



UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

**Bureau of Competition
Office of the Director**

March 18, 1996

The Honorable **Jean Silver**
Chair, House Ways and Means Committee
House of Representatives
State of Washington
204 John L. O'Brien Building
P.O. Box 40612
Olympia, Washington 98504-0612

Dear Representative Silver:

The staff of the Federal Trade Commission⁽¹⁾ is pleased to respond to your request for comment on Washington Administrative Code 4-25-710, a rule we understand to have been promulgated by the Washington State Board of Accountancy under the discretionary authority granted it by statute.⁽²⁾ The rule in its current form would, as of July 1, 2000, require that candidates for Certified Public Accountant ("CPA") status have earned at least 150 semester hours of undergraduate academic credit, a requirement that exceeds the present four-year requirement. Your letter expresses two concerns: that this change would have a fiscal impact on Washington's institutions of higher education, and that it would injure competition and consumers by restricting entry into the CPA field. As you request, we undertake to address the latter concern. We conclude that such a requirement could increase prices for consumers of CPA services. While the requirement may nonetheless be justified by other considerations, we suggest that the case for imposing it be examined closely.

I. Interest and Experience of the Federal Trade Commission.

The Federal Trade Commission is empowered to prevent unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce.⁽³⁾ Pursuant to this statutory mandate, the Commission encourages competition in the licensed professions to the maximum extent compatible with other state and federal goals. For several years, the Commission has investigated the competitive effects of restrictions on the business practices of state-licensed professions, including accountants and such other professionals as dentists, physicians, pharmacists, and social workers.⁽⁴⁾ In addition, the staff has submitted comments about these issues to state legislatures and administrative agencies and others.⁽⁵⁾ As one of the two federal agencies with principal responsibility for enforcing antitrust laws, the Commission is particularly interested in restrictions that may adversely affect the competitive process and raise prices (or decrease quality) to consumers. And as an agency charged with a broad responsibility for consumer protection, the Commission is also concerned about acts or practices in the market that injure consumers through unfairness or deception.

II. Description of Changes Made in WAC 4-25-710.

Rule WAC 4-25-710, a copy of which you forwarded with your letter, contains two provisions that in their present form will alter the current educational requirements for the CPA certificate on July 1, 2000. Only the first of these provisions appears relevant to the issue on which you have sought our comment, however. This first provision will require applicants after the operative date to have "completed at least one hundred fifty semester hours of college

education," including a baccalaureate or higher degree and "an accounting concentration or its equivalent as defined by the board." Also on that date, the board will abandon its discretion to waive this requirement for those who successfully complete an equivalency examination. The present requirement, in the absence of an "equivalency" waiver, is for the bachelor's degree alone (with an accounting concentration "and related subjects the board deems appropriate"), which we understand would normally call for a total of 120 semester hours of academic credits. Another new provision will require that an additional semester hour of the twenty-four required in accounting be in an "upper division," or advanced, course. However, no additional accounting credits will be required, and the change thus makes use of none of the added thirty semester hours.

III. Potential Effects of the 150 Semester-Hour Amendment on Consumers.

A regulatory change such as that at issue here, once it becomes effective, may increase the costs that must be borne by candidates for CPA status, both directly in terms of their tuition and other expenses for the additional year's coursework, and indirectly in terms of the full-time professional employment they must forgo until they have completed that coursework. Such additional costs may also increase the prices consumers pay for the professionals' services, as a study from the staff of the Commission's Bureau of Economics has observed.⁽⁶⁾ The staff study notes the possibility that members of the profession advocating such regulation may have an economic self-interest in its enactment, because of this tendency to increase prices.⁽⁷⁾ The staff study also notes, as a possible source of consumer injury, that [e]ven if the quality of professionals' services increases as a result of mandatory entry requirements of licensing, higher prices may cause consumers to switch to lower cost alternatives or choose to forgo services completely. Therefore, quality of service actually received by consumers may decrease as the price and quality of professionals' services increase because some consumers become "do-it-yourselfers."⁽⁸⁾

This staff study's conclusions were generalizations about the whole field of occupational regulation, gleaned from a review of economic theory and research on a range of occupations. They do not necessarily dictate the correct policy outcome in any given case.

Proponents of the 150-hour requirement might demonstrate that the additional coursework would enable a CPA to perform work in less time or with fewer other costly resources, thereby potentially reducing costs to consumers. Alternatively, proponents might show that the employment of CPAs who lack the additional education the measure requires imposes such costs on society in general that the imposition of increased costs on direct consumers of CPA services is warranted. For example, it may be that CPAs with such additional education would bring higher ethical standards and/or better insight into business practices to bear on their work, and thus do a better job of "policing" the accuracy and completeness of such accounting work as corporate audits. Such a result, if achieved, might be expected to reduce inefficient allocation of economic resources; for example, individuals and institutions might be less likely to be misled in their investment and lending decisions.

The foundation for these arguments must be examined carefully. Furthermore, to the extent that one of these arguments provides the impetus for the 150-hour rule, the governmental decision-makers responsible might wish to consider specifying to some extent the content of the additional coursework. For example, if increased professional knowledge and skills were the expected result of requiring such additional coursework, it might be desirable to require an increased load of accounting courses.⁽⁹⁾ Similarly, if greater ethical sensitivity or wariness of business malpractice is the goal, the rule might require courses specifically or generally directed to those ends.

IV. Conclusion.

Economic analysis suggests that a rule raising the educational entry requirements for CPA licensure will increase the cost of entry and may raise prices to consumers of CPA services. Such a price effect could cause some consumers to reduce their use of such services, substitute similar services at a lower price (and, perhaps, quality), or forgo professional accounting services altogether, effects that would generally indicate consumer injury. If the Washington legislature wishes to review the action of the State Board of Accountancy in amending WAC 4-25-710, it may wish to

seek persuasive evidence that, notwithstanding these concerns, the net effect of the amendment on consumers would be positive.

Sincerely,

William J. Baer
Director

1. These comments represent the views of the staff of the Federal Trade Commission, and not necessarily the views of the Commission or any individual Commissioner.
2. Wash. Rev. Code Ann. 18.04.105 governs the issuance of the certificate of "certified public accountant." Subsection (1)(b) establishes as a condition of eligibility that the candidate "has met the educational standards established by rule as the board determines to be appropriate," adding that "[t]he board may, in its discretion, waive the educational requirements for any person if it is satisfied through review of documentation of successful completion of an equivalency examination that the person's educational qualifications are an acceptable substitute for the requirements" established as to formal education.
3. 15 U.S.C. 41 et seq.
4. See, e.g., American Institute of Certified Public Accountants, 113 F.T.C. 698 (1990) (consent order); American Medical Ass'n, 94 F.T.C. 701 (1979); Iowa Chapter of American Physical Therapy Ass'n, 111 F.T.C. 199 (1988) (consent order); Massachusetts Bd. Of Registration in Optometry, 110 F.T.C. 549 (1988); Wyoming State Bd. of Chiropractic Examiners, 110 F.T.C. 145 (1988) (consent order); Connecticut Chiropractic Ass'n, 114 F.T.C. 708 (1991); American Psychological Ass'n, C-3406 (consent order issued Dec. 16, 1992), 58 Fed. Reg. 557 (Jan. 6, 1993); Texas Bd. of Chiropractic Examiners, C-3379 (consent order issued April 21, 1992), 57 Fed. Reg. 20279 (May 12, 1992); National Ass'n of Social Workers, C-3416 (consent order issued March 3, 1993), 58 Fed. Reg. 17411 (April 2, 1993); National Soc'y of Prof. Engineers, C-3454 (consent order issued August 6, 1993, 58 Fed. Reg. 44841 (August 25, 1993)); California Dental Ass'n, D-9259 (initial decision issued July 25, 1995); and McLean County Chiropractic Ass'n, C-3491 (consent order issued April 7, 1994), 59 Fed. Reg. 22163 (April 29, 1994).
5. See, e.g., Comments to Alaska State Legislature, Jan. 6, 1995 (marine pilots); South Carolina Legislative Audit Council, Feb. 26, 1992 (Boards of Pharmacy, Medical Examiners, Veterinary Medical Examiners, Nursing, and Chiropractic Examiners); same, Jan. 8, 1993 (Boards of Optometry and Opticianry, Dentistry, Psychology, Speech and Audiology, Physical Therapy, Podiatry, and Occupational Therapy); Texas Sunset Advisory Commission, Aug. 14, 1992 (Boards of Optometry, Dentistry, Medicine, Veterinary Medicine, Podiatry, and Pharmacy); Missouri Board of Chiropractic Examiners, Dec. 11, 1992; Massachusetts Division of Registration, April 20, 1993 (Board of Optometry); New Jersey Board of Medical Examiners, Sept. 7, 1993; and Tennessee House of Representatives, February 2, 1996 (veterinarians); see also testimony to the Maine House of Representatives, May 3, 1993 (Board of Optometry); same, Jan. 8, 1992; and the Washington State Legislature's Joint Administrative Rules Review Committee, Dec. 15, 1992 (opticians and optometrists).
6. See Carolyn Cox and Susan Foster, The Costs and Benefits of Occupational Regulation 28 (FTC Bureau of Economics Staff Report, October 1990) (reviewing studies reported in economics literature). See also Deborah Haas-Wilson, The Regulation of Health Care Professionals Other than Physicians, Regulation, Fall 1992, at 40.
7. Increasing the cost of entry into a profession will in general decrease the supply of entrants, and increase the prices those already in the profession may charge. See Cox and Foster, *supra* note 6, at 19-20.
8. Id. at 28-29 (emphasis in original). As an example, the authors noted that "one study found that stricter mandatory entry requirements for electricians 'are significantly associated with a rise in the rate of death from accidental

electrocution." Id. at 29, quoting from Sidney L. Carrol and Robert J. Gaston, Occupational Restrictions and the Quality of Service Received: Some Evidence, 47 S. Econ. J. 959, 963 (1981).

9. As we have noted, the only aspect of the Board's rule change directed to course content simply shifts one semester hour from the elementary to the advanced category, without making use of any of the thirty additional semester hours.