# New examination of occupational licensing contradicts decades of research

October 17 2017

From doctors to engineers to carpet layers to massage therapists, more than one in three Americans is required to hold a license to work in their occupation. Broad consensus among researchers holds that licensure creates wage premiums by establishing economic monopolies, but according to Northwestern University research, licensure does not limit competition nor does it increase wages.

A new study, which is based on a new occupational dataset covering 30 years, contradicts decades of research on the impact of occupational licensing. The most comprehensive examination of licensing to date, the study relies on more than 4.5 million workers across 500 occupations.

The most substantial growth in professional licensure has been in blue-collar occupations, particularly the production and transportation sector, which has more than doubled its licensed workforce over the past 30 years.

"I argue that licensure, instead of increasing wages, creates a set of institutional mechanisms that enhance entry into the occupation, particularly for historically disadvantaged groups, while simultaneously stagnating quality," said Beth Redbird, assistant professor of sociology in the Weinberg College of Arts and Sciences at Northwestern and author of the study.

Redbird said her study is different from previous examinations as it relies on two important innovations.

"By tracking licensing legislation across all 50 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 sees exactly how they change when a law is passed," said Redbird, a faculty fellow with Northwestern's Institute for Policy Research.

Redbird said the typical weekly wage declines by between 0.19 percent and 1.23 percent due to licensure. Furthermore, 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.

Redbird said the research could have implications for changing how workers enter an occupation.

"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," Redbird said. "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."

**More information:** "The New Closed Shop? The Economic and Structural Effects of Occupational Licensure" was published recently in the *American Sociological Review*.

Provided by Northwestern University