



University of Cologne

European Centre for Liberal Professions

The European architectural sector

A scientific perspective on the debate about the economic impact of different regulatory approaches in the Member States of the EU

Dr. Oliver Arentz

European Centre for Liberal Professions of the University of Cologne

Agenda

1.

- Are enterprises in the architectural sector too small due to insufficient competition?

2.

- Are the profit margins in parts of the European architectural sector too high due to insufficient competition?

3.

- Is the productivity in the European architectural sector too low due to insufficient competition?

4.

- Are the regulations in some Member States anti-competitive compared to others based on the OECD-indicator?

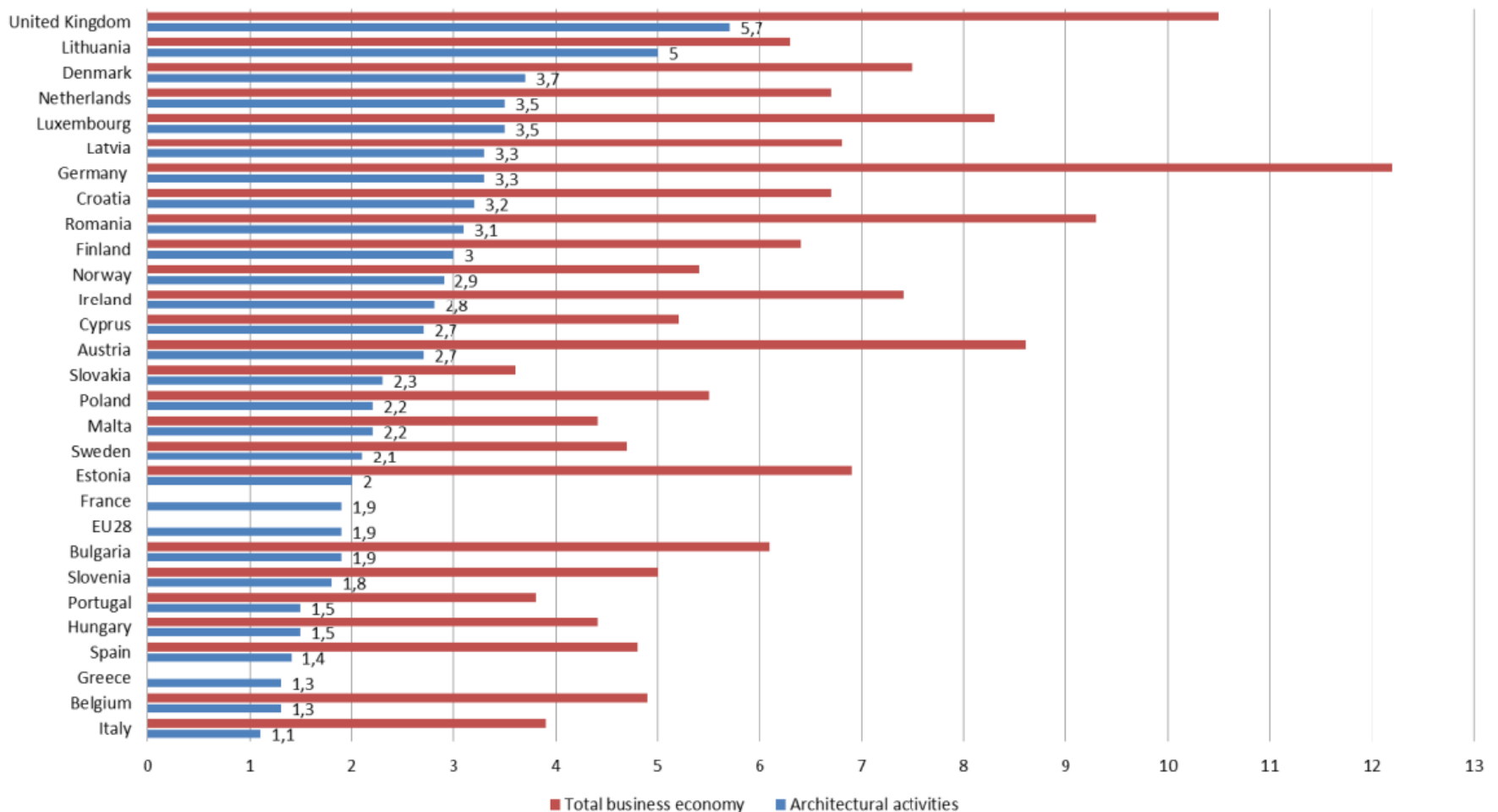
5.

- Is there room for potentially useful reforms?



Are enterprises in the architectural sector too small due to insufficient competition?

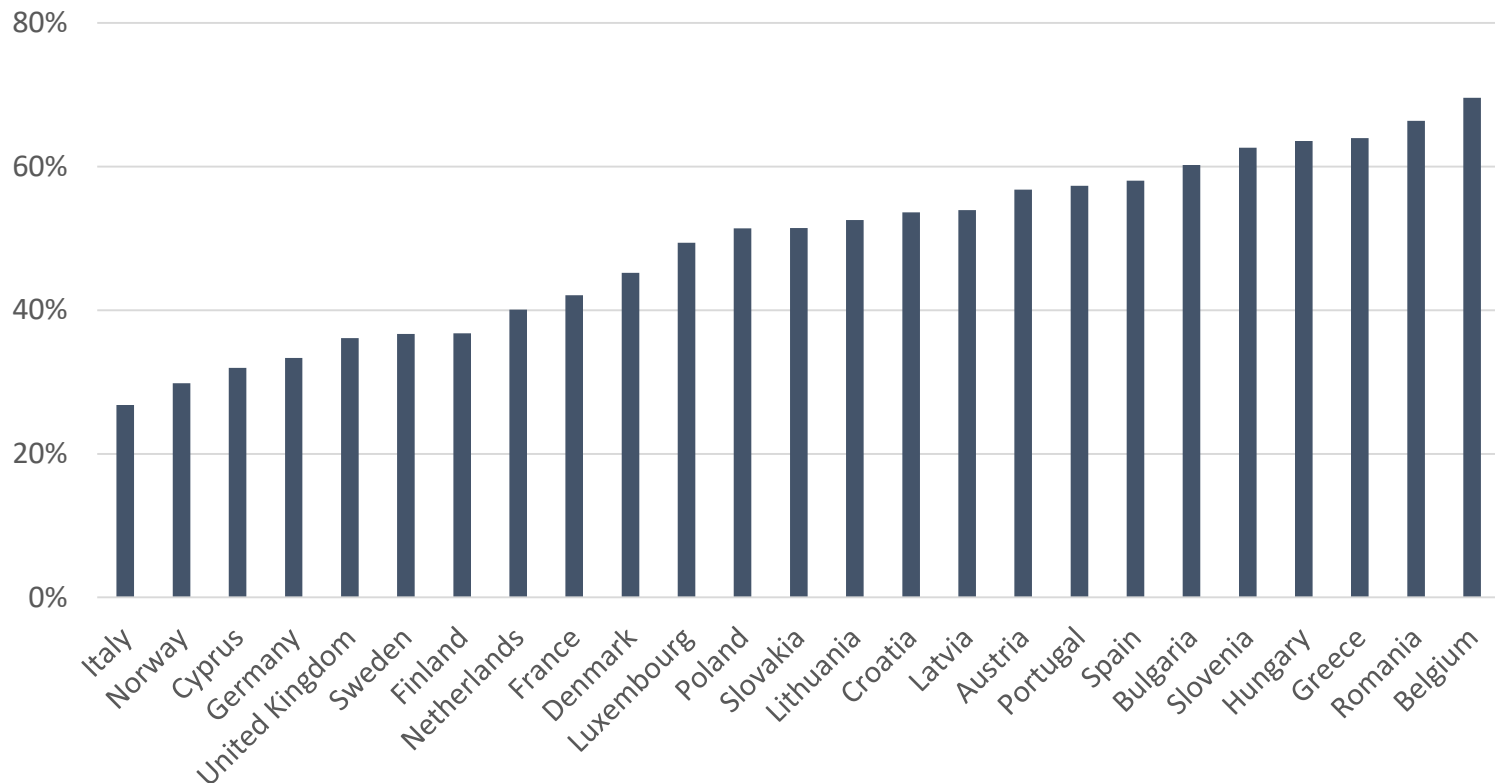
Average number of persons employed per enterprise, 2011



Source: European Commission, Mutual evaluation of regulated professions, Overview of the regulatory framework in the business services sector by using the example of architects (GROW/E-5), p. 3 (2015)

Enterprise size depends on the share of intermediate inputs

Purchased intermediate inputs as a percentage of the turnover in the architectural sectors in the Member States of the EU (year 2014)



Source: Annual detailed enterprise statistics for services (NACE Rev. 2 H-N and S95), own calculation and presentation



There is no optimal firm size in economic theory

Cost structure

- Make or buy
- Economies of scale
- Economies of scope
- ...

Consumer preferences

- Individual or modular solutions?
- Local point of contact asked for?

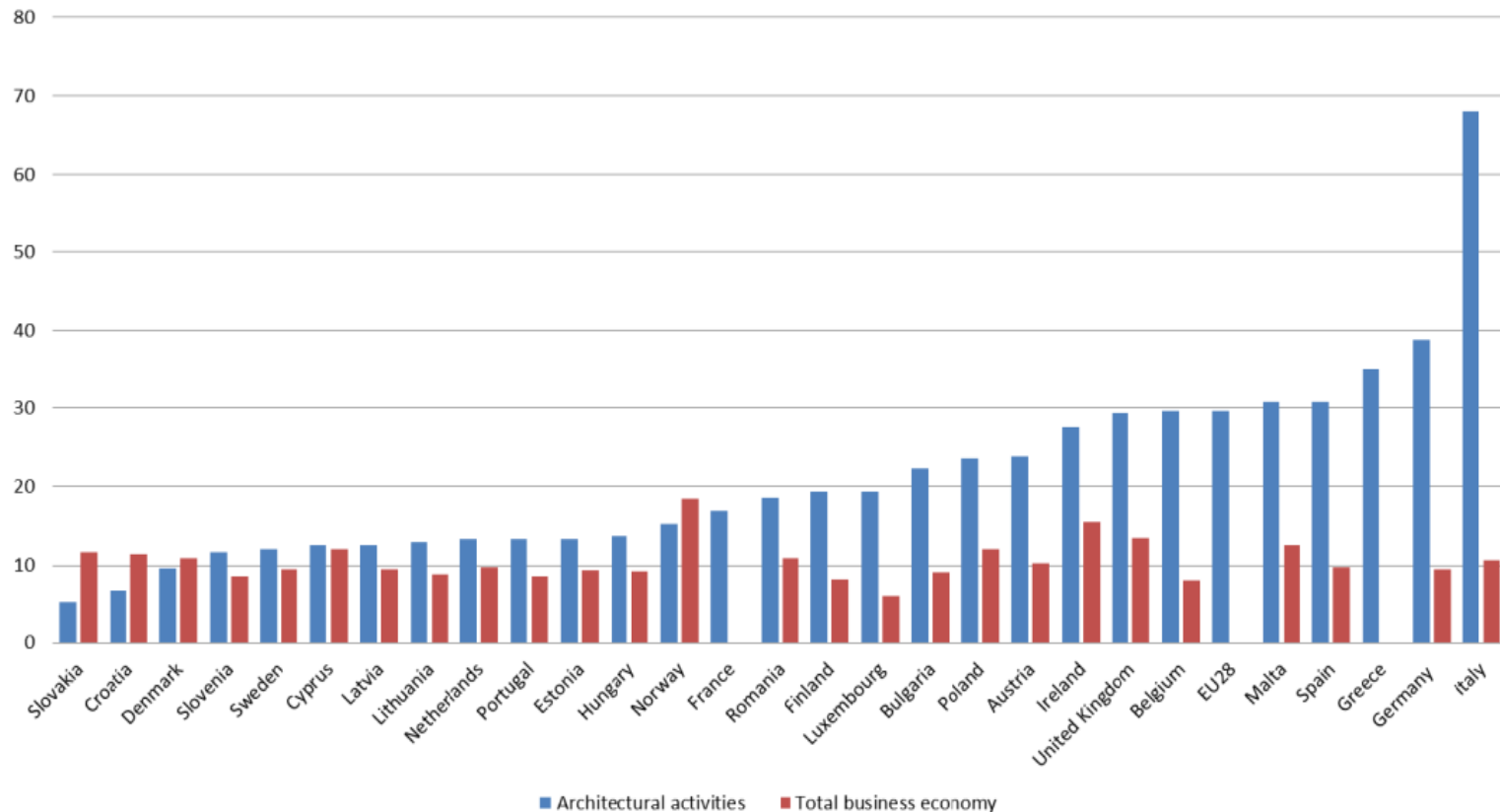
Regulation

- Inter-professional Cooperation
- Binding fixed fees



Are the profit margins in parts of the European architectural sector too high due to insufficient competition?

Gross operating rate, 2011

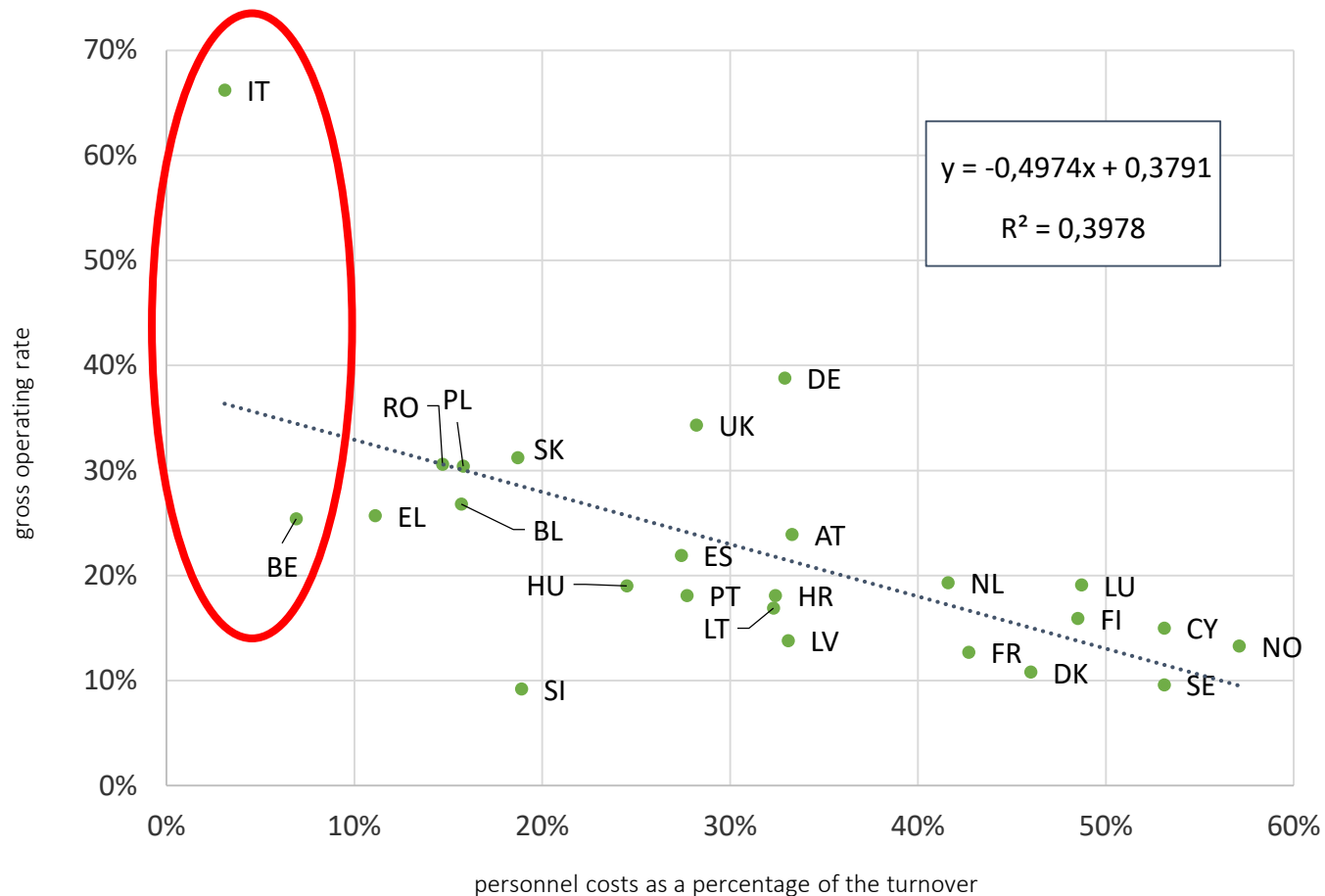


Source: European Commission, Mutual evaluation of regulated professions, Overview of the regulatory framework in the business services sector by using the example of architects (GROW/E-5), p. 4 (2015)



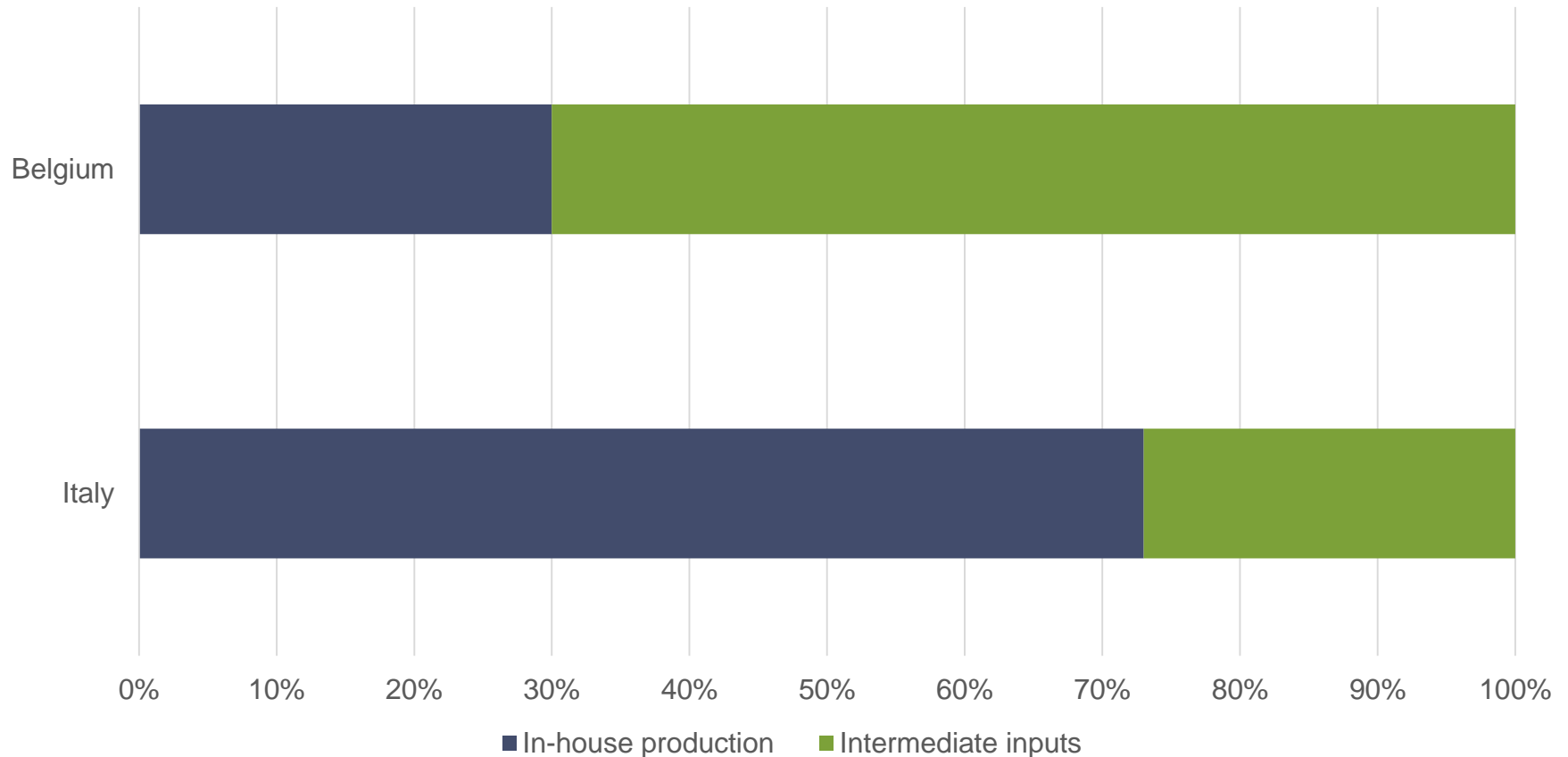
Owners of smaller enterprises need a higher gross operating surplus rate to make their living

Correlation between the gross operating rate and the personnel costs as a percentage of the turnover in the architectural sectors of the Member States (year 2014)

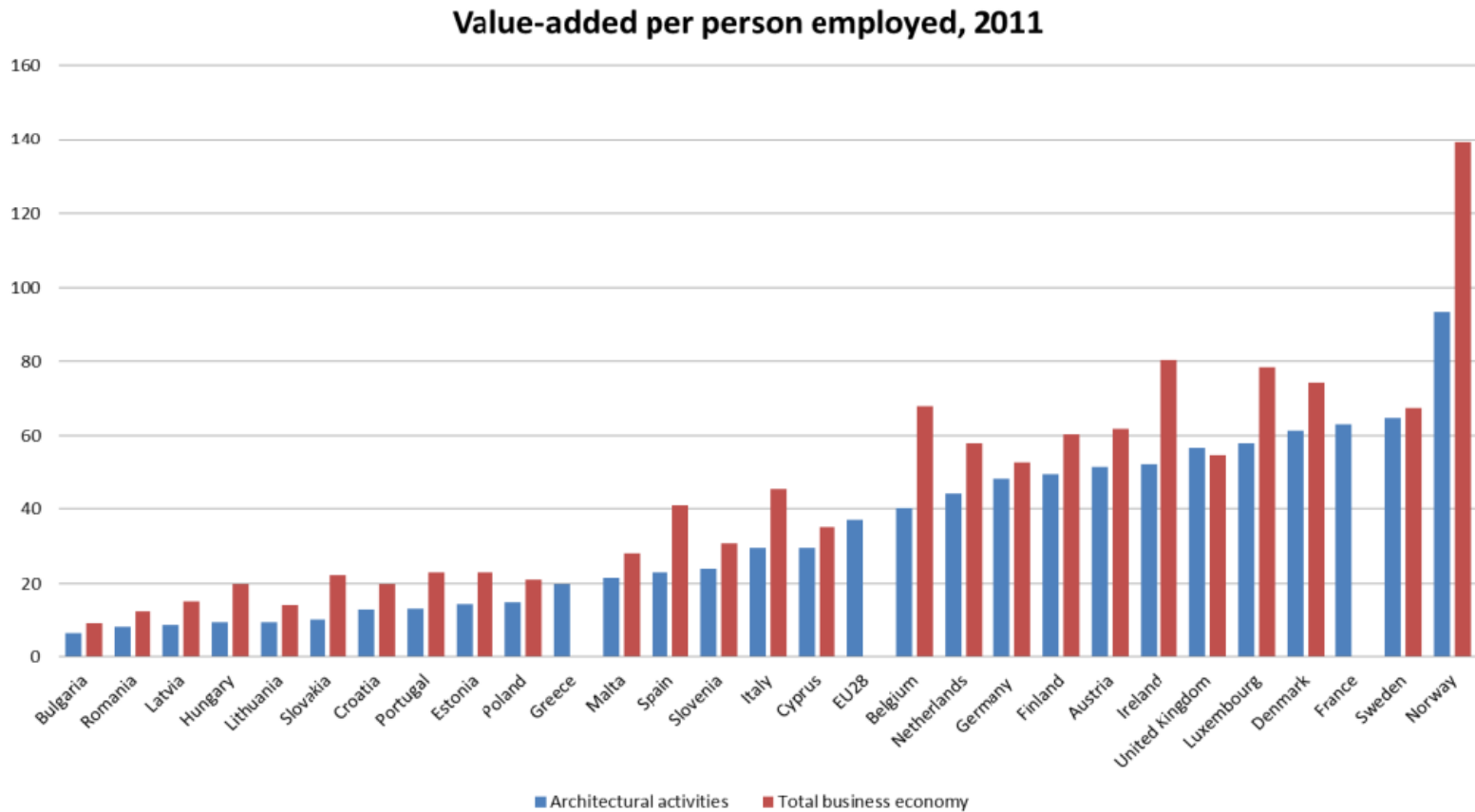


The share of the purchased intermediate inputs is another determinant of the gross operation surplus

Share of in-house production and intermediate inputs on total turnover in 2014



Is the productivity in the European architectural sector too low due to insufficient competition?

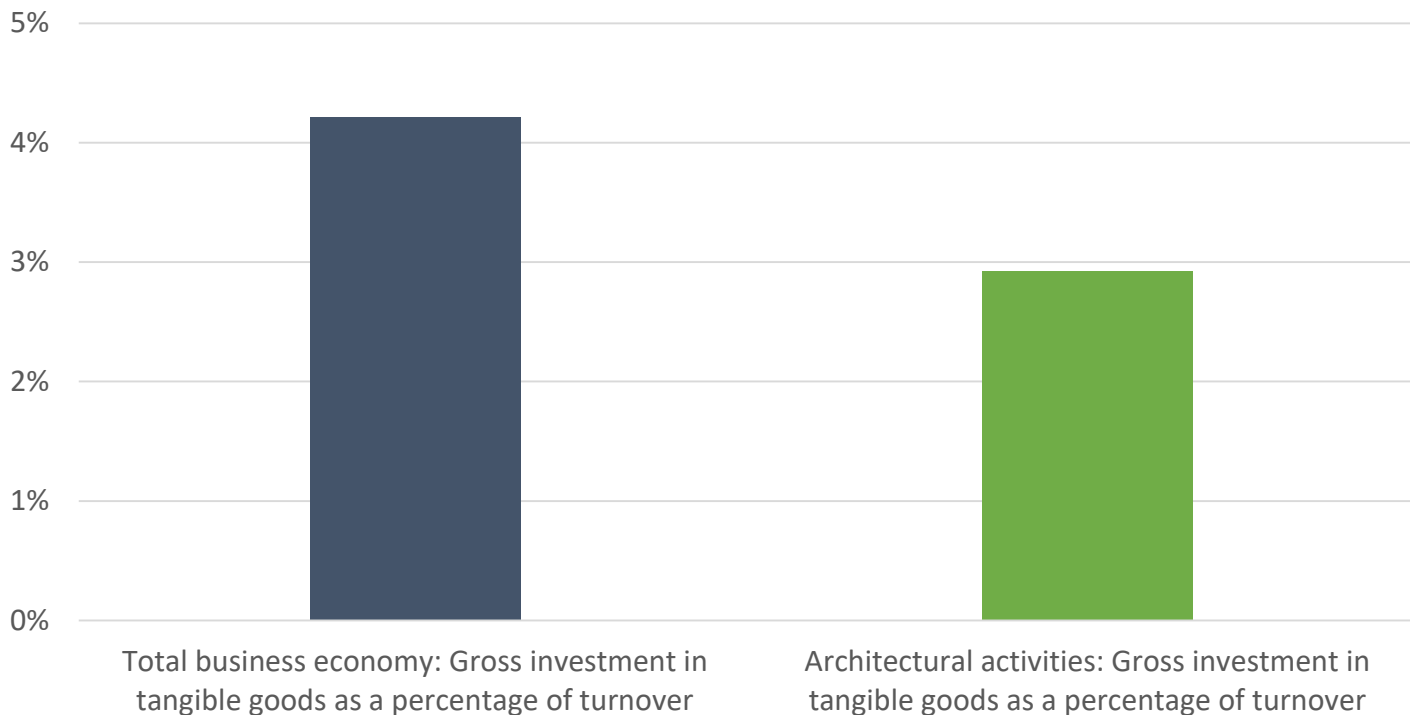


Source: European Commission, Mutual evaluation of regulated professions, Overview of the regulatory framework in the business services sector by using the example of architects (GROW/E-5), p. 4 (2015)



Productivity is generally lower in the less capital intensive services sectors

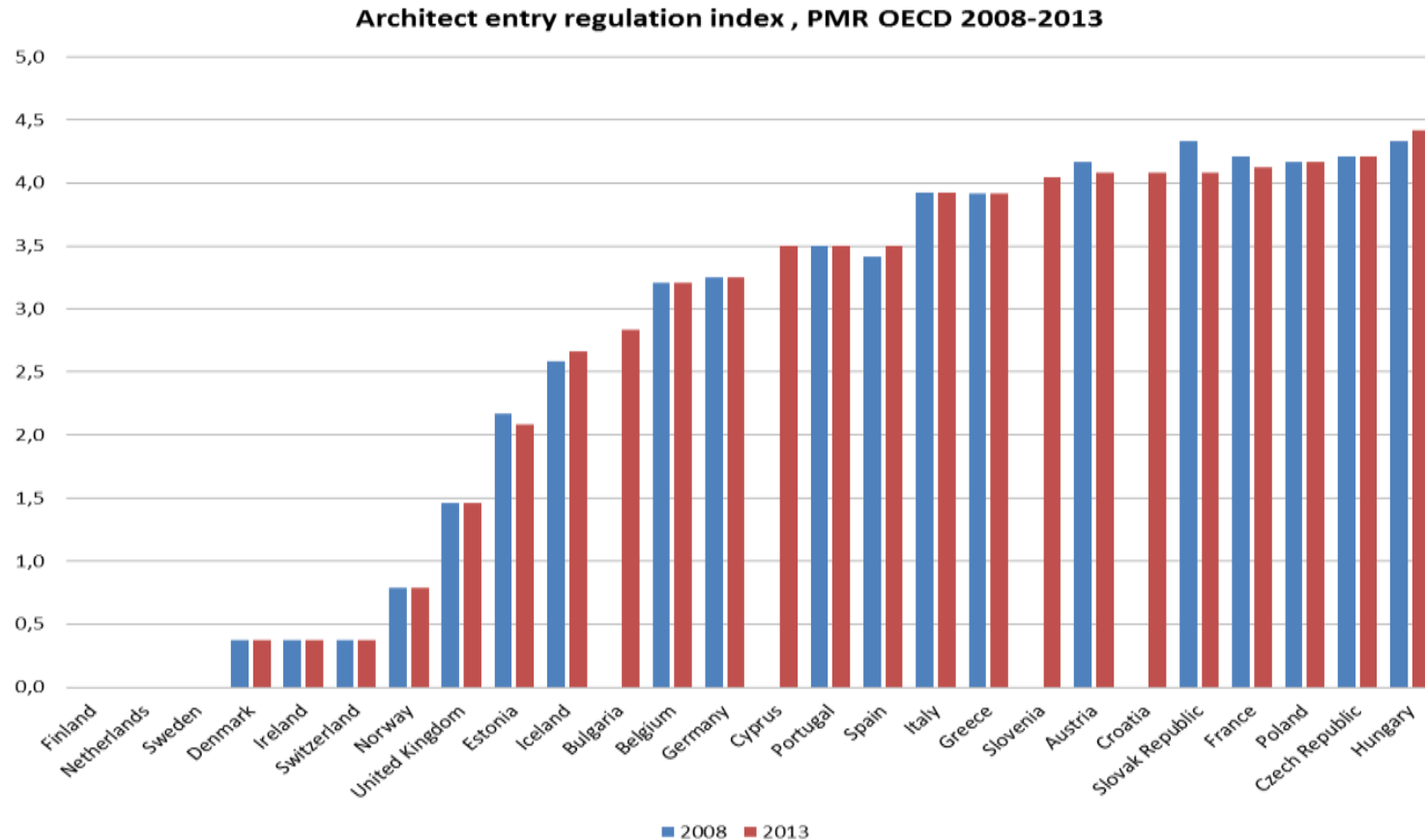
Gross investment rate as an indicator for a low capital intensive production in the average European architectural sector (year 2014)



Source: Annual detailed enterprise statistics for services (NACE Rev. 2 H-N and S95) and annual enterprise statistics for special aggregates of activities (NACE Rev. 2), own calculation and presentation



Are the regulations in some Member States anti-competitive compared to others based on the OECD-indicator?

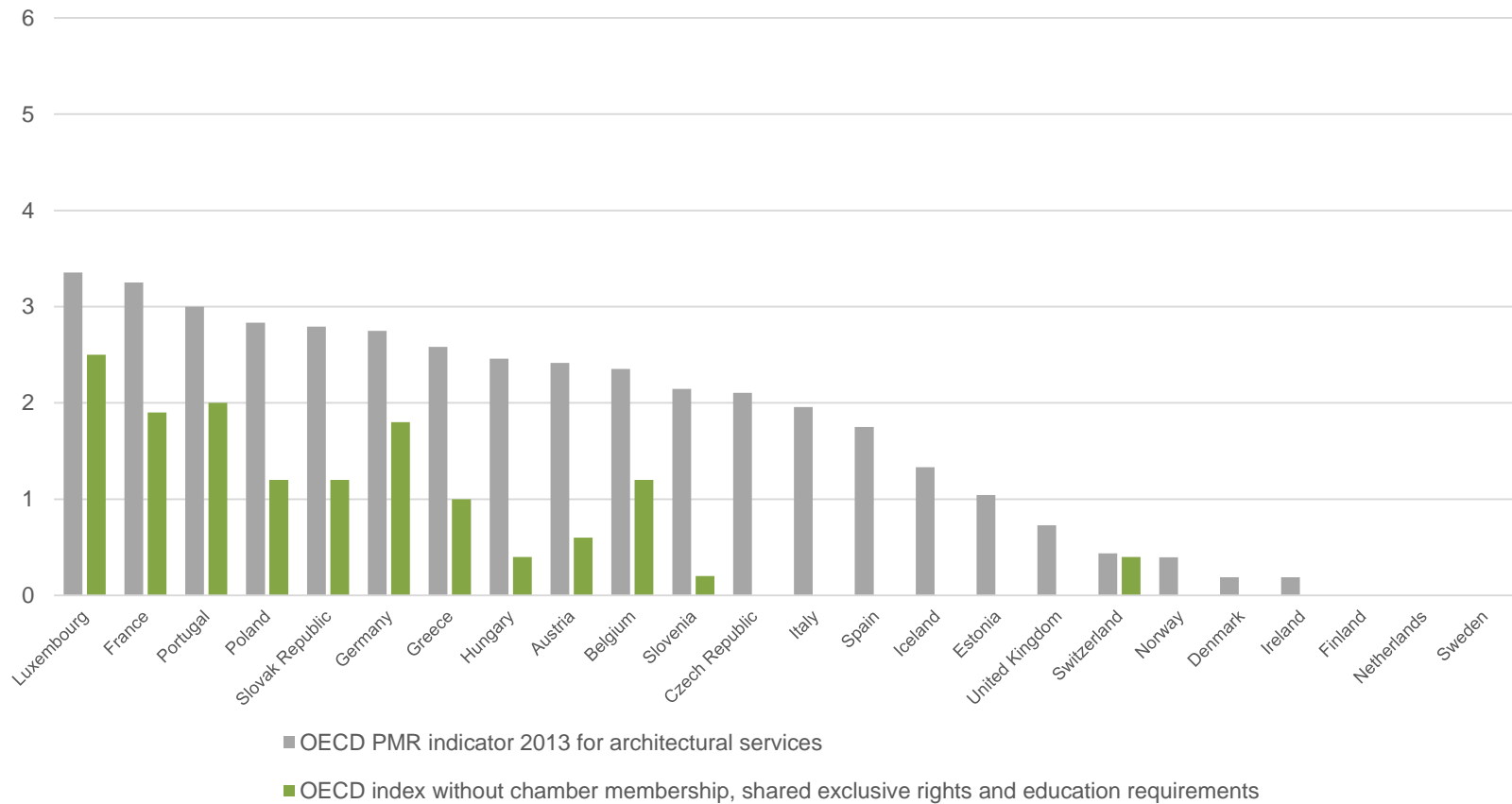


Source: European Commission, Mutual evaluation of regulated professions, Overview of the regulatory framework in the business services sector by using the example of architects (GROW/E-5), p. 5 (2015)



The difference in index values is mostly driven by educational requirements, chamber membership and exclusive rights

OECD PMR indicator for architecture 2013 without chamber membership, shared exclusive rights and education requirements



The OECD-indicator doesn't reliably represent regulation intensity

Educational requirements

- DK, FIN, IRE, NL and SWE have no requirements as per OECD-indicator
- But the title 'architect' could only be used after relevant training
- These requirements aren't reported consistently

Compulsory chamber membership

- In NL and UK no chamber membership is required a per OECD-indicator
- BUT registration is required to carry the title 'architect'
- If no chamber is in charge for the supervision of architects, the state will perform this task

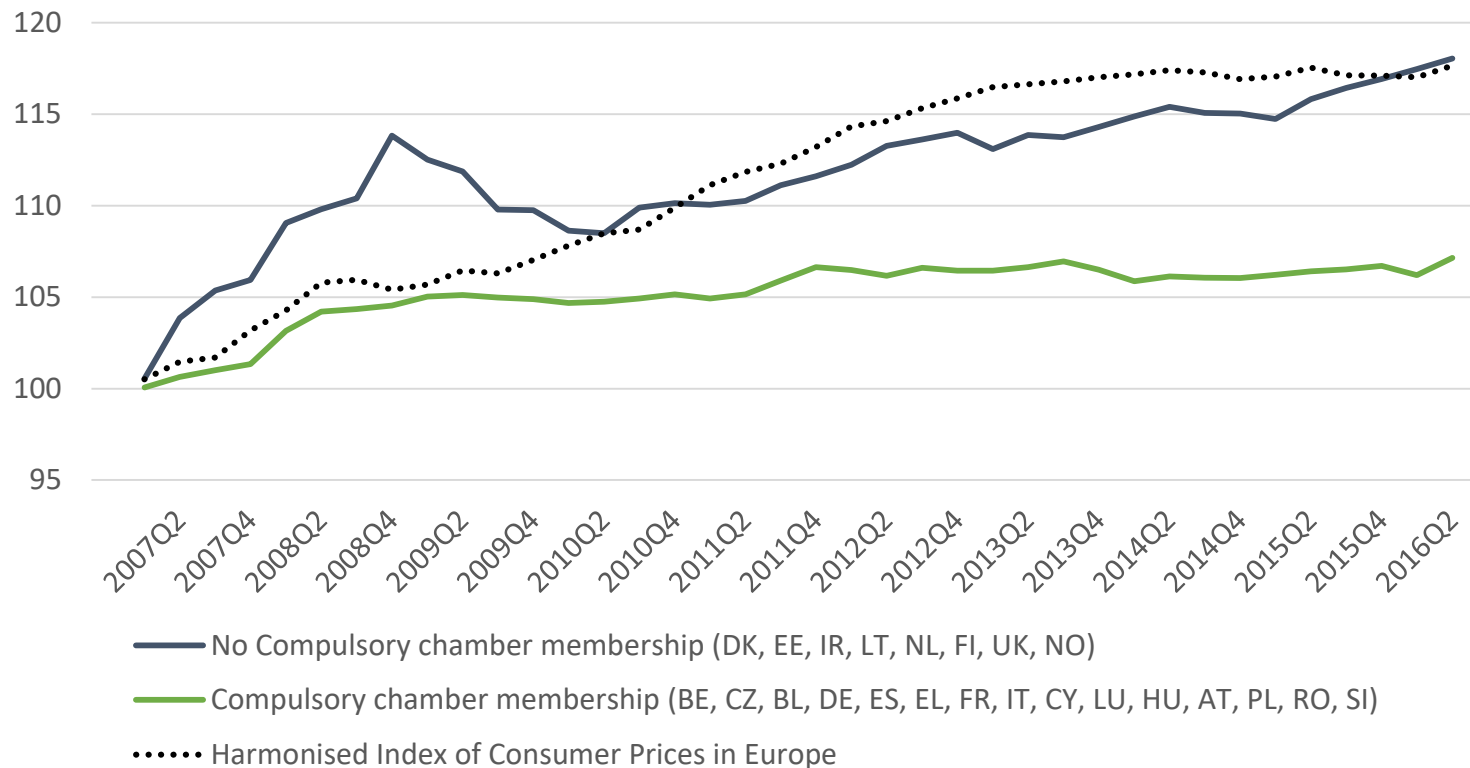
(Shared) exclusive rights

- (Shared) exclusive rights mostly ensure compliance with the building laws through the architect
- In states without (shared) exclusive rights this lies in the responsibility of the administrative authority



Price development in Member States with preventive quality control is not higher

Development of producer prices for architectural and engineering services between the years 2007 and 2016, standardized to the year 2007 = 100 percent



Source: Eurostat, Services producer price index (SPPI), own calculation and presentation



University of Cologne

European Centre for Liberal Professions

Is there room for potentially useful reforms?

Fields for potentially useful reforms

- Inter-professional cooperation
- Advertising restrictions
- Binding fixed fees



Please feel free to contact me

Dr. Oliver Arentz
European Center for Liberal Professions
Pohligstraße 1
50969 Cologne
Germany

Phone: +49 (0) 221 / 470-5356
Fax: +49 (0) 221 / 470-5350
Mail: arentz@wiso.uni-koeln.de



University of Cologne

European Centre for Liberal Professions