

Licensing Occupations: Ensuring Quality or Restricting Competition? Morris M. Kleiner, Kalamazoo, MI, W.E. Upjohn Institute for Employment Research, 2006. 195 pp., \$18.00/paper.

According to author Morris Kleiner, if occupational licensure isn't already on your radar then it should be. Its effects reach beyond occupation to impact the quality and price consumers pay for all services rendered. Kleiner notes that occupational licensing is the fastest growing labor market institution. While the percentages of the labor force who are union members has declined from almost 35 percent to 12.5 percent since the 1950s, for example, the percentage of the labor force affected by licensure has more than quadrupled during that same time period, from 4.5 percent to more than 20 percent. This is due in part to the fast growth of the occupations that are licensed and, to a greater extent, because more and more occupations are now regulated.

Kleiner has published extensively on occupational licensure, despite the fact that data on the subject is limited because occupational regulations vary by jurisdiction. His expertise on the topic allows him to compose one of the most comprehensive texts on occupational licensing available today. Kleiner's analysis is creative and well thought out. An understanding of some basic economic theory and empirical methods is necessary to allow readers a complete picture of the analysis. However, any reader interested in occupational licensing should be able to grasp the concepts and conclusions of the book without

knowledge of, for example, the Rasch index mentioned in chapter four. Kleiner also organizes each chapter with sub-headings, making it easy for readers to pass over complex methodology.

Kleiner first answers the question he poses in the book's title: how has licensing affected quality and competition in the service industry? The author concludes that there are no overall quality benefits to consumers from occupational licensure. That is, there are no observable quality increases after occupations become licensed. Consumers seem to be willing to pay higher prices for those licensed services, however, because of a perceived reduction in "downside risk."

The second half of the question addresses whether licensing restricts competition by limiting labor supply. Economic theory suggests that licensing occupations would restrict labor supply by regulating entry requirements, hence slowing growth. In fact, the author explains that licensed occupations have been growing fast; which is why he argues that licensing is such an important labor market institution.

To this reader, observed employment growth and economic theory seem to conflict here. If licensing reduces the supply of labor, then why are licensed occupations growing faster than other occupations? This question begged to be answered throughout the book. Could it be that these services have unique price elasticities such that their demand curves do not look like the typical downward sloping demand curve? Or, put another way, as the price for a product increases consumers typically

respond by demanding less of it—but, as the price of licensed services increase, consumers may actually demand *more* of these services because of a perceived increase in quality.

Kleiner's evidence on consumers' response to price increase and risk aversion suggests that licensed services may indeed have nontraditional demand. In the concluding chapter the author briefly describes an empirical analysis that lead him to determine that licensing dampens employment growth and accelerates decline. The author believes this proves the impact of supply restriction is greater than possible increases in demand because of perceived quality. In this reviewer's opinion, Kleiner's conclusion may be true for the three occupations he analyzed but it could be very different given more occupational data. For that reason, I believe these effects deserve a more thorough analysis.

Overall, *Licensing Occupations* provides a wealth of knowledge on occupational licensing. Available literature on occupational licensing is scant and often focuses on only one or a few occupations. Kleiner's comprehensive approach answers the two primary questions people have about occupational licensing. Although I was left wanting more, that is no condemnation of Kleiner's analysis. I liken it to the cliffhanger in a work of fiction; it has made me eager for the next installment. *Licensing Occupations* is a superb seminal work on licensing that is sure to influence future research on the subject. □

—Alice Ramey
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