Does Occupational Licensing Reduce Value Creation on Digital Platforms

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We test whether occupational licensing undercuts a key goal of digital marketplaces— to increase social surplus by increasing the effectiveness of customer search. Our setting is a large online marketplace in the $500B home services industry where a platform converts customer search into sales leads that are accepted for purchase by service providers on the platform. For each of the 21 million observations in our data set, we observe task-level variation in the state licensing requirements that service providers must meet to operate on the platform. Exploiting two natural experiments, we find that licensing reduces the accept rate of sales leads by an average of 25 percent. The accept rate drops because licensing reduces the aggregate labor supply of workers on the platform and not because licensing increases the volume of customer search. We develop a model and derive analytic expressions for the impact of licensing on the welfare of consumers, service providers and the platform as a function of seven sufficient statistics which we estimate from the data. We find that licensing a task reduces service provider surplus and platform surplus without increasing consumer surplus.