

The Economic Impact of Professional Services Liberalisation

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Professional services are often the focus of the discussion on reforms priorities as they are closely intertwined with other economic sectors, yet are frequently suspected to suffer from inefficiencies. Some of these professions are closely regulated by national governments (often supported by professional bodies) with varying restrictions affecting entry into them and their exercise. Such regulation can hold back the performance of these sectors, with non-trivial costs for consumers and downstream businesses. Reducing regulatory barriers in professional services has the potential to increase labour productivity by improving the allocation of resources and could have a moderating effect on the observed larger-than-average profits caused by lack of competition.

This study evaluates the impact of changes in product market regulation (PMR) of four regulated professions (legal, accounting, architectural and engineering activities) on two sectoral performance indicators – allocative efficiency (AE) and profit rates through business dynamics over the period 2008-2011. Results confirm the theoretical expectation: a reduction of the PMR indicator for professional services increases sectoral churn rate (entry and exit of firms), which in turn increases allocative efficiency and moderates larger-than-average profitability. However, this is only part of the effect. In fact, deregulation could generate additional indirect benefits as professional services constitute an important intermediate input to down-stream sectors such as manufacturing, and these service sectors in turn require inputs from other economic sectors. It follows that efficiency gains will disseminate and spread to the rest of the economy through their backward and forward linkages. Therefore, the full economic impact of reforms in professional services is expected to be significantly larger than the estimates reported in this analysis.

Finally, the report estimates the potential impact of recent changes in regulatory barriers (i.e. reforms introduced after 2011 and reflected in the 2013 PMR) on the two aforementioned performance indicators through an out of sample prediction. Results confirm the high potential impact of liberalisation in these four professional services, especially in those countries showing the largest reform efforts (Italy, Greece and Austria). For example, In Italy the reforms implemented over the 2011-2013 period are estimated to have improved allocative efficiency in legal services by 2.6%-point, and to have reduced their profitability by 2.4%-point.