Study: Consumers Don't Care About Govt Licenses

The already crippling credentialization of the workforce via burdensome and unnecessary occupational licensing laws is hitting workers particularly hard during the coronavirus pandemic, thus making it more difficult for job seekers to find work. Indeed, seemingly reasonable requirements that electricians and healthcare professionals be licensed has given way to ludicrous laws mandating that… adult film stars, hair braiders, and tree trimmers get the state's seal of approval, stymying workers who are desperate to shift to new vocations in this period of skyrocketing unemployment. Consumers are assured that such onerous requirements lead to more informed choices in a better-structured marketplace, but the evidence doesn't bear this out.

A recent study by researchers from MIT, Harvard, Stanford, and Boston University found that consumers care far more about reviews and prices than government-mandated credentials. Occupational licensing does, however, push prices higher, leaving consumers with fewer affordable quality options. These needless rules are particularly harmful for consumers and workers alike in such a difficult period. It's time, then, for lawmakers and bureaucrats to do away with onerous licensing requirements so that employees can get to work faster and consumers can shop around for the best deal.

In their study (released as a working paper in January), the team of four scholars examined data from a large (unnamed) platform "where consumers can hire professionals for home improvement services." Consumers shopping around for professionals can take a look at workers' ratings (along with a 1-5 stars metric), as well as their price and proof of licensure.

On the platform, these vendors have to wait a few days between submitting their licensure documents to the website and the website uploading and displaying them publicly. This waiting time gave the researchers the opportunity to see if displaying government credentials alone increases consumers" willingness to use the professional's service.

The results are in, and… *drum roll*… the researchers found "no effect of the licensing signal on the hiring choice." However, they *did* find "significant positive impacts for each of the reputation measures (average rating and number of reviews) and significant negative effects of prices." In other words, consumers want professionals who offer low prices and are well-reviewed by others, not vendors given the green light by government officials.

"Our results show that more stringent licensing regulations are associated with less competition and higher prices but not with any improvement in customer satisfaction as measured by review ratings or the propensity to use the platform again," the researchers concluded.

There's ample evidence that high prices in particular keep consumers away from certain professionals, and, as noted, licensure may be a key contributor toward those high prices. To determine the impact of licensing requirements on prices, the research team studied the strictness of those requirements (i.e. training, education) by state and occupation. They then tried to figure out how that impacted things like service prices and the level of competition within a sector. The scholars found that these strict laws result in higher prices and fewer options, as workers eager to enter the market simply cannot afford the costs of licensure.

The few professionals who *can* clear all the hurdles set by regulators face little competition once they're given the green light to do business. And consumers pay the price for these uncompetitive marketplaces. Increasing occupational

licensing by one standard deviation, the researchers report, leads to 3 to 4 percent higher prices and decreases the number of options available to shoppers by more than two percent. Consumers are hit with a double whammy of increased prices and decreased choices.

Price increases are particularly pronounced for more expensive and complicated jobs. The increase for jobs that cost over $500 to complete is 9.3 percent, about three times the average for all vocations. These more expensive services are already on the cusp of unaffordability for millions of American households, and licensure costs passed along to consumers can place them out of reach altogether.

Paring back these rules that consumers don't seem to want or need would make countless services more affordable, and result in more entrepreneurs competing to get jobs done that shouldn't require a license in the first place.

Everybody has heard horror stories of jurisdictions requiring that milk samplers and home decorators obtain a government certification to get a slice of the American dream, and the devastating impact these rules have on aspiring professionals without the resources to get licensed. It's time to shelve the extra and unnecessary credentialization of the workforce that was #NeverNeeded and lower costs for consumers already struggling to adjust to the coronavirus pandemic.

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