

# Occupational Licensing and Labor Market Fluidity

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## Abstract

Over one-fifth of all U.S. workers are in licensed occupations – jobs which require a government license to perform. This number was only 5 percent about 50 years ago (Kleiner and Krueger (2013)). The fraction of occupations that are regulated in at least one state in the US has also increased sharply (Redbird (2017)). This increase in the number of occupations and the fraction of workers who are licensed is generally motivated as a consumer protection measure. However, increased licensing may also result in barriers for workers who are trying to enter a profession, restricted worker geographical and occupational mobility, worker welfare, and ultimately impaired economic growth.

This paper investigate the relationship between occupational licensing and labor market outcomes using both public individual survey data from the Current Population Survey (CPS) and the Survey of Income and Program Participation (SIPP), as well as a newly constructed data set on licensing requirements. This new data set collects a detailed range of occupational licensing requirements for all of the universally licensed occupations across every state from the 1980s until 2016. This detailed one-of-a-kind long panel data on licensing requirements allows us to evaluate the effect of licensing on labor market outcomes more precisely. Specifically this study is the first to examine the effect of licensing worker occupational switching rates, as well as the wage changes associated with switching and licensing.

Our first contribution is a detailed analysis of this new data set to establish some new facts about patterns and trends in occupational licensing. In particular, we use several dif-

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ferent methods to measure the degree to which occupational licensing costs have changed (increased) for workers over time. Our second contribution is to examine the relationship between licensing and occupational switching, and the wage changes associated with these switches. Using propensity score matching, we compare the switching pattern and wage changes for those in our chosen licensed occupations to those in other occupations. The matching criteria are based on a series of observable workers characteristics, as well as the skill requirements of the occupations which are acquired by applying Principle Component Analysis to ONET data on occupation task-skill mix. The preliminary findings show that occupational licensure has significant negative effects on occupational mobility, in both switching into licensed occupations, as well as switching out of licensed occupations. After controlling for observable heterogeneity, including occupational skills, those switching into a licensed occupation experience higher wage gains.

## References

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- Redbird, Beth.** 2017. “The New Closed Shop? The Economic and Structural Effects of Occupational Licensure.” *American Sociological Review*, 82(3): 600–624.