

Exploring the effects of occupational licensing on entrepreneurship

Occupational licensing continues to grow in both the fraction of workers directly affected (more than 20%) and the attention it has received from policy makers (Cunningham, 2019; US Department of the Treasury, 2015). Occupational licensing laws establish minimum entry standards for aspiring workers to complete before they are permitted to begin working. Laws are generally passed at the state level, but are also found at the federal and municipal level (Deyo *et al.*, 2021).

A growing body of empirical research has led to an enhanced understanding of the effects of occupational licensing. Research generally finds evidence that licensing increases wages (Gittleman *et al.*, 2017; Kleiner and Krueger, 2010, 2013; Timmons and Thornton, 2008, 2010). Less studied areas include employment (Blair and Chung, 2019), mobility (Johnson and Kleiner, 2020), income inequality (Meehan *et al.*, 2019) and consumer welfare (Kleiner and Soltas, 2019). Data on the prevalence of licensing as well as regulatory information have improved in recent years, and this has facilitated more academic research (Bryson and Kleiner, 2019; Kleiner and Timmons, 2020). In the Spring of 2019, the Knee Center for the Study of Occupational Regulation convened a conference on occupational regulations. Three of the best papers from the conference are included in this special issue of the Journal of Entrepreneurship & Public Policy.

The first paper in the volume by Carpenter *et al.*, introduces a new dataset on occupational licensing at the municipal level. The authors uncover substantial differences in regulation with Portland, Oregon licensing three occupations and Los Angeles requiring licenses for 117 occupations. This new dataset will allow researchers to better understand the effects of licensing at the municipal level. Do the same labor market effects exist when licensing occurs at the municipal level? Is there a clear enhancement of the effects when licensing moves to the state level? All of these questions and more can now be examined with this new dataset in hand.

The second paper in this volume is a specific case study of licensing focusing on real estate agents. Ingram and Yelowitz use data from the American Community Service to examine how licensing mutes labor market responses to improvements in the housing market. Generally speaking, the authors find that a 10% increase in housing prices is associated with a 4% increase in the number of agents. Licensing makes the labor market more inelastic, however. The authors find that stricter licensing reduces the labor supply response of real estate agents by as much as 30%. The effect also seems to fall disproportionately on women and younger workers.

The final paper in the volume examines if the self-employed bear unique burdens from occupational licensing. Plemmons uses a novel dataset of individual firms and locations to examine this possibility. She consistently finds evidence that licensing disproportionately reduces sales per employee for self-employed firms. Given that nearly 27% of workers are currently self-employed, it is important to better understand if there are disproportionate effects of licensing on this class of workers.

Each of these studies makes an important contribution to our understanding of the labor market effects of occupational regulation. Although the minimum wage directly affects little more than 2% of US workers, it continues to receive a disparate amount of attention from both policy makers and researchers relative to occupational licensing. Occupational licensing affects more than ten times the workers affected by the minimum wage. Equipped with new



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