Enhancing Engineering Excellence by (De)regulating the Professions?

FORSCHUNGSINSTITUT FÜR FREIE BERUFE
RESEARCH INSTITUTE FOR LIBERAL PROFESSIONS

WIRTSCHAFTS UNIVERSITÄT WIEN VIENNA UNIVERSITY OF ECONOMICS AND BUSINESS

3rd European Engineers Day – Prof. Mag. Dr. Leo. W. Chini

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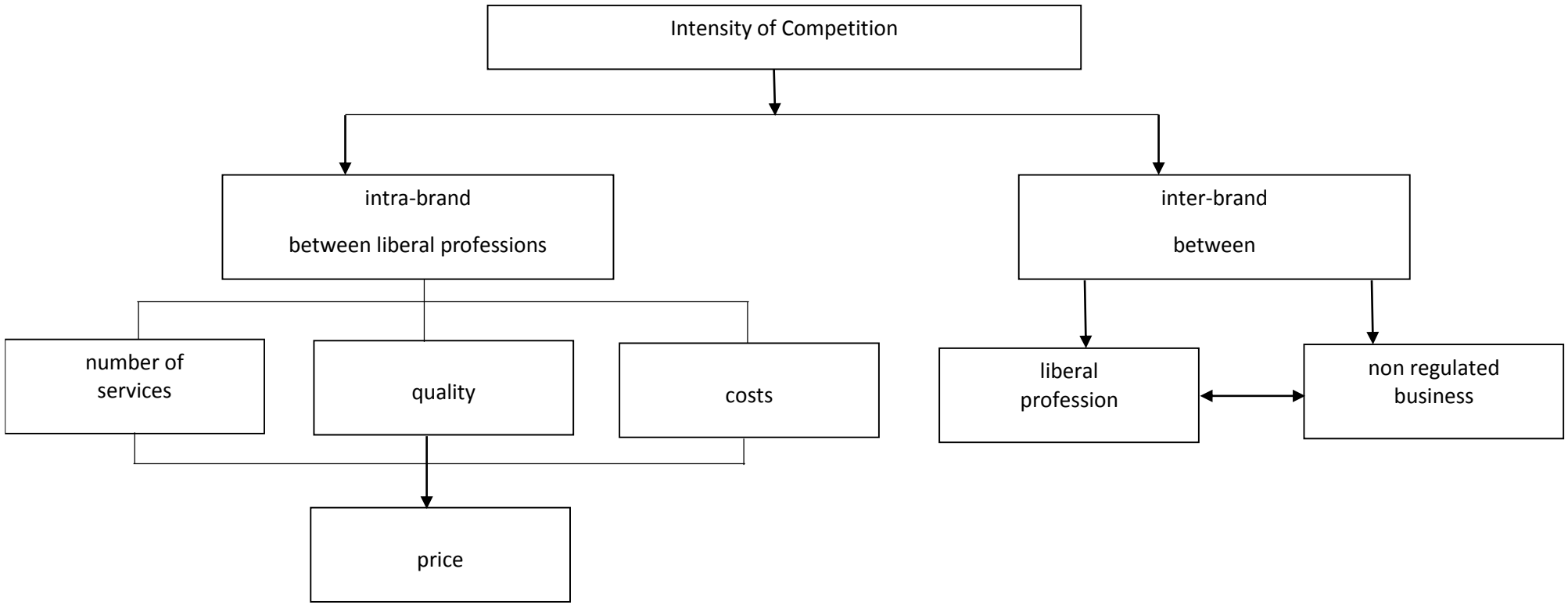
Thesis EuZFB 2017: Architectural Sector Results of the Report GROW/E5-27 October 2015

- **Enterprises too small due to insufficient competition**
- **Too high profit margin**
- **Too low productivity**
- **Anticompetitive regulations in some Member States**

Effects of Regulation – European Commission

'No matter which regulatory framework is chosen, regulation creates obstacles for the functioning of the Single Market and holds back the potential for growth and job creation in the EU economies. Removing such barriers opens up opportunities and has a positive impact on the productivity and competitiveness of the EU economy.' (EC 2016a)

Intensity of Competition

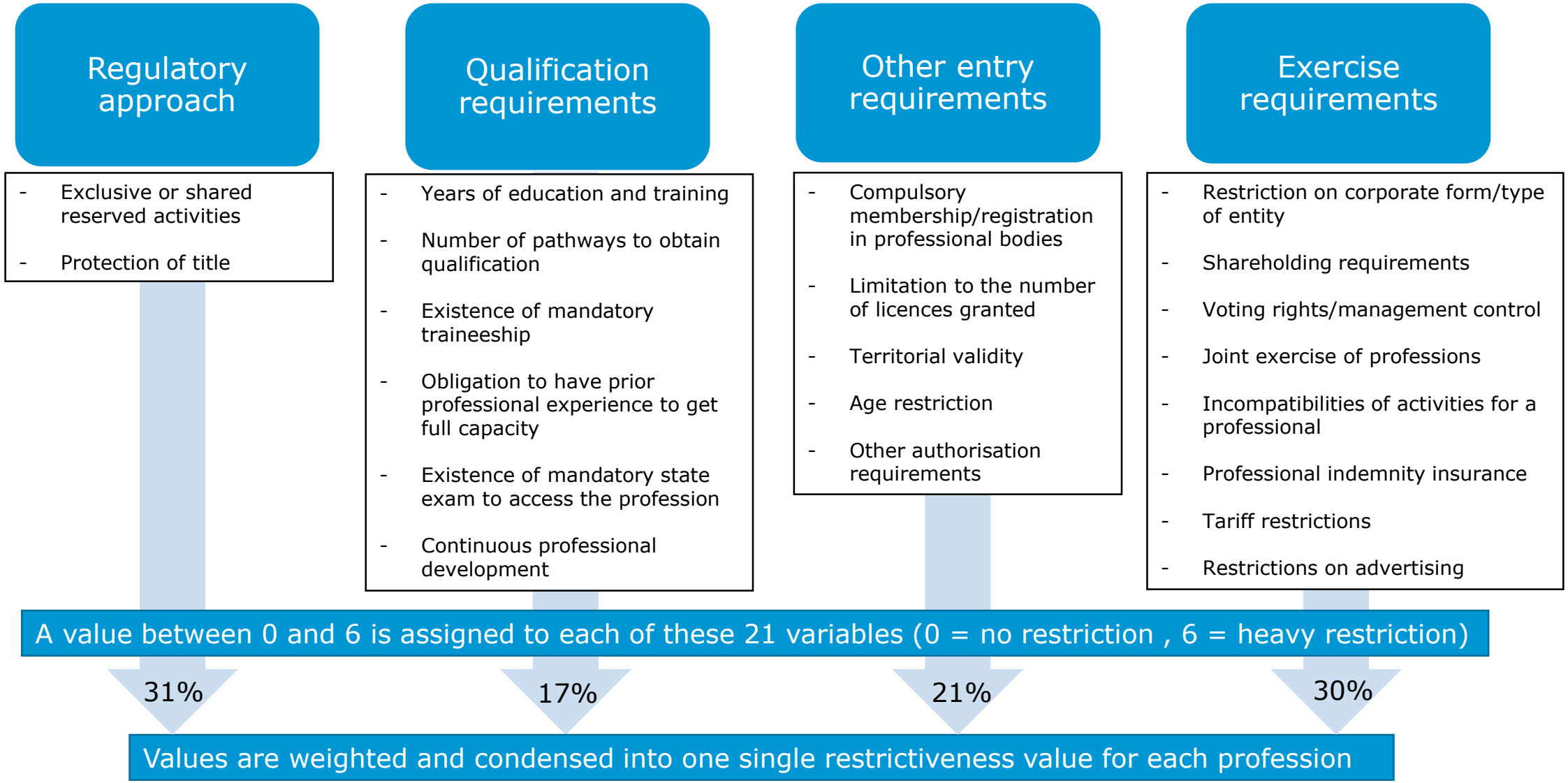


Restrictiveness Indicator I

- Composite indicator developed by the European Commission (EC) in order to measure the intensity of restrictiveness of national professional regulations
- Developed for the imitative 'guidance on reform needs in regulated professions' which was announced in the context of EC Single Market Strategy in 2015
- The EC warns that the indicator should not be looked at or used in isolation
- The indicator covers the following professions: accountancy, architecture, civil engineering, legal services, patent agents, real estate agents, tourist guides.

Source: EC 2016b

Restrictiveness Indicator II



Restrictiveness Indicator III

- To calculate the restrictiveness indicator, 21 variables (=market restrictions) are analysed
- A value between 0 and 6 is assigned to each of these 21 variables (0=no restriction, 6=heavy restriction)
- The 21 variables/values are grouped into four 'categories of restrictions'. These groups are than weighted and a final value is calculated
- This procedure is the same for all professions.

Categories of restriction	Weights
Regulatory approach	31%
Qualification requirements	17%
Other entry requirements	21%
Exercise requirements	30%
Total	100%

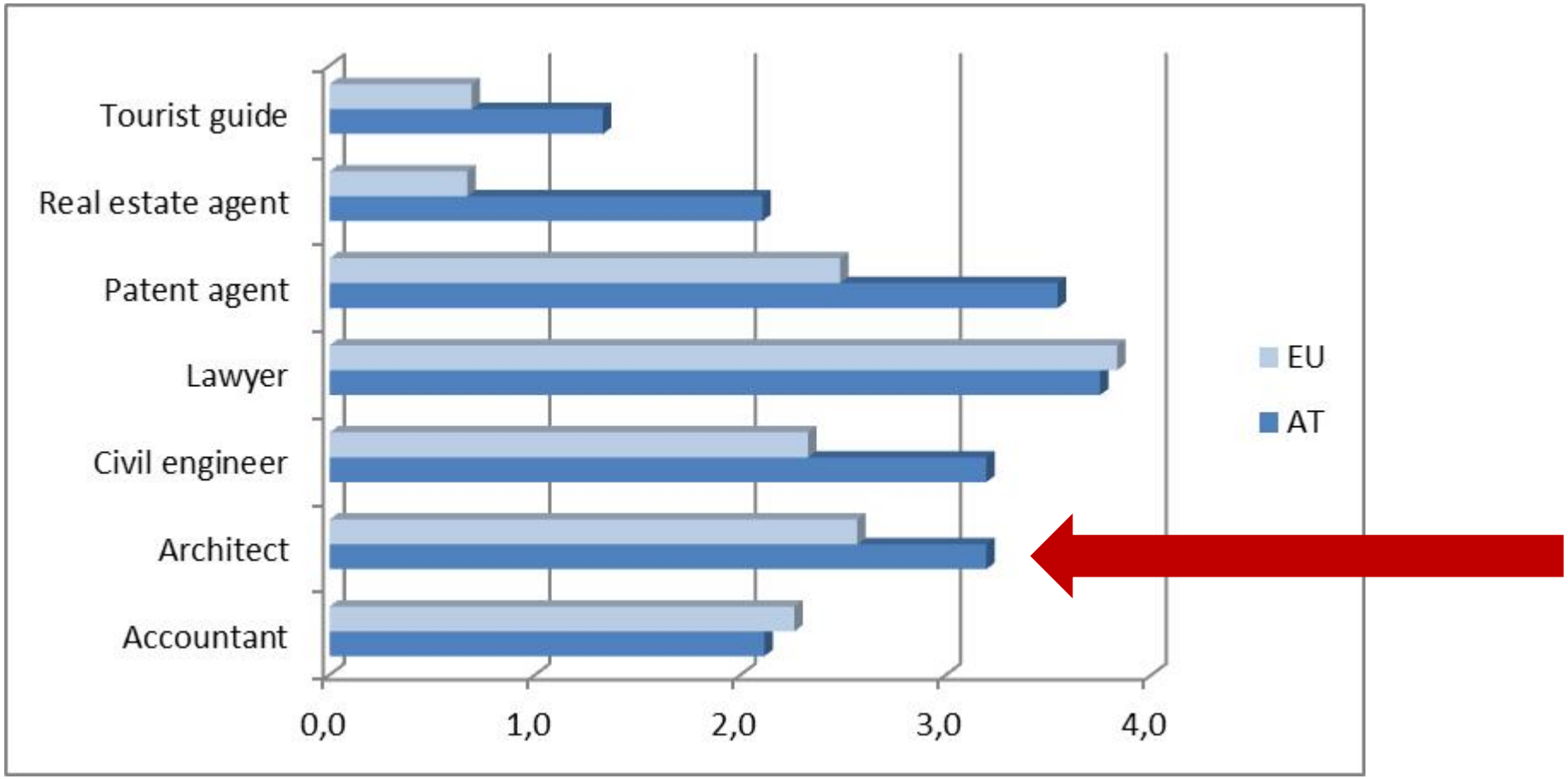
Restrictiveness Indicator IV

- Some examples of variables used for **Engineers**:

Variable		Austria	Germany	UK
Years of education and training		8	3	8
Protection of title		NO	YES	YES
Existence of mandatory state exam		YES	NO	YES
Compulsory membership in professional body		YES	NO	NO
Restriction on cooperate form		NO	NO	NO
Shareholding requirements		YES	YES	NO

- Several data sources are used to find the 21 values, the three most important being:
  - European database of regulated professions,
  - national legislation,
  - OECD 2013 PMR (Product Market Regulation) Indicator.

Restrictiveness Indicator for Austria and EU 2016



Thesis EuZFB 2017: Architectural Sector
Results of the Report GROW/E5-27 October 2015

- **Enterprises too small due to insufficient competition**
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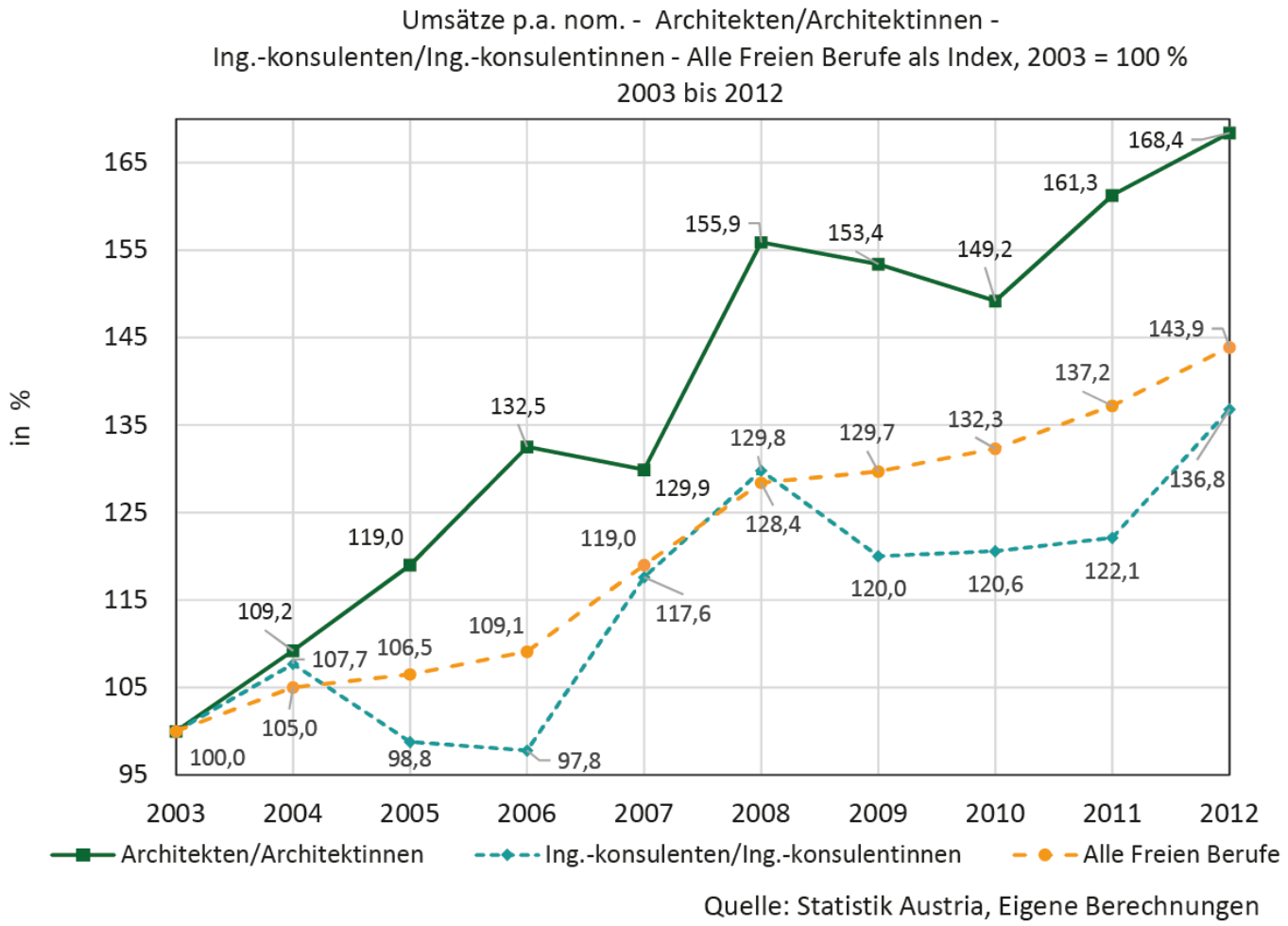
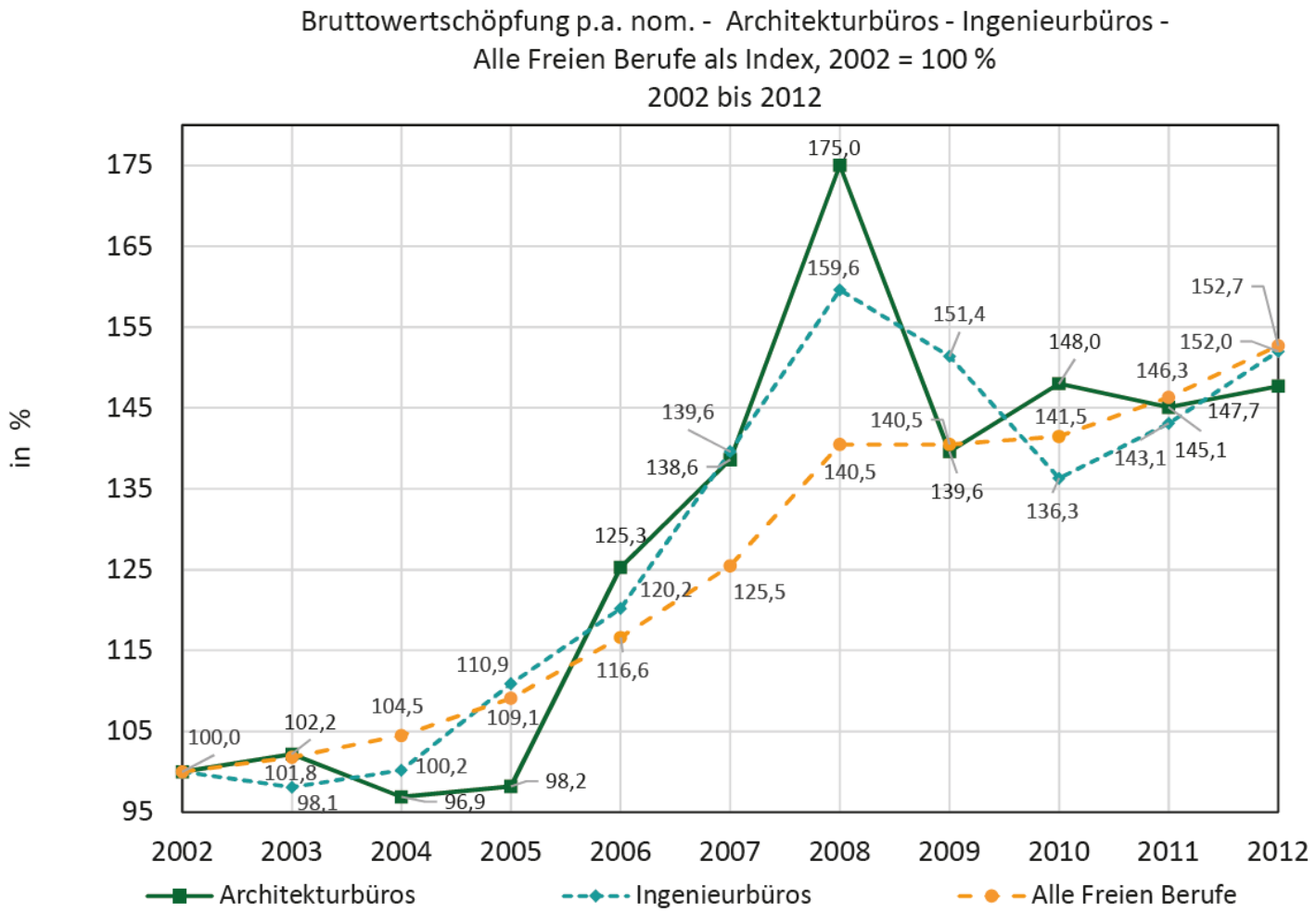
Turn over p.a. architects + engineers / all liberal professions in Austria



Gross value addit p.a. architects + engineers / all liberal professions in Austria



Quelle: BASYS 2011, BMWi 2013, Henke et al. 2010, Statistik Austria, Eigene Berechnungen

Results of Study "Effects of Liberalisation in Austria using the Example of Liberal Professions" for the EC

- In our study (Chini et al. 2016), we were asked to look at the impact of several legal amendments (deregulations) in the context of professional regulation.
- For engineers and architects
  - Amendment 2006: Graduates from polytechnics can now practise as architects/engineering consultants
  - Amendment 2008: Instead of registered partnerships, architects/engineering consultants can now establish general partnerships and limited partnerships

Profession	Amendment	Variable	No. of self-employed	No. of employed	Wages	No. of offices
Engineers	2006		0	-	-	+
Engineers	2008		0	--	--	++
Architects	2006		-	0	-	++
Architects	2008		0	0	0	++

0 = no statistically significant effect
- = statistically significant negative effect
-- = statistically significant strongly negative effect
+ = statistically significant positive effect
++ = statistically significant strongly positive effect

Results of Study "Effects of Liberalisation in Austria using the Example of Liberal Professions"

- The results do not suggest conclusive effects on self-employment, employees, wages or the number of offices.
- For example, the effects of reduced market entry barriers were negative for freelance architects and engineering consultants but were positive for public accountants and tax advisers.
- This shows that effects of deregulation/regulation/liberalisation have to be evaluated for each of the different markets, taking into consideration the respective market logic and other idiosyncratic factors.
- This is something rarely done by either the scientific community or political institutions.

Effects of Regulation - Science

'Given the different social, industry, and economic characteristics of each state [U.S. state], we would expect considerable heterogeneity in the influence of occupational licensing in different institutional settings.' (Kleiner/Vorotnikov 2017/forthcoming)

'We find that in some states, such as Alabama, occupational licensing has no statistically significant influence on hourly earnings. However, in other states, such as Connecticut, the influence of licensing regulations on earnings is substantial and statistically significant. [...] licensing has a positive and statistically significant influence on hourly earnings in 16 states and has no significant influence in 35 states, showing the heterogeneity of the institution across different state environments.' (Kleiner/Vorotnikov 2017/forthcoming)

Restrictiveness Indicator – Critique I

+ Using a composite indicator is an adequate way to address the complexity of the issue.

+ In theory, using more than one data source helps to strengthen the reliability of the results.

– However: since the 'European database of regulated professions' is not a very reliable data source, the results of the restrictiveness indicator must be interpreted very cautiously.

– Some of the 21 variables used should not be considered as restrictive regulatory disturbances but as necessary requirements to practise professions with an appropriate level of quality – examples are: years of education, continuous professional development obligations.

Restrictiveness Indicator – Critique II

- The empirical foundation for the weights used to weight the four 'categories of restriction' are not explained sufficiently. The concrete percentage values therefore seem rather arbitrary.

- The variables 'Protection of title' and 'Exclusive reserved activities' are assigned with heavy weights. There seems to be no real scientific justification for such an approach.

Thank you for your attention!

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