
A COMMENTARY ON LEGAL ISSUES AFFECTING PROFESSIONAL REGULATION

Economic Impact of Professional Regulation

Last month the UK Commission for Employment and Skills issued a report entitled “A Review of Occupational Regulation and its Impact”. The Commission is a “social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector”. It focused on such considerations as the impact on the quality and availability of services of occupational or professional regulation and the resulting impact on the cost of services and employment.

It summarized US and Canadian studies as follows:

The evidence for the US suggests that, in general, occupational licensing increases the wage of licensed workers and the prices of the services they supply but without any overall improvements in the quality of service or product offered. A similar conclusion was reached in an earlier review of US evidence for the UK Commission (see Stanfield et al., 2009).

From our examination of the Canadian experience, there appear to be many similarities with the US in the methods by which occupations are regulated. One

such is that there commonly exist barriers to move across political jurisdictions. The limited studies of wage effects in Canada suggest that licensing raises the earnings of licensed practitioners, as it does in the US. Unfortunately, no studies of employment or price effects are available for Canada to allow direct comparisons on this dimension.

The report acknowledged the recent developments in Canada promoting both inter-provincial and international mobility of workers.

The report identified four forms of occupational regulation, three mandatory and one voluntary:

1. Licensure.
2. Certification.
3. Registration.
4. Accreditation.

After noting the paucity of information on the issues, it made the following observations on the available information for the United Kingdom:

Among Professional occupations and Associate Professional and Technical occupations, qualifications, wages and the

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Richard Steinecke
Steinecke Maciura LeBlanc
401 Bay Street, Suite 2308
Toronto, Ontario M5H 2Y4

Telephone: 416-626-6897 Facsimile: 416-593-7867
E-Mail: rsteinecke@sml-law.com

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take up of job related training were found to be higher among workers in licensed jobs than among workers in unregulated jobs, as the theory would predict. However, no consistent patterns are identified among other occupational groups or for other types of regulation.

A case study of a few recently regulated occupations “does suggest, quite plausibly, that the effects of occupational regulation can be expected to be stronger when the entry requirements are either higher or are more extensively applied.”

The report went on to conclude:

Forms of occupational regulation, such as licensing, certification and accreditation, clearly have the potential to raise average skill levels in an occupation. They do so by providing new incentives for workers or firms to invest in occupation specific human capital. The incentives are clearly strongest – and more equally felt by both workers and firms – in the case of licensing....

However, our analysis also supported the notion that the effects on skill levels can also sometimes be limited. We find no widespread and consistent effects on skill levels. The effects appear to be heavily contingent upon the prevailing circumstances within a particular occupation (such as existing levels of training), the nature of the regulatory regime (e.g. the stringency of the new skill requirement) and the characteristics of the occupation’s wider labour and product market.

At the heart of any policy on whether or not to regulate an occupation is a trade off between the potential benefits of

occupational regulation and its potential costs. Economic theory tells us that the benefits of occupational regulation can include a more highly skilled labour force, at least in the regulated sector, improvements in quality of goods or services provided in the regulated sector, and welfare benefits for the regulated sector in terms of wages and profits. It also tells us that the potential downsides include possible negative spillovers into the unregulated sector of the labour market, such as the depression of wages in adjacent labour markets due to labour supply shocks, and a diminution in the number of providers.

Our research has found some evidence of wage increases among regulated occupations, but the results were not consistent....

It then went on to provide the following advice for policy makers:

If policymakers or employers believe there is a strong prima facie case for regulation of a particular occupation, the other issue they face is how to regulate that occupation. This raises questions about:

- the **design** of the regulation (e.g. should a skill standard be mandatory or voluntary? At what level should the skill standard be set? Is this imposed on the employer or the individual? Is it a one-off enhancement or will there be a requirement to impose continuing professional development to continue to raise skills?);
- its **implementation** (e.g. should grandfathering be allowed for occupational incumbents?); and
- its **governance** (e.g. who is empowered to regulate the scheme?

How and how often will standards be monitored to ensure these remain fit for purpose?).

These major design factors can be crucial in determining the actual effects of regulation....

The full 200-page report can be found at:
www.ukces.org.uk/publications/er40-occupational-regulation-impact.