

#### **Box 14. Reforms of Regulated Professions**

In the late 2000s, closed professions in Greece were a major source of large rents and economic inefficiencies. The regulations on professional services were among the strictest among EU and OECD countries. This curbed competition, kept firm size small and held back innovation. Strict regulations also translated into high mark-ups and high prices of professional services for accountants, architects, customs brokers, dockworkers, engineers, lawyers, notaries and others. While professional services represented only around 2½ percent of output and 7 percent of employment (OECD 2011), they had important spill-over effects across the whole economy. This increased the transaction costs of firms and lowered the purchasing power of consumers.

The strict regulations provided vast scope for lifting requirements without jeopardising consumer protection. The Greek research institute IOBE calculated that the deregulation of a number of services in Greece could yield GDP gains of over 10 percent in the long-term (IOBE 2010). Such reforms could also help in burden sharing of the costs of adjustment by reducing rents of well-off vested interests and lowering prices.

The authorities phased the reforms of regulated professions. The initial step was the adoption of framework legislation (Law 3919/2011) in February 2011 to establish the principle of professional freedom. The legislative changes abolished in principle, among others, fixed prices or compulsory minimum fees and the requirement for an administrative license to practice a profession, substituting instead a simple notification accompanied by the necessary supporting credentials. In spite of these sweeping changes, the impact of the reform was delayed for a number of reasons.

Initially, the scope of the law was not specified, so it was unclear to which professions the provisions of the law would apply. This scope of the law was established in early 2013, and the Government published a list of the professions falling under the scope of the law in July 2013, covering over 150 professions.

In addition, while the law established a general principle of professional freedom, it did not directly abolish each of the unnecessary restrictions in force. As a result, the legal situation was uncertain until such restrictions were explicitly revoked on the basis of a thorough screening of the existing legislation.

The 2011 law also provided for a 4-month period during which restrictions that are justified on public policy grounds, either by addressing market failures, or pursuing non-economic objectives, may be reinstated by decree. Professional associations responded with requests for derogations, although often with delays. The Government submitted these requests to the Hellenic Competition Commission for opinion in order to ensure that the reinstatement of restrictions was limited to public interest cases only, as envisaged by the legislation. Based on the opinion of the Hellenic Competition Commission, the Government then revised the relevant regulations. While this process ran its course as foreseen, the timeline proved to be too ambitious. The Hellenic Competition Commission provided opinions on requests of derogation throughout 2012, and by end 2013, some regulations still needed to be adjusted in line with these opinions.

In addition to the general part, the law also had a specific part. This part focused on high economic impact professions, namely notaries, lawyers and law firms, engineers and auditors. In addition, separate laws dealt with pharmacists, technical professions and trucks and transportation companies. The liberalisation of these professions in the 2011 laws was partial, and additional reforms were needed to open up these professions further, such as through the adoption of the code of lawyers in September 2013.

There are four main sources for tracking the progress of the reforms: the OECD regulation index for professional services; prices for professional services; an assessment of a Greek research institute; and monitoring indicators assembled by the Ministry of Finance.

The professional services regulation index of the OECD provides quantitative evidence on the impact of reforms. It focuses on legal changes for four professions without evaluating the degree of implementation. According to OECD indicators, the regulations of professional services were significantly loosened from 2008 to 2013 (Graph 14.1), although legal professions remain highly regulated (Graph 14.2). In 2014, the Government has adopted legislation to open mediation to non-lawyers and intends to assess notaries' fees to align them with best practices in the EU.

Building on work in 2012, the Centre of Planning and Economic Research (KEPE), a research institute linked to the Ministry of Development, provided in July 2013 an assessment of the liberalisation of 20 professions through the 2011 law (KEPE 2013). A key contribution of this report was to apply the OECD methodology in order to measure regulations for these 20 professions. The main finding was that the reforms liberalised professions substantially. The regulation index, which ranges from zero (no restriction) to 12 (maximum restrictions) declined on average from 5.8 before the reform to 2.3 after the reforms (Chart 14.3). As a result, 74 percent of the restrictions of the 20 professions were abolished. For non-scientific professions, the share went up to 83 percent. While regulations remained high for some professions, especially legal professions, the report argues that the remaining restrictions were broadly justified in view of the special nature of the services offered.