



Economic returns to occupational closure in the German skilled trades



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ABSTRACT

Recent sociological studies argue that wage differentials between occupations are partly attributable to occupational closure. Occupations set up barriers which restrict the supply of occupational labor, thereby generating an economic rent. In this article we study occupational closure in the skilled trades of Germany, where the Trade and Crafts code restricts self-employment in 41 occupations to those who are master craftsmen. Newly gathered occupational data about the Trade and Crafts code is mapped on micro data from the German Microcensus of 2006. The central finding of our empirical analyses is that self-employed workers with comparable levels of human capital and demographic characteristics earn structurally more in closed occupations. We argue that this earnings premium is a rent, obtained by self-employed because of the entry restriction that is laid down by the Trade and Crafts code.

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1. Introduction

Occupational wage inequality has been the subject of many studies. In explaining occupational wage differentials, authors point to occupational closure (Weeden, 2002; Sørensen, 1996; Weeden and Grusky, 2014). The closure approach argues that some occupations pay more than others because occupations differ in their capacity to set up and maintain institutional barriers to access (Weeden, 2002). Because these barriers restrict the supply of occupational labor, individuals in closed occupations obtain an economic rent: returns on top of what would be paid for their labor in a perfect market (Sørensen, 1996, 2000). Although the concept of closure has a long history within inequality scholarship and the sociology of the professions (e.g., Weber, 1978 [1922]; Murphy, 1988), relatively few authors have studied the impact of occupational closure on wages (but see Weeden, 2002; Giesecke and Verwiebe, 2009; Haupt, 2012; Bol and Weeden, 2013).

In this article we investigate how occupational closure affects the earnings of workers in the German skilled trades.¹ In Germany the skilled trades (“Ausbildungsberufe im Handwerk”) are tightly linked to vocational programs, where a combination of occupation-specific education and on-the-job training in the form of apprenticeships can lead to a master craftsman’s diploma (“Meisterbrief”). Although such vocational training is often discussed in terms of its skill-enhancing capacity (e.g., Witte and Kalleberg, 1995), others claim that apprenticeships do not solely provide individuals with work-relevant skills, but also restrict entry into the skilled trades (Parkin, 1974, p. 13; Solga and Konietzka, 1999). Vocational programs and apprenticeships are

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¹ Skilled trades are all occupations that are preceded by an apprenticeship. Most skilled trades produce individually manufactured products (e.g., shoemakers) or provide customized services (e.g., plumbing), although in Germany many other occupations (e.g., secretary) are preceded by an apprenticeship as well.

argued to be institutionalized forms of occupational closure, that restrict the supply of workers in the skilled trades and thereby raises earnings for occupational incumbents (Weber, 1978 [1922], p. 344; Weeden, 2002).

Here we empirically investigate this latter claim, and study if there are wage returns to occupational closure in the German skilled trades. We focus on the entry regulation that is imposed by the German Trade and Crafts code (“Handwerksordnung”). For 41 occupations in the skilled trades, this law demands individuals who want to start an independent firm to obtain a master craftsman’s certificate from the relevant occupation-specific vocational training program. The Trade and Crafts code is essentially a system of occupational licensure (Hansen, 2011), as it restricts access to self-employment to those individuals that are master craftsmen. Our research question is if occupational closure by the Trade and Crafts code generates an economic rent. Put differently, do (self-employed) individuals with comparable human capital and demographic characteristics earn more in occupations that are regulated by the Trade and Crafts code than in occupations that are not regulated?

Empirically, we map newly gathered occupation-level data on the Trade and Crafts code on official German microdata (Microcensus [“Mikrozensus”] 2006). We model the returns to occupational closure in the German skilled trades by using multilevel techniques, which enables us to estimate earnings premiums associated with the Trade and Crafts code net of individual level characteristics. We make three important contributions to current literature.

First, we expand the closure framework to the German context. Although some studies did focus on occupational closure in Germany (Giesecke and Verwiebe, 2009; Bol and Weeden, 2013), the vast majority of research on occupational closure takes the United States (US) as the object of study (Weeden, 2002; Kleiner, 2006). Empirical evidence for the existence of an earnings premium to occupational closure is mostly limited to the US as well, and research focusing on European countries is scarce.

Second, we are the first to investigate if occupational closure generates rents in a “lower” segment of the labor market; the skilled trades. Traditionally, studies focused on social closure in the professional occupations (e.g., Abbott, 1988), for example by looking at how medical occupations set up institutional boundaries (such as licenses) to restrict access (Freidson, 1988 [1970]). This study takes a different focus, and investigates if the occupational closure framework is applicable to the skilled trades as well. We will mainly concentrate on how the master craftsman’s certificate, obtained in the German dual system, functions as an institutional barrier to access the skilled trades.

Third, we contribute to the literature that examines the role of vocational education and training in the labor market (e.g., Ryan, 2001). The majority of studies argue that returns to vocational degrees are relatively high because of the skills that are provided in vocational training programs (e.g., OECD, 2010). While we do not refute this finding, our study nuances this view, and shows that the reason why vocational training pays off for German self-employed workers is partly explained by rents resulting from regulation by the German Trade and Crafts code.

This article is structured in the following way. First, we provide a theoretical background, in which we discuss occupational closure theory and give a description of the German case. Next, we describe our research methods (Section 3) and our data (Section 4). In Section 5 we present the results of our multilevel analyses.

2. Theoretical background

2.1. Occupational closure

Social closure, a concept introduced by Max Weber, is the process by which social groups increase their rewards by excluding others from access to their resources (Weber, 1978 [1922]; Murphy, 1988). Occupational closure is a specific form of social closure, where occupational groups set up institutional boundaries to access, such as licenses (Kleiner, 2006) or educational credentials (Collins, 1979). As with other forms of closure, occupational closure generates rents for occupational incumbents by restricting the supply of labor that receives the training necessary to enter an occupation or is allowed to perform the labor tasks (Weeden, 2002). Following Sørensen we define rents as “the surplus of pure profit obtained from owning the resource [...] independently of the efforts of whoever owns [that] resource” (1996, pp. 1337–1338). Occupational closure lays restrictions on the supply of labor, for example in the form of educational credentials, thereby increasing the wages of those protected by closure. The closure argument does not deny the significance of skills in generating returns in the labor market, but it emphasizes that earnings are based on more than individual level (human capital) characteristics.

This description of rent accumulation builds on the neo-classic economical idea of supply-and-demand in a perfect market: occupational closure is then a form of “market failure” (Weeden and Grusky, 2014), as it lays artificial restrictions on the supply of labor. Other scholars argue that in generating labor market returns we should shift away from the dominant supply and demand model, and instead focus on how actors in relation to each other maximize their returns (Avent-Holt and Tomaskovic-Devey, 2010, 2014). This relational view on how earnings are accumulated in the labor market argues that rents are obtained because actors use institutions—in this case the monopoly rights that come with occupational closure—to channel resources to themselves (Avent-Holt and Tomaskovic-Devey, 2014). Occupational closure allows individuals to ask consumers more for their products or service than they could have in the absence of institutional barriers to access.

Occupational closure in the skilled trades takes place in the form of apprenticeships accompanied by vocational credentials. In the classic apprenticeship system, almost all job-relevant training takes place on the job itself, with employers taking primary responsibility for “educating” workers and administering the apprenticeships (Ryan, 2001; Soskice, 1994; Bol and

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