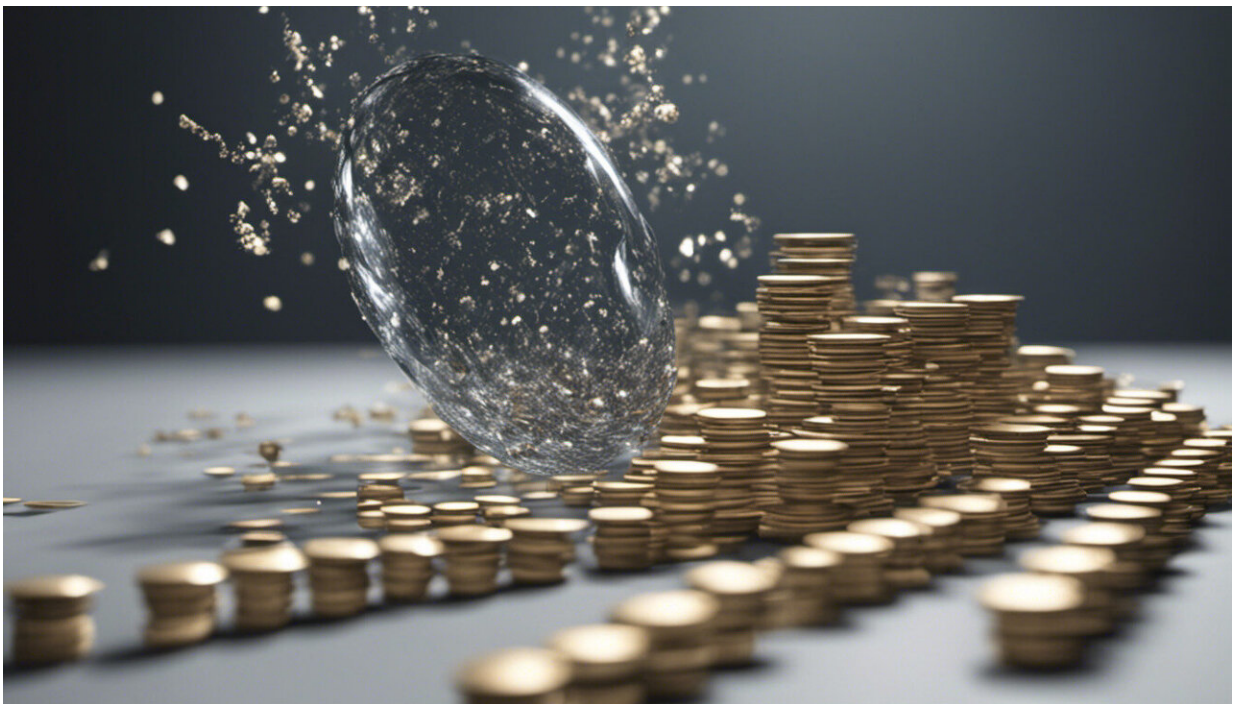


The value of occupational licensing dims in the online world

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Credit: AI-generated image ([disclaimer](#))

Consider the last time you hired an electrician, plumber or painter. Did you care to check if they were licensed or not?

If [licensing](#) status was not your priority, you are not alone, according to new research by Stanford economist Brad Larsen. Larsen's research

finds that what matters more to people are customer reviews and ratings, and prices. The results suggest that occupational licensing laws—which affect nearly 30 percent of the American workforce and vary widely from state to state—could use some reevaluation.

"Consumers tend to heavily value prices and [online reputation](#), but not the licensing status of professionals when they're picking whom to hire," said Larsen, an assistant professor of economics and faculty fellow at the Stanford Institute for Economic Policy Research (SIEPR). "This is suggestive that we should take a much closer look at licensing laws to make sure they are working as intended, and to be sure the benefits outweigh the costs."

The study—conducted jointly with Chiara Farronato of Harvard, Andrey Fradkin of Boston University and Erik Brynjolfsson of MIT—examined hundreds of job categories within the home improvement sector, using data covering more than a million service requests that [consumers](#) throughout the United States posted on an online market platform in 2015. Detailed in a working paper released Jan. 13 by the *National Bureau of Economic Research*, the study is the first empirical analysis of tradeoffs between online reputation mechanisms and occupational licensing.

The researchers found that when consumers using the [online platform](#) hired a professional, they were, on average, more likely to choose providers who had more reviews, higher ratings and lower bidding prices. The team also studied what happened when a [service provider's](#) licensing status got verified by the platform and posted onto the provider's online profile. Because those updates happened at random times, the researchers were able to unearth a causal effect, not just a correlation. The result: The licensing status essentially made no difference in hiring decisions.

"In almost every specification we tested, we found no effect of licensing. Consumers did not appear to care at all," Larsen said.

Star power

Occupational licensing laws have been viewed as a bedrock of consumer protection, but the study offers new evidence suggesting online reviews and ratings are becoming a de facto substitute for upfront screening and ensuring service quality by way of customer feedback.

In other words, times have changed.

And though the study's findings cannot necessarily be applied to all other licensed professions, such as [health care workers](#), online platforms are growing in popularity as a way of connecting consumers to all kinds of service providers, from barbers to lawyers.

"Our results have implications for the design of licensing regulation and of digital platforms for services," the study states.

The availability of alternative quality checks, such as online reviews, "has probably reduced the level of regulatory stringency needed to ensure the same service quality as in a world without online reviews."

As it is, licensing regulations are heavily debated. On one hand, their aim is to protect consumers from health and safety violations, fraudsters or shoddy service. On the other hand, critics contend they act as barriers to employment, raise costs and limit competition. Licenses also do not transfer across many state lines, and different states have different standards.

In recent years, the Federal Trade Commission and Department of Justice have held public hearings on the role of occupational licensing

laws. Both the Trump and Obama administrations have called attention to burdensome licensing hurdles and urged states to pursue reforms.

The costs of licensing

In addition to examining the value people placed on licensing requirements, the researchers looked at aggregate market effects of the stringency of state licensing laws governing home improvement professions, ranging from roofers and pavers to cabinetmakers and window installers.

The analysis—the first to measure the costs and benefits of state licensing laws within an online marketplace—revealed clear correlations: More stringent regulations were associated with less competition and higher prices for consumers—all without any improvement in customer satisfaction.

To gauge the stringency of laws, the researchers created an index based on various dimensions of licensing laws, including licensing fees, the number of required occupational exams, exam grade needed for passing, other education requirements and mandated years of experience. Then they crunched those numbers against consumer and service provider data on the platform.

"It surprised me that we found such significant relationships between state-level requirements and individual transactions on the platform," Larsen said. "In states with more stringent regulations, fewer professionals bid and prices are higher."

Understanding consumers

To better understand how consumers think—or don't think—about

licensing, the researchers also conducted a separate national survey of individuals who hired a home improvement professional within the past year.

Of more than 5,200 respondents, less than 1 percent listed licensing within the top three reasons for their hiring decision. Prices, reviews and recommendations were top factors. The survey highlighted the increasing importance of the internet in finding home improvement professionals. More than half of the consumers found their providers by traditional word-of-mouth, while about 40 percent used online methods.

The researchers said a large share of respondents selected their professionals not knowing whether a license was required for the job or not, or what the license entailed. And of the 60 percent who said they knew their provider was licensed, the majority said they only learned of that status after the contractor informed them of it.

"The apparent lack of consumer attention to licensing doesn't necessarily mean that all licensing laws are useless. It could be that the regulations have generally worked well enough that consumers no longer consider it a factor," Larsen said.

But in some occupations, as this study on the home improvement sector showed, consumers clearly did not care about the difference between licensed or unlicensed, and licensing laws were harming consumers in terms of higher prices without quality improvements.

"We should continue to closely evaluate licensing laws in every occupation and look at where they seem to be effective and where not," Larsen said.

Provided by Stanford University

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