

# The Case for Agnosticism and Diversity in the Regulation of Professions

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# Two points

- A disturbing “religious” element in the discussion
- A call for variety across:
  - ◆ Countries
  - ◆ Professions

# 1. The religious element

# The competition faith

- Competition solves everything, forgetting:
  - ◆ It always needs to be channeled
  - ◆ Often desirable across time & in quality—no in prices
  - ◆ Ambiguous results on the consequences of liberalizations
- Lacking deep knowledge of each profession over-applies simplistic neoclassical accounts
  - ◆ Most common mistake: seeing all quasi-rents as rents
- See the problem in simple military terms
  - ◆ Distrust the professions and easily generate distrust
- Result: fragmentary reforms with dubious consequences

# The professionals' faith

- Professions last forever
- Professional blindness
  - ◆ See quality where there is only routine
  - ◆ Resist analysis
    - b/c suspect no longer provide useful service?
- Vicious circle
  - ◆ Fear of losing quasi-rents
    - resistance to all kinds of innovation
    - increasingly unsustainable position

# Agnosticism needed

- Regulators should be informed by knowledge of each profession b/c ascertaining the nature of its product is essential for its regulation
- Professions should open up to change, focusing more on new services
- *Both* need substantial restructuring

## 2. The call for diversity across countries

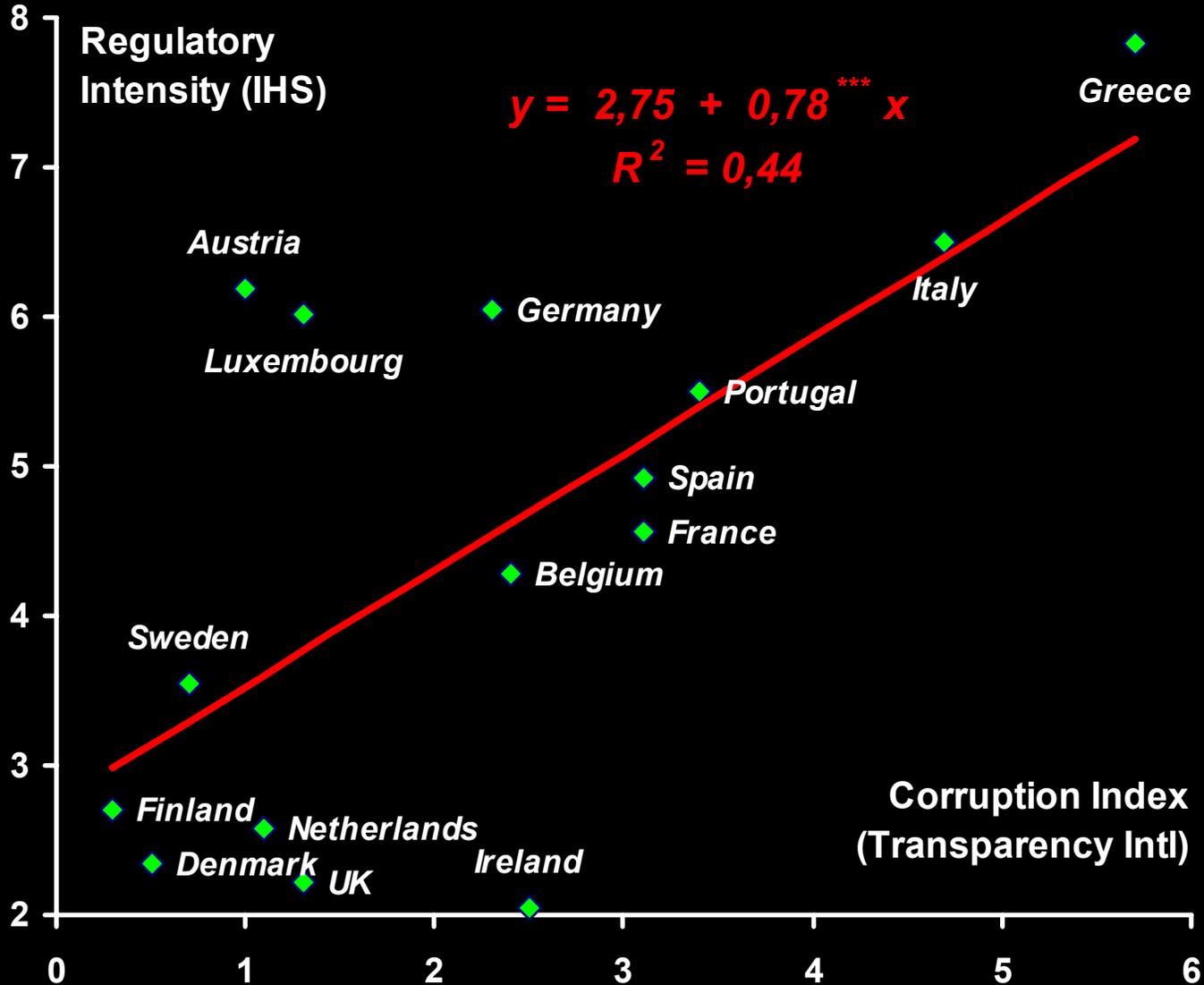
# The “regulate to the bottom” argument

- Observation
  - ◆ Competitive constraints vary across countries, without “no major market failure” on sight
- Conclusion
  - ◆ Constraints should be reduced to the minimum level observed in all countries

# Doubts on the “regulate to the bottom” argument

- Professions provide different outputs in different countries
- They also rely on different complementary inputs:
  - ◆ ethics and corruption
  - ◆ standards of professional liability
  - ◆ legal enforcement
- Consequence:
  - ◆ Similar incentives can be operating on professionals in different countries *despite having different rules*

# Food for thought: Professional Regulation & Corruption



# Possible explanations for the correlation b/w rules and corruption

- Greater corruption leads to enact stricter rules (i.e. barriers to entry), to reinforce professionals' incentives and quality
- Professional rules lead to corruption, perhaps b/c makes regulatory capture easier
  - ◆ Are professional rules so important?
  - ◆ Do professional rules proxy for general regulation?

### 3. The call for diversity across professions

# Some examples showing diversity

- Auditors
  - ◆ If redefined as public service, requires *more* constraints
- Lawyers
  - ◆ Constraints less necessary the more we move to a more confrontational & litigious judicial process—Do we want to move?
- Notaries
  - ◆ Needed in standard contracts? Accumulated assets and opportunities for new services are being lost
- Pharmacists
  - ◆ Which services? Nonsense of free entry without freeing prices
- Civil servants
  - ◆ Often more relevant as a comparative reference than competition (e.g., doctors in NHSs)

# 4. Summary

- Substantial rethinking needed by both, competition promoters and the professions
- Regulation (or lack of) requires deep knowledge of each profession's output
- Competitive constraints less important than:
  - ◆ Output obsolescence in today's economy
  - ◆ Gaps b/w real & claimed performance
- Caution on the need of uniformity across EU
  - ◆ We may need some uniform output standards
  - ◆ Not uniform rules on production & organization

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