

Regulation, Competition and Professionalism

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The concept of human capital is essential in the analysis of the economic role of the individual as a supplier of professional services. Human capital is a term used to describe the productive asset or capacity that is embodied in an individual. Some forms of human capital command a high market value and other do not. An important feature of human capital is that they are heterogeneous. Professional services are often highly specialized and are therefore different from common labor services, especially unskilled labor services.

The highly specialized nature of professional services can be the result of the specific skills and knowledge that have been created by past investment of an individual's time and other resources in the acquisition of his training. It can also be the result of artificial barriers to entry and other restrictions imposed by some public authority or private cartel to raise the earnings of those with specialized skills. Very often it is the result of both causes.

An individual who supplies professional service is confronted with the problem of how much to invest, and in what to invest to augment his own human capital; and he has the same incentive to try to increase the value of his human capital by monopolistic practices --- the formation of unions, or the establishment of professional associations with licensing rights --- as does the owner of a business.

The incentive to seek protection is higher the more specialized is the professional service and the greater the investment of time and other resources required to develop such skills; medicine is the universal classic example. The demand for protectionism is to be expected because an investor in highly specialized skills runs the risk of realizing a huge capital loss if the demand for such skill were to decline permanently in the future. The demand for public regulation and private cartelization to limit entry and for other forms of protection to safeguard ones investment in human capital rises with the emergence of the service economy. Professionalism is a sign of the increasing division of labor in an opulent society and a mature economy. Unfortunately opulence breeds the seeds of its own demise when rent-seeking activities are not adequately restrained and protectionism becomes uncontrolled. We have witnessed this happening in so many of the advanced economies in the world.

Some forms of regulation are not necessarily undesirable. A system of quality certification may be useful for maintaining minimum standards to protect poorly informed customers. The incentive to become well informed rises if customers make frequent and repeated purchases, the value of the purchase is substantial, the loss from making uninformed choices is large and the cost of becoming informed is low in the absence of a system of quality certification. It is therefore useful to evaluate whether these conditions are applicable before any form of public regulation is applied.

Furthermore, the value of quality certification is obvious if and only if the information provided to the customer is up-to-date; hence, certification has to be conducted again

and again from time to time. While there are clear exceptions, most professions unfortunately almost always resist it. The liberal use of grandfather clauses is a symptom of the strength of such resistance. It is interesting to note that while quality certification that is performed once-and-for-all results in reduced competition, a system of periodic certification reduces protectionism and enhances competition.

Sometimes the provision of information to customers can take place without a system of quality certification. Providers of quality professional services have an incentive to inform customers and help them to make intelligent choices. The freedom to advertise ones service is an important part of educating the public and a means of promoting competition. There are numerous well-known cases where the provision of information is restricted, for example, doctors and dentists have strict regulations that govern how they advertise their services, many financial institutions are not permitted to advertise their deposit interest rates, and so on.

The rise of professionalism is a consequence of opulence. Finding the proper balance between professionalism, regulation and competition is an important issue in preserving the economic vitality of a service economy. The relationship is a complex one and has to be properly examined from profession to profession. It is a mistake to assume that what is proper for one profession has to be applicable to another. It is even more foolish to believe that in this matter we should emulate the practices of the more opulent economies without reflection.