



post thumbnail image not found or type unknown

Your License To Work

Publish Date:

May 2018

It's hard to recall an Australian election in which the word 'skills' didn't find its way into at least one of the major parties' policy platforms. A vague mantra of 'investing in skills' is often wheeled out to give the appearance of economic credibility without having to commit to the tough medicine of genuine economic reform. In 2007, for example, Kevin Rudd declared that:

Australia must have an Education Revolution to boost early childhood, schools, tech colleges, universities – and insist on higher standards so that Australia can take on the world through the best trained people, not by cutting wages and conditions.

Not that the Coalition is much different these days. At the time of writing, the Turnbull Government's 'ideas boom' website is laden with references to the importance of 'equipping Australians with the skills needed for high wage, high productivity jobs'.

Of course, aspiring to a highly-skilled labour force is not without merit. But Australia's love affair with vocational education may be having unintended consequences. With increased formal education has come new systems of accreditation for previously unregulated occupations. In a growing number of occupations, job-seekers are required to be formally trained and licensed before they can 'get a look-in'. Rather than 'preparing Australians for the jobs of the future', our obsession with credentials together with government-mandated occupational licensing restrictions ultimately deprives many people from finding employment at all.

Occupational licensing and the dignity of work

As with most regulation, the intent of occupational licensing is benign. For certain professions, it makes sense that practitioners are duly accredited. It's not unreasonable to legally require, for example, doctors to undergo medical training, or for airline pilots to demonstrate a knowledge of aviation. But as with most regulation, occupational licensing requirements have a habit of gradually exceeding what is necessary or desirable.

In the United States, substantial research has been done into the extent of this problem. According to a study by Kleiner and Krueger, writing for the *Journal of Labor Economics*, the share of Americans requiring a licence to work grew from less than five per cent in the 1950s to 29 per cent in 2008. Similarly, an earlier study by the Council of State Governments estimated that



around 800 occupations were licensed by at least one US state. This massive expansion in occupational licensing has been driven largely by the regulation of fields such as interior design, auctioneering and hairdressing.

Taken together, licensing, training and compliance requirements can impose substantial upfront costs on job-seekers.

Excessive occupational licensing causes a suite of economic problems. For one thing, the costs of training and accreditation are passed onto consumers. Often, this makes little difference to the quality of service provided. One study on the field of dentistry, for example, shows that states with more stringent licensing requirements report higher prices for basic services but no difference in patient outcomes.

But more importantly, occupational licensing can be a substantial handbrake on labour market efficiency that disproportionately affects poor and unskilled workers. Training and accreditation requirements often impose substantial up-front costs for those entering the workforce or seeking to change careers.

Barriers to entry

Data on licensing requirements in Australia is patchier than that from the US, but there is evidence that we face a similar problem. In considering a national system of licensing in 2008 (now abandoned), the Council for Australian Governments found that there were more than 800 licenses across the various state jurisdictions in manual trades alone. In 2015, an inquiry by the Productivity Commission found that there were 180 separate occupational regulators across Australia and New Zealand.

Licensed occupations in Australia vary from the predictable—such as medical and legal professionals—to the esoteric. For example, licenses are required for: beekeepers in New South Wales, South Australia, Victoria and Western Australia; beauticians in New South Wales; certain casino workers, such as blackjack dealers, in Tasmania; introduction agents, or professional ‘matchmakers’, in Victoria and Queensland; and taxidermists in Victoria, New South Wales and Tasmania.

To understand the scale and complexity of occupational licensing in Australia we must understand its underlying drivers, one of which is government funding for vocational education. Even occupations that are not subject to registration requirements as a matter of law are becoming the subject of over-credentialisation, driven partly by the substantial increase in government funding for vocational education and training (VET). Although enrolments in publicly-funded VET places have fluctuated with government policy, they have trended upwards for decades. Since 1981, the number of students in subsidised VET places has almost doubled.



image not found or type unknown



A cursory glance at job advertisements shows the effect on the labour market that the growth in vocational education has had. Whereas previously, finding work as a gardener, receptionist or cook had a relatively low barrier to entry, job-seekers are increasingly required to have credentials in fields like horticulture, business administration or commercial cookery.

To be sure, there are ample reasons for employers to favour candidates with formal training, particularly those at the 'higher end' of the market. But clearly, the hefty increase in VET subsidies has distorted the labour market by flooding it with graduates. The result is a 'soft' barrier to entry for a number of occupations. Would-be workers without the means to 'up-skill' miss out on switching to careers that could be learnt on the job.

More to the point, past experience shows us that 'voluntary' qualifications often end up becoming mandatory as a result of subsequent rent-seeking behaviour. Stakeholders—such as professional bodies and trade unions – respond to increasing credentialisation in a field by arguing that *all* practitioners be subject to training and licensing in the interests of 'safety' or 'quality'.

One example is the childcare sector, for which the National Quality Framework was introduced by the Gillard Government in 2012 after intense lobbying by what was then known as the Liquor, Hospitality and Miscellaneous Union. As a result, a Certificate III in Early Childhood Education and Care is mandatory in many cases for childcare workers. The effect that this (in addition to a suite of other red tape requirements) has had on the affordability and availability of childcare places is well-documented.

Aside from formal education, job entrants may also bear a compliance burden arising from red tape affecting business in general. Certification in areas like first aid, food handling, the responsible service of alcohol and the operation of certain machinery are costs frequently borne by employees.

Taken together, licensing, training and compliance requirements can impose substantial upfront costs on job-seekers. A sample of job advertisements analysed by the IPA indicates that, once these costs are taken into account, it can take considerable time before an employee is able to 'break even' in terms of income (see table, above).

Is it time to 'down-skill'?

A skilled workforce is a theoretically sound economic objective. But as with most sound economic objectives, government intervention in the market had led to outcomes that are, at best, mixed. The labour market has been distorted by VET subsidies, and rendered inefficient by overregulation. Both can be wound back, however politically difficult it will be to take on the vested



interests involved.

It may also be that rigid training and occupational licensing requirements have outlived their economic usefulness. The main purpose of formalised credentials has always been correcting information asymmetry between buyers and sellers: Until recently, consumers had little way of knowing whether a carpenter or a plumber was qualified and competent. But these days, technology has seen the free market supersede regulatory structures as a quality control mechanism. User reviews on platforms like Uber and Airtasker, for example, have arguably made state licensing of taxi drivers and tradesmen obsolete.

It is time to rethink the way in which we approach vocational education and occupational licensing in Australia, with the primary objective of allowing as many people as possible to experience the dignity of work. Further 'investment in skills' won't be of much use if fewer and fewer people are able to get a job.

By Gideon Rozner. First published in the May 2018 edition of the IPA Review. PDF can be downloaded [here](#).