Non-technical summary for 'Examining the Macroeconomic Costs of Occupational Entry Regulations'

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What did we set out to do?

Occupational entry regulations (OER) are legal requirements that people need to meet to enter certain professions, such as undertaking training, becoming a member of a professional body or obtaining a license. These vary across professions and can range from less stringent to more stringent. For example:

- Hairdressers have less stringent requirements to start working, ranging from no requirements in Victoria or Queensland to some training in New South Wales.
- Architects have more stringent requirements across all states, including passing exams and registration with an industry body.

OER are intended to protect consumers by ensuring providers are of sufficient quality – but they can also create costs. OER can make it harder for new workers to enter a profession or for new firms to open and grow. This can mean less choice and higher prices for consumers, and lower productivity. It is important to understand these costs for two reasons:

1. It can make it easier for policymakers to get the balance right when setting OER.
2. If OER affect competition, prices and productivity, then changes in OER over time may play a role in driving economic outcomes.

Although OER apply to around one in five workers in Australia, no one has estimated the costs to the Australian economy using Australia-specific information. Our research documents the stringency of OER across several occupations for New South Wales, Victoria and Queensland, using a measure previously applied to a number of different countries. We then consider whether more stringent OER tend to be associated with lower business entry and exit rates, slower flows of workers from low to high productivity firms, and more skill shortages in labour markets.

Our work is not intended to argue that OER are bad or should be removed. It is simply intended to fill a gap in our understanding of these policies, which can help policymakers going forward.

What did we learn?

Our research revealed a number of key findings:

- For services provided to consumers (e.g. electrical services), OER tend to be more stringent in Australia compared with the average OECD country. For services provided to businesses (e.g. accounting), they tend to be slightly less stringent. That said, in most of the occupations we considered, OER are significantly more restrictive in Australia compared with the least stringent OECD country.
- There are some differences in the stringency of OER across Australian states, with New South Wales tending to have the most stringent OER in a number of service industries.
- More stringent OER create barriers to entry and materially reduce business entry and exit rates.
- More stringent OER mean the most productive businesses in an industry grow more slowly, compared with less productive firms, which weighs on aggregate productivity growth.
- Stringent OER appear to contribute to skill shortages (though there could be other factors at play).

What was our key takeaway?

While OER have economic benefits, they also have material economic costs. Understanding these costs can help policymakers balance the costs and benefits of these policies and can improve our understanding of how OER affect the broader economy.