9-15-2022

Concluding Thoughts and Policy Recommendations in **Grease or Grit?: International Case Studies of Occupational Licensing and Its Effects on Efficiency and Quality**

Maria Koumenta, Editor
Queen Mary,
University of London and
Knee Center for the
Study of Occupational Regulation

Grease or Grit?

International Case Studies of Occupational Licensing and Its Effects on Efficiency and Quality

Morris M. Kleiner
Maria Koumenta
Editors

2022

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

Names: Kleiner, Morris M., editor. | W.E. Upjohn Institute for Employment Research.
Title: Grease or grit? : international case studies of occupational licensing and its effects on efficiency and quality / Morris M. Kleiner, Maria Koumenta, editor.
Description: Kalamazoo, Michigan : W.E. Upjohn Institute for Employment Research, 2022. | Includes bibliographical references and index. | Summary: "The book provides a comprehensive approach to whether a dominant governmental institution in the labor market-occupational licensing-greases, which enhances, or on the other hand results in grit, which diminishes the efficient workings of labor and service markets in parts of Europe and the United States. The detailed case studies in the book indicate that an increase in the availability of service providers or enhanced competition does not have negative effects on the quality of the services provided, prices, or survey measures of consumer satisfaction" — Provided by publisher.
Identifiers: LCCN 2022026785 (print) | LCCN 2022026786 (ebook) | ISBN 9780880996860 (paperback) | ISBN 9780880996877 (ebook)
Subjects: LCSH: Occupations—Licenses—United States. | Occupations—Licenses—Europe. | Labor market—United States. | Labor market—Europe.
Classification: LCC HD3630.U6 G74 2022 (print) | LCC HD3630.U6 (ebook) | DDC 331.120973—dc23/eng/20220728
LC record available at https://lccn.loc.gov/2022026785
LC ebook record available at https://lccn.loc.gov/2022026786

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007-4686

Cover design by Carol A.S. Derks.
Index prepared by Diane Worden.
Printed in the United States of America.
Printed on recycled paper.

8
Concluding Thoughts and Policy Recommendations

Maria Koumenta
Queen Mary, University of London and
Knee Center for the Study of Occupational Regulation

The key public policy justification for occupational licensing is its presumed ability to protect the general public from incompetent and unscrupulous practitioners. Consumers often lack the knowledge to assess the quality of a product or service prior to purchasing it, particularly if it is technical or requires specialist knowledge or skills. By setting minimum qualification requirements for entry to occupations, occupational licensing is expected to raise average skills and competence levels in the occupation, since low-quality providers will likely be unable to meet the new qualification requirements and therefore driven out of the occupation (Pagliero 2013; Rostam-Afschar 2014). Taken together, entry regulations are expected to ensure that consumers receive a more homogeneous and high-quality product, while the resulting higher investments in training have the potential to enhance the skills base in the labor market. If this is the case, then the well-documented negative labor market effects of occupational licensing need to be weighed against the potentially positive service quality and efficiency effects it yields in their markets and by extension to the wider economy.

There is little known about the empirical relationship between regulation of occupations and quality of services. This book makes an important contribution to knowledge of the quality and efficiency effects of regulation. We study six markets (ridesharing, driving instruction, pharmacies, beauty services, legal services, and health care) in four European countries (Poland, Italy, Ireland, and the United Kingdom) and the United States, as well as exploiting specific features in each regulated market using novel approaches.

GREASE OR GRIT?

How does occupational regulation affect quality? Here we present a summary of the results; see Table 8.1. We find no evidence that more stringent licensing for ridesharing drivers has an effect on customer satisfaction ratings or measures of hard braking and accelerations. An increase in regulations pushed many driving instructors out of the market and increased prices but did not improve the quality of instructors or success rates for learner drivers. In the pharmacy market, the availability of pharmacies seems to be correlated with a decrease in the number of hospital admissions related to influenza, suggesting a possible link to the accessibility of the services offered by pharmacists and consumer health. With legal services, there was little change in the overall quality of legal services following Polish relaxation of entry requirements as measured by complaints and disciplinary cases, and the availability of practitioners in the market increased. We find considerable variation in how rigidly defined and inflexible the scope of practice is among medical practitioners across different U.S. states, while a systematic review of the empirical literature shows that allowing medical practitioners the ability to work independently from physicians does not reduce the quality of care. Finally, in beauty services, licensing requirements either by depth or breadth do not significantly increase quality as measured by consumer satisfaction ratings.

Taken together, these case studies indicate that an increase in the availability of service providers or competition does not have negative effects on the quality of the services provided or survey measures of consumer satisfaction. To the contrary, in a number of cases we find positive effects of increased availability and competition. Our overarching conclusion is that licensing regulations in the occupational markets we studied serve more as grit than grease in driving efficiency and quality. This contrasts with the strong opposition that policymakers typically face from professional associations and licensing boards when trying to implement reforms. Such opposition perhaps is motivated more by the professionals' interests than by the interests of consumers, which are seldom arranged into influential and organized advocacy groups.

Table 8.1 Summary of Findings

Occupation and country	Nature of regulatory reform	Quality indicator	Summary of findings
Ridesharing drivers (London and Dublin)	Explore variations in the stringency of the regulatory regime between the two jurisdictions	Customer satisfaction ratings Hard braking and hard accelerations	No effects
Driving instructors (U.K.)	Increase in educational requirements to practice	Service availability indicators Indicators of student performance Price levels	No effect on the quality of instructors Negative effect on outcomes for learner drivers Higher prices
Pharmacists (Italy)	Relaxation of quantitative and structural restrictions	Availability of pharmacies at the municipality level Health indicators	Positive effect on pharmacy availability and health indicators
Advocates and legal advisors (Poland)	Relaxation of restrictions relating to educational requirements to practice	Complaints and disciplinary cases Employment creation	Decrease in complaints and disciplinary cases against practitioners Positive effect on availability of practitioners
Health service practitioners (U.S.)	Relaxation on restrictions on the scope to practice	Health outcomes (e.g., mental health, child mortality, patient mortality rates) Price levels	Positive effect on health outcomes No effect on prices
Makeup artists and shampooers (U.S.)	State variation in licensing requirements	Satisfaction ratings by consumers	No effect of licensing on service quality

DIRECTIONS FOR RESEARCH

Nevertheless, while the debate continues among those who support regulation and those who argue for less, there is little acknowledgment of several fundamental questions that are central to these discussions: What are the underlying rationales for regulating occupations? Are current regulatory arrangements still serving effectively? How are advances in knowledge and technology changing markets and the availability of information, and thus the relationship between consumers and producers? What implications do regulations have for the current legal framework? Still, our work does not provide the last word on these issues. Although we offer a series of examples on how to approach the issue of measuring quality and how to use existing data to investigate the impact of regulation on quality. As with any empirical work, it is difficult to extrapolate from a sample or case, and more work is certainly needed on the consumer benefits and costs of occupational licensing.

How do you measure quality? Our work clearly shows that not only is it difficult to calculate, but even the very definition of quality varies greatly across and within markets. The quality of some services can be verified before purchase, while for other services verification comes during or after provisions of the service. For some services, quality can be verified only if additional costs are incurred, or not at all. Complaints and disciplinary cases for legal professionals; product availability and health outcomes for pharmacists; service availability and pass rates for driving instructors; infant mortality, care quality, and emergency room visits for health professionals; customer satisfaction surveys for beauty professionals; and hard accelerations and braking for ridesharing drivers as proxies for safety—these are all examples of the different meanings that the idea of quality might take in different service markets. Moreover, in most markets, quality is multidimensional, and even a longer list of measures might not capture the full experience of a customer. Still, we take on the challenge and try to measure quality using the available information. While admittedly imperfect, the long list of measures used throughout the book provides a variety of sources of information on quality upon which others can build..

To estimate the impact of regulation on quality, one needs not only measures of quality, but also variability in the intensity of regulation.

Our case studies focus on a number of reforms, but also exploit variability across different jurisdictions. An important lesson from our work is that there is more than one way to approach this empirical question. A strength of the empirical work presented in this volume is the use of a rich variety of data sources which came in the form of individual data from service satisfaction surveys (lawyers/beauticians), administrative data (pharmacists/legal professionals/health professionals), labor force survey data (driving instructors), and even big data from a giant in the gig economy (ridesharing drivers).

Since the main obstacle to studying the relationship between regulation and quality is a lack of data, there could be significant benefits from more systematic data collection. Surveys, for example, can serve as a useful tool to collect records on consumer satisfaction in a variety of service markets. The survey approach has the advantage of providing comparable data across nations and over time but has the disadvantage of capturing subjective evaluations. More objective quality measures are generally occupation- and country-specific. These could be systematically collected with the collaboration of the professional associations or regulatory agencies in each jurisdiction. Regulatory agencies should always attempt to evaluate regulatory changes that could affect service quality, as well as prices and employment. Anticipating the need to evaluate policy changes, forward-looking regulatory agencies could then start collecting the appropriate data before the reform. More generally, they could implement it in such a way that evaluation ex post becomes easier. Finally, consumer associations could play an active role in monitoring the quality of services in many markets. They are in a unique and privileged position to collect information on quality of services, as they have a direct link with the final users.

DIRECTIONS FOR POLICY

A common theme that emerged from the six case studies is that increasing the stringency of regulation is not necessarily associated with better quality outcomes for consumers. Removing licensing requirements or moving to a lighter touch could be a suitable policy lever for certain occupational groups. However, policy reform does not necessarily have to come in the form of delicensing. For example, we know from historical and institutional analyses of licensing that barriers to entry tend to be imposed cumulatively over time on occupations. Such barriers can progressively mount up to represent significant hurdles to entry: unnecessarily lengthy training, limits on the number of professionals that are allowed to operate in the market, restrictions on corporate forms that businesses can take, restrictions on joint exercise of professions, and scope of practice among occupations. Reexamining the depth and the breadth of licensing arrangements on an occupation-by-occupation basis could be a fruitful way to detect either redundant or excessive constraints that have become institutionalized. Indeed, as some of the authors in this volume point out, the COVID-19 pandemic made salient some of the inefficiencies of licensing regimes and how these in turn compromise quality and availability. Policymakers could seize this opportunity to reevaluate the extent to which this labor market institution influences the economy, and how it has evolved to serve its intended purposes for consumers.

Proponents of regulation argue that in markets where consumers cannot observe the quality of professionals, the imposition of a minimum quality standard through licensing will address the market failure resulting from asymmetric information. The underlying assumption is that asymmetric information is relevant and that professional regulation serves the public interest. This certainly is a powerful argument, albeit one that—as we have shown in this book—must be balanced against the fact that these regulations may raise prices for consumers and compromise service availability. A fruitful line of enquiry that regulators can pursue is whether there are alternative ways that the problem of asymmetric information can be addressed. Information technology, for example, has improved consumers' access to information about the quality of practitioners themselves (e.g., online reviews in digital platforms). Similarly, in some markets the availability of technical information can make consumers more knowledgeable about the services they receive, thus enabling them to better assess its quality. Overall, the availability of quality checks reduces the level of regulatory stringency needed to ensure the same service quality as in a world where the option to access this information was unavailable. Harnessing such alternatives is a fruitful path for policymakers to take.

References

Pagliero, Mario. 2013. "The Impact of Potential Labor Supply on Licensing Exam Difficulty." *Labour Economics* 25(C): 141–152.

Rostam-Afschar, Davud. 2014. "Entry Regulation and Entrepreneurship: A Natural Experiment in German Craftsmanship." *Empirical Economics* 47(3): 1067–1101.