Drivers
Overview of On-Demand or Gig Labor Market

- Share of workers in alternative work arrangements increased from 11% in 2005 to nearly 16% in 2015 (Katz & Krueger 2016)

- Uber is by far the largest on-demand labor platform (Harris & Krueger, 2015)
Background on Uber

- Created to match individuals who needed rides to work for individuals who were willing to provide those rides for a price

- Driver gives a percentage receipt of the ride to the company as the cost of performing the match.

- *Uber dominates the market for ride-sharing*
  
  ✓ Driver-partners perform **84%-87% of total rides**
  ✓ 12,000 full-time employees, more than **734,000 active drivers in the U.S. and more than 1,500,000 drivers worldwide**
  ✓ *Economic value of almost $70 billion (Wall Street Journal, 2017)*
NJ/NYC – Quasi-Random Assignment Analysis

• Drivers operating in NYC are *required* to have an occupational license
  ✓ Attainment
  ✓ Stringent Licensing Requirements

• Drivers in operating in NJ do *not* have to have a license
  ✓ Coverage

  – NYC drivers perform pickups in NJ (overlapping geography for pickups)
Comparison of UberBLACK & UberSELECT

- UberBLACK is a high-end, luxury ride service
  - Vehicle color must be black
  - Example vehicles: Audi, BMW, Cadillac, Lincoln
  - “Professional” drivers
  - 35 markets
  - Average Base Fare: $7.20

- UberSELECT are “high-end, everyday rides”
  - No restrictions on vehicle color
  - Example vehicles: Audi, BMW, Cadillac, Lincoln
  - 27 markets
  - Average Base Fare: $4.15
Results

• More heavily regulated markets have fewer drivers somewhat higher prices, but lower turnover of drivers and more hours worked

• Little evidence of the influence of occupational licensing on consumer satisfaction

• Little evidence of the influence of occupational licensing on measures of consumer safety

• Little evidence of the influence of ratcheting up requirements on satisfaction or safety
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• Thank you for your attention!

• Any Questions?