

Private Monopoly and Restricted Entry – Evidence from the Notary Profession

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Presentation by Frank Verboven, based on work in progress

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Background on notary profession

- **Activities**

- Certify important transactions: real estate, mortgages, inheritance, business registrations...
- Legal power of court decisions

- **Economic importance**

- Present in 86 countries, 22 out of 27 EU members
- EU: 40,000 notaries, 160,000 employees
- Belgium: profits per notary approx. 300,000€; total size \approx public budget on court system

- **Price regulations**

- Fixed by law
- Especially high for real estate transactions

- **Entry restrictions**

- Minimum education and experience requirements
- Quantitative and territorial restrictions

→ No competition from other businesses (real estate agents, banks, lawyers)

→ Very limited competition from other notaries

Our research questions

- **What do the entry and price regulations aim to achieve?**
 - Public interest view: improve total welfare (consumers + notary profits)
 - Private interest view: benefit notary profits
- **What is the impact of policy reform?**
 - Liberalize entry and/or reduce prices
 - Impact on total welfare and redistribution

Our analysis helps to inform reforms in OECD countries

- Netherlands: liberalization of entry and prices
- France: (some) liberalization of entry
- Belgium: recent proposal to reduce prices (without adjusting entry process)

Broad empirical analysis: Western Europe

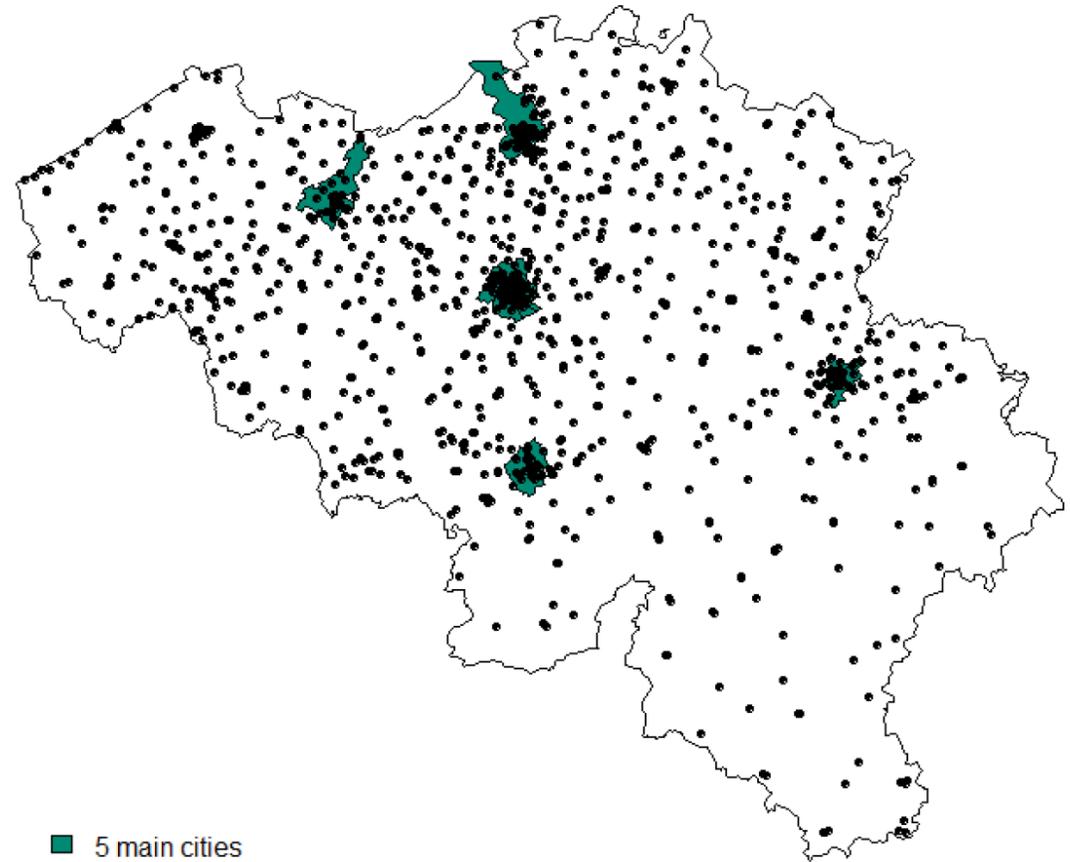
- Cross-section of local markets (municipalities)
 - Austria, Belgium, France, Germany, Italy, Netherlands, Portugal, Spain
- Relate the number of notaries per market to population size
 - Control for other market demographics
- Main findings
 - Bias towards monopoly markets
 - Additional entry requires disproportional increase in population size

Detailed empirical analysis: Belgium

Dataset

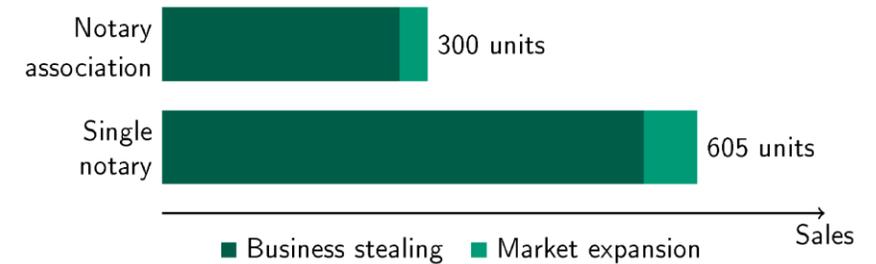
- 1150 notary offices (2016)
- Addresses, number of notaries per office
- Number of real estate and other transactions
- Net added value, employment, labor costs
- Market demographics

Distribution of notary offices



Main empirical findings

- **Impact of entry on demand**
 - Mainly business stealing, some limited market expansion
 - New locations lead to larger market expansion
- **Markups over marginal costs**
 - Staff costs and intermediate inputs
 - Markups are high, not only for real estate but also for other transactions
- **Consumer surplus weight in total welfare**
 - Consumer surplus is valued at 20% of profits
 - Entry restrictions too tight



	Price	Markup
Real estate	2053€	817€
Other	1375€	340€

Policy reform: reducing prices

- Optimal price drops
 - Large
 - Mainly for real estate
- Limited welfare gains, but large redistribution
 - From firms to consumers
 - Especially to real estate purchasers
- Must account for a minimum profit target to ensure geographic coverage

Minimum profit target	Price drop		Consumer gains		Profit loss	Welfare gain
	Real estate	Other	Real estate	Other		
None	-34% (uniform)		361	178	-507	31
	-39%	-23%	418	118	-503	33
100 million €	-23% (uniform)		239	118	-330	28
	-28%	-15%	294	76	-340	30

Note: consumer, profit and welfare changes in million €

Policy reform: relaxing entry restrictions prices

- Welfare optimum
 - More than double number of notaries
 - Large welfare gains
 - Price drop of 15% leads to considerable extra consumer gains
- Free entry
 - Excessive at current prices
 - Close to optimal if also a price drop of 15%

	number of notaries	output change	Consumer gains	Profit losses	Welfare gains
Current	1569				
- 35% price drop	--	12.4%	555	-524	31
Welfare optimum	3951	6.7%	292	-171	120
- 15% price drop	3929	12.2%	534	-392	142
Free entry	7067	10.8%	469	-415	54
- 15% price drop	4204	12.6%	555	-414	141

Notes:

- consumer, profit and welfare changes in million €
- conservative estimates: allowing for entry on new locations generates even higher total welfare gains (about +150)

Concluding remarks

- Current regulatory framework
 - Large regulated markups
 - Much too tight entry restrictions
- Insufficient account of benefits from geographic coverage
- Large potential for redistribution
- Policy reform
 - Price reductions: substantial redistribution without threatening geographic coverage
 - Free entry combined with price reductions is close to first best outcome