



## Licensing has no effect on wages, but does increase access to occupations

by **Beth Redbird**

Over the past few decades, occupational closure, and particularly licensure, quietly became the norm for a broad swath of American occupations. Where only a small set of ‘traditional’ professions once determined entry through regulation, today the practice governs a much wider range of occupations, from doctors to engineers, carpet layers to massage therapists, agricultural inspectors to wilderness guides, and fortune tellers to legal document assistants. The most substantial growth has been in blue collar occupations.

Occupational licensure creates a right to practice, legislatively carving out tasks that can only be performed by authorized practitioners and reserving an occupational title for the sole use of those practitioners. The authority to practice can be obtained only from the state, and unauthorized practice can result in criminal and civil penalties.

Many occupational licensing boards are made up of senior professionals in that field. Thus, architects draft guidelines for other architects; standards for hairdressers are styled by instructors in cosmetology schools; and frog farmers must leap over barriers imposed by fellow amphibious agriculturalists.

Because not every worker who want a license can obtain one, licensure is thought to raise wages for licensed workers by artificially restricting supply. If true, this would mean that licensed workers benefit at the expense of consumers.

This article presents a new examination of licensure-wage effects, relying on two important innovations.

First, it is the largest study to date, examining more than 4.5 million workers over 30 years, and across 500 occupations. This allows for more complex fixed-effect modeling. By tracking licensing legislation across all fifty states, through an exhaustive search of statutes and administrative codes, licensed hairdressers in one state are compared to unlicensed hairdressers in another state, within that same year, licensed occupational therapists are compared to unlicensed occupational therapists, and so on.

The second major innovation is that, for the first time, the effect of licensing can be studied over time. Using a longitudinal approach, this study examines wages in the years following enactment and see exactly how they change when a law is passed.

### **Does licensing raise wages?**

The short answer is: no. The typical weekly wage declines by between 0.19 percent and 1.23 percent due to licensure – in other words, for most people, not at all. In the years following enactment, wages will fluctuate, but even twenty years after enactment there is no long-term change in wages.

### **So why don't wages increase?**

The modern view of occupational closure as monopolistic derives from the earliest views on the subject. However, the occupational regulation that pervades today's legislative and economic landscape only marginally resembles the structures envisioned by Adam Smith and other early critics.

Licensing restructures methods of entering an occupation.

The enactment of a licensing law promotes the development of other institutions in the state, such as vocational schools specifically designed to train applicants for the new license. Licensees have access to support systems specific to their occupations, such as exam-oriented coursework, licensure application assistance, career counseling, job fairs, and networking opportunities, all of which are designed to make licensure requirements and employment outcomes manageable and attainable.

Overall, the major flaw in past research has been the assumption that, in an unlicensed environment, all prospective entrants have an equal opportunity to enter any given occupation. In reality, informal barriers pervade the labor market. In a licensed state, workers can use the license as a state-endorsed signal of quality, which shows prospective employers that they meet basic qualifications, and can help overcome problems of 'fit', such as a race, gender, or age mismatch. Workers can rely on support from subordinate institutions to help find and get a job.

Unlicensed workers, on the other hand, have a hard time obtaining their first job without a standardized way to prove credibility and competence, and will most likely be chosen (or not) based on social networks or employer tastes. Workers who lack social connections may be left out in the cold.

Licensed applicants also take advantage of a codified path of entry, following a publicized set of steps that, by state law, lead to licensure. The would-be practitioner can refer to the appropriate publication or contact the licensing authority for the 'official' requirements.

Results of the study show that, after licensing, the number of workers in the occupation increases by an average of more than seven percent over original levels.

### **Licensing may be advantageous for women and minority workers**

Because licensing requirements necessitate the expenditure of resources (frequently money and time), traditional theory suggests that the effect of supply restrictions should be most easily detectable among populations that are traditionally excluded.

Results show that this is not true. After enactment, the composition of licensed occupations shifts as more women and minorities enter the population. The proportion of women working in the occupation increases by approximately two percent and the proportion of black workers increases by more than three percent.

The new institutions that develop around licensing might be particularly helpful for historically-excluded groups, allowing them to bypass informal barriers. Increased supply, particularly among traditionally disadvantaged groups, is thus an understandable outcome from licensure.

### **Licensing may have other consequences**

In addition to changing how workers enter an occupation, licensing may also create broader changes that social scientists have yet to investigate.

For as long as it remains legitimate, the license will continue to function as an important signal and may insulate practitioners against shifts in the market. States codify the appropriate content and level of training necessary to be the 'right' type of practitioner, and thus free licensed workers to obtain only the

specified level of education, while workers in unlicensed jurisdictions continue to compete along educational lines.

Through the lens of licensure, occupational elites can define the ‘proper’ way to practice, since license requirements are essentially comprehensive lists of ways to be excluded or removed. However, this may also limit innovation, reduce experimentation, and perhaps hinder growth in knowledge. While practitioners in unlicensed markets are free to compete on all aspects of their occupations, licensed workers must obey legal limitations on both *what* they do and *how* they do it.

On a broader scale, this formalization may rigidify the reward structure of an occupation, solidifying wage inequality. Ongoing research suggests this might be the case. Current research into wage gaps shows that, while more women enter licensed occupations, licensing also tends to increase the wage gap as it reduces mobility for women. As a result, women tend to be clustered at the low-end of the earnings spectrum in their occupation.

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