Section IV

Projections of California Labor Market Conditions for Lawyers

This section describes and implements a number of approaches to projecting the availability of California lawyers and their employment levels in the year 2015. We include in this section a wage analysis of lawyers and other professionals in California. This analysis provides some additional insight into the factors that have affected supply and demand in the labor market for lawyers in the past and are likely to continue to have an effect in the future.

The first subsection contains an overview of the concepts of supply and demand and derives working definitions of these concepts. It also provides caveats that should accompany all economic forecasts. Next are the results of a wage analysis. A wage analysis is a technique employed by economists to evaluate supply and demand and provides a different perspective on the balance of supply/demand than is provided by the projections. The third subsection describes and summarizes the results of the supply/demand projections themselves and discusses the implications of these results for a potential mismatch in the future availability and employment of lawyers in California. (Appendix B provides more detail on the methodologies employed). This section concludes by discussing the results of the wage analysis and projections, highlighting their consistencies and weaknesses. We also highlight factors not incorporated in this chapter that could impact the supply and demand for attorneys in 2015.

Conceptual Overview and Caveats

Making predictions about future supply and demand in any type of labor market is an inherently difficult task because of the impossibility of observing supply and demand directly. The number of lawyers qualified to practice law and the number of lawyers currently employed can be observed, but these observed quantities do not represent supply and demand, per se, but rather the choices of individuals and employers that result from the interaction of the forces governing supply and demand in the labor market.

The supply of lawyers at a particular point in time is the number of qualified lawyers willing to work at prevailing market wages. In labor economics, it is generally assumed that the greater the wage, the greater the supply of attorneys will be—that is, there is a positive relationship between wages and supply. If wages are not sufficiently high, many qualified lawyers will not practice law. We assume that the observed number of lawyers qualified to practice in the state approximates an upper bound on—or maximum—supply of lawyers. Our analysis uses two measures of lawyers qualified to practice in the state: 1) active California Bar members and 2) total (active and inactive) California Bar members. Active California Bar members represent qualified persons who are immediately available to practice law (see footnote 5, Section 3). Inactive California Bar members, who are eligible to convert back to active status by notifying the California Bar (and paying the higher active status fee), represent a pool of persons who, though not
currently practicing law, could theoretically be lured back to the profession in California if the conditions were sufficiently appealing to them.

The demand for attorneys at a particular point in time is defined as the number of lawyers that employers are willing to employ at the prevailing market wage. It is generally assumed that the demand will be lower at higher prevailing wages. However, under a highly regulated market, wages and hours worked may not adjust quickly to changes in demand conditions. For example, if a market is highly unionized or regulated, firms may be unable to lay off unneeded employees and actual employment will exceed demand. In the case of lawyers, however, it is probably safe to assume that actual employment represents a lower bound on true demand. We therefore use the number of employed attorneys in California as an approximation to this lower bound on demand.

Due to the considerations described above, it is important to view any projection of the supply of lawyers based upon numbers of individuals qualified to practice as subject to possible overestimation and any projection of the demand for lawyers based upon levels of employment as subject to possible underestimation. These discrepancies could lead to the appearance of lawyer surpluses where they do not exist. Our first caveat, therefore, is that these potential discrepancies make it very difficult to determine or to project labor shortages or surpluses from observed data, no matter how accurate the observed data are. That said, projections based on these observed trends do provide useful information and can give a general indication of the direction in which supply and demand are moving.

A second caveat concerns the difficulty of obtaining reliable forecasts of future trends in our observable quantities, i.e., the number of qualified lawyers and the number of lawyers employed. Projection methods vary in complexity. The simplest method is based on straightforward extrapolation of the trend in question. A slightly more complex method involves the use of projections of factors related to the trend in question. This alternative is helpful when the underlying factors may be more accurately predicted than the trend that relies on them. This analysis utilizes both types of methods to project demand, but we are aware of the fact that each method will contain a margin of error.

For example, we base certain projections on estimates of the future population and the ratio of lawyers per capita. Population estimates, however, can themselves be unreliable. A recent report on population projections for California shows that different assumptions about future trends in international and domestic migration and in fertility rates lead to widely varying projections of the future population (Johnson, 1999). The highest projection predicts a 64 percent population growth by 2025; the lowest projection suggests only 29 percent population growth by 2025. Forecasting the future employment in a profession is problematic because a larger number of variables and lack of accurate data lead to less than desired reliability and comprehensiveness. Making projections at the regional level is even more difficult because it is necessary to account for both the inter- and intra- state migration of professionals, in addition to the fact that data on population and economic trends are less accurate at smaller geographical units than at the national level.

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1 Defined as self-identified attorneys who are currently employed.
We also base certain of our projections on forecasts of industry growth and industry-specific rates of the employment of lawyers. Yet there are problems inherent in making projections about future trends in industry growth. An ongoing example of such difficulties is the unanticipated length of the current economic expansion in the U.S. For several years, economic forecasters have been warning of a recession, of which there is still no real sign. Given that the employment of attorneys is driven by a combination of population trends and, to a greater extent, by economic growth, the inability to forecast population and economic growth with great accuracy will necessarily have an impact on the ability to forecast the demand for attorneys.

Despite these caveats, forecasts of the pool of eligible attorneys and the employment of attorneys can provide insight as to whether there is any evidence of a possible mismatch in these two measures under different sets of assumptions. Moreover, this exercise forces the analyst and reader to become cognizant of other factors that can have an impact on the future supply of and demand for attorneys, whether or not accurate knowledge of future movements in these factors can be incorporated in the forecasts.

An Analysis of Wages in the Labor Market for Attorneys

Before turning to the projections of supply and demand, it is instructive to examine recent changes in the wages of lawyers. The basic economic model of the labor market implies that if there is a shortage of lawyers, then the wages of lawyers will eventually increase. That is, when firms find it difficult to hire lawyers, they will respond by offering job candidates more lucrative compensation packages. Similarly, firms may need to offer their current staff higher wages in order to retain them.

In this section, we examine the wages of lawyers since 1983. If the wages of lawyers have not increased, then there is little evidence that there has been a recent increase in the demand for lawyers relative to supply. However, the wages of lawyers could be increasing simply because of broader changes in the wage distribution or because the current labor market is at a peak within the business cycle. Therefore, we also compare the wages of lawyers with the wages of other professionals. If the gap between the two groups has not increased in favor of lawyers, then this evidence would suggest that lawyers have not become in short supply relative to other professionals.

If the attorney labor market is highly competitive, we might expect to see a fair amount of wage fluctuation in both a positive and negative direction over time. The implication of such a finding would be that forecasts of supply and demand might be subject to a great deal of imprecision, due to the responsiveness of the market to future—and as yet unknown—economic shocks. In addition, if fluctuations in attorney wages appear to be correlated with fluctuations in the business cycle, we would then be encouraged to design a forecasting model that attempts to incorporate forecasts of economic growth.
Before describing the findings of our wage analysis, it is useful to outline the basic economic principles guiding our investigation. In a standard labor market, the market price, or wage, is the mechanism by which supply and demand are brought into alignment. It is this price which determines the amount of labor supplied and demanded. External factors, such as an increase in economic growth, could increase the demand for lawyers at the prevailing wage level. Similarly, external factors, such as an increase in the wages of alternative forms of employment available to lawyers, could cause a decrease in supply at the prevailing wage level.

If a change in these types of external factors brings about an increase in demand or a decrease in supply, then the excess of demand over supply will exert an upward pressure on wages, and they will rise to restore balance to the market. On the other hand, if external factors change in a manner that brings about a decrease in demand or increase in supply at the prevailing wage level, then a downward pressure is exerted on wages, and they will fall. In a competitive labor market, wages adjust until the market stabilizes. In other words, in a market in which there is free entry and exit, wages can adjust easily, thereby inducing the expansion or contraction in the quantities of labor supplied or demanded that is needed in order to equalize the two quantities. In this type of labor market, there should be no long–run shortages or surpluses.

It is important to point out that although market equilibrium implies no shortage or surplus at prevailing wages, it does not imply that everyone is equally well off before or after a shift in demand. If wages increase because external factors increase demand, lawyers benefit but customers pay the price. Some customers (e.g., local governments, low-income citizens, or nonprofit organizations) may be forced to reduce the number of lawyers they hire or face rising costs. Similarly, if external forces decrease demand, then lawyers pay the price in terms of lower wages, but customers benefit. It is, therefore, necessary to emphasize the point that “equilibrium” in the economic sense may not necessarily reflect a socially desirable quantity of attorneys. Similarly, the economic notion of “demand” is not equivalent to the notion of perceived social “need.”

The distributional consequences that ensue from a change in demand could be mitigated by a concurrent change in the underlying supply of lawyers. In other words, if the underlying supply of lawyers increases at the same time demand increases, wages would not need to adjust so much to bring the market into equilibrium. In considering what such a change might entail, it is important to recognize that the underlying supply of lawyers is controlled to some extent by the California Bar Association. Regardless of the number of people who move to California from another state or who graduate from California law schools, individuals must pass the California Bar examination in order to practice law in California. An increase in the number of people passing the California Bar examination can generate an increase in supply.\(^2\) It is important to keep in mind that the lack of an economically defined shortage or surplus of attorneys at any given point in time does not necessarily mean that policymakers might not want to expand or decrease the future supply. With these considerations in mind, we now turn to the results of the wage analysis.

\(^2\) Supply can also increase if fewer individuals relinquish active membership in the Bar.
The Wages of Attorneys Relative to Those of All Professionals

We examined both the real annual incomes and the real hourly wages of attorneys in each year between 1983 and 1998 and compared them to the same quantities for all professional workers. In accordance with the occupational designations used by the Current Population Survey (CPS), we defined professional workers as those whose occupations fell within the 1980 Census of Population category of “managerial and professional specialty occupations.” These occupations included managers, accountants, attorneys, engineers, physicians, nurses, teachers, and several others normally considered to be professional in nature. The CPS is a household survey conducted on a nationally representative sample, and a description of the data it provides is contained in Appendix A. We performed our wage analysis on data taken from the nation, as a whole.3

Figure 4.1 displays the average nationwide real income of young lawyers (between 25 and 35 years of age) relative to other young professionals. The figure indicates that the income of attorneys has consistently exceeded the income of other professional workers during the time period under consideration and that it has exhibited a larger degree of fluctuation.

3 Although the CPS data can be sorted by state, the sample size becomes greatly diminished when individual occupations within states are investigated. In addition, since each household chosen for the CPS sample is interviewed for eight months, it is good practice to select only one observation per household for this type of analysis. This reduces the sample size even further. Furthermore, in order to protect the confidentiality of respondents, earnings in the CPS have a ceiling of $1,927 and above per week between 1989 and 1993, $1,923 and above between 1994 and 1997, and $2,885 and above in 1998. We therefore look only at the earnings of attorneys and professionals who are between 25 and 35 years of age in order to eliminate some of the downward bias introduced as a result of this coding procedure. Due to these considerations, we performed our wage analysis on the national sample rather than on the California subset.
According to the figure, there was an increase in the real income of lawyers relative to other professionals between 1985 and 1990. This was the period of economic expansion that preceded the 1990–1991 recession.\textsuperscript{4} Two hypotheses generated by the figure would be that 1) the recession was responsible for halting the growth in attorney income after 1990 and 2) that the attorney labor market is more responsive to business cycle fluctuations than that of the average professional worker.

In order to understand whether the growth in attorney income was the result of growth in hourly rates or growth in the number of hours worked, we also plotted real hourly wages.\textsuperscript{5} The results are shown in Figure 4.2.

\textsuperscript{4} The prior recession occurred in 1981–82.
\textsuperscript{5} Real hourly wages were calculated by dividing reported real weekly earnings by the reported usual number of hours worked per week.
Both real hourly wages and real income increased between 1984 and 1990 and outstripped increases experienced by professionals as a whole. This finding indicates tightness in the attorney labor market during this time period due either to an increase in demand or a decrease in supply. Given that the period was one of economic growth, it is plausible that increased demand was primarily responsible. A decrease in supply could have resulted if economic growth increased the amount of alternative and more lucrative employment available to attorneys, thus inducing them to leave the legal profession, or if other factors decreased the supply of attorneys. Given our knowledge of trends in the number of active attorneys in California, however, it seems more likely that an increase in demand drove hourly wage trends during this time period.

While both the real hourly wages and real income peaked in 1990 for attorneys, real hourly wages began a decline while real income lingered around the peak level until 1994. This indicates that the number of hours worked by lawyers continued to increase during and after the recession. This phenomenon is evident in Figure 4.3, which displays average reported weekly hours worked for attorneys and professionals. Average weekly hours worked by all professionals increased throughout most of the period, with those of attorneys increasing at a higher rate until 1993 and then declining somewhat.

Data rely on a three-year running average to smooth alterations in trends, given the relatively small sample size of attorneys in the CPS. The hours of workers of all ages above and including 25 are included in this figure.

Real hourly wages declined between 1990 and 1995, suggesting the effects of the recession endured for a few years beyond the official end of the recession in 1991. Attorneys initially cushioned the decline in real income levels between 1990 and 1993 by working more hours. After 1995, real hourly wages and real income levels began to increase again, while the number of hours worked eased back towards pre-recession levels.

One limitation with the wage analysis is the comparison group of other professionals. This category includes a mixed group of highly paid professionals, including physicians and accountants, and not so highly paid professionals (e.g., social workers, teachers). Most of these professions are not reasonable alternatives for lawyers. A more appropriate comparison group might be business officers, engineers, and/or accountants—professions that are real alternatives to the legal profession. For example, in Silicon Valley, lawyers may leave law firms to work in Internet start-ups because the actual or potential economic gains are much greater. Because of data limitations, we are not able to compare the hours worked and wages of lawyers with such an ideal comparison group.

Considered together, our plots suggest that the labor market for attorneys is more responsive to changes in the business cycle than that of the group of professionals taken

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6 It also appears that the effects of the prior recession ending in 1982 may have endured until 1984. In addition, the recession in the early 1990s ended later than 1991 in some parts of the country. This was the case in California, for example.
as a whole. Our wage analysis indicates that attorney labor markets are fairly competitive and that fluctuations in the attorney labor market are linked to business cycle fluctuations. These findings point to the importance of incorporating forecasts of economic growth into models designed to project the future demand for attorneys. In addition, they suggest that projections may be subject to substantial imprecision due to the sensitivity of the market to unknown future fluctuations in the economy.

Forecasting: Methods and Results

1. Forecasting Active and Total California Bar Members (Supply): Method and Results

Using historical information on the number of active California Bar members and total (inactive plus active) California Bar members provided by the California Bar Association, we forecast the expected number of active and total California Bar members in 2015. We used a fairly straightforward extrapolation technique described in detail in Appendix B. Figure 4.4 presents 1) the number of California Bar members from the early 1970s to 1998 and 2) the projected year-to-year forecasts of California Bar members between 1999 and 2015. We use both active and total California Bar members to provide a low and high projection of the pool of lawyers available to practice law in California.

The projection method we use assumes that the trend has been linear since the early 1970s. This assumption is strongly supported by the linear trends in Figure 4.4. To test the robustness of this assumption we completed two other sets of projections as well. The first allows for a nonlinear trend in the rate of change in total and active California Bar members since 1970. The model fit yielded by this projection technique (as described in appendix Table B.3) was less than the fit yielded by the linear projection technique.7 We also experimented with restricting the projections to trends on active and total California Bar members since 1990 in case the rate of change in California Bar members had changed in the last decade. The resulting projected number of California Bar members is virtually indistinguishable from that based on data since 1970 (see Appendix B for discussion of results). We conclude that the projection technique employed here is robust in its underlying assumptions.

For all estimates and projections, we have rounded off to the nearest hundred to reflect the level of uncertainty.

By the year 2015, this forecasting method predicts that there will be approximately 214,800 active California Bar members and about 254,700 total California Bar members. Consistent with historical trends in the number and proportion of California Bar members who are inactive, this model predicts that the number of inactive California Bar members will continue to increase modestly through 2015, although the proportion will decline slightly.

7 Based on actual data between the early 1970s and 1998, the projection weights the number of Bar members in the most recent years more heavily than those in earlier years (as described in Appendix B).
Next, we consider the forecasts of California Bar members by region within the state (see the definition of regions in the preceding section). To generate these regional forecasts, we applied the current regional distribution of California active and total California Bar members to the 2015 projections. The result is presented in Table 4.1. Two points can be made about this table.

First, there is an out-of-state category. California Bar members, regardless of active/inactive status, can reside outside California. California Bar members may reside out-of-state for a variety of personal or professional reasons. For instance, a lawyer may have specific plans for or a vague interest in practicing law in California in the indefinite future or on occasion try cases in California. Whatever the reason, the number of out-of-state Bar members is nontrivial. For example, more than twice as many active California Bar members (8,932) used out-of-state addresses than used addresses in either the Inland Empire, Santa Barbara, the San Joaquin Valley, or the Residual Region in 1998.

A second point to be made about Table 4.1 is that the projected rates of growth of active and total California Bar members between 1998 and 2015, by definition, are constant across regions. The total number of active California Bar members is projected to increase by 60 percent and the number of total California Bar members by 54 percent.
Table 4.1
Current (1998) and Projected California Bar Membership

<table>
<thead>
<tr>
<th>Region</th>
<th>Actives 1998</th>
<th>Actives 2015</th>
<th>Total members 1998</th>
<th>Total members 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>43,003</td>
<td>68,900</td>
<td>52,977</td>
<td>73,200</td>
</tr>
<tr>
<td>Orange</td>
<td>11,474</td>
<td>18,400</td>
<td>14,135</td>
<td>19,400</td>
</tr>
<tr>
<td>Inland Empire</td>
<td>3,659</td>
<td>5,900</td>
<td>4,508</td>
<td>6,300</td>
</tr>
<tr>
<td>San Diego</td>
<td>11,181</td>
<td>17,900</td>
<td>13,774</td>
<td>19,400</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>3,520</td>
<td>5,600</td>
<td>4,336</td>
<td>6,300</td>
</tr>
<tr>
<td>San Joaquin Valley</td>
<td>4,343</td>
<td>7,000</td>
<td>5,350</td>
<td>7,200</td>
</tr>
<tr>
<td>Sacramento Valley</td>
<td>8,294</td>
<td>13,300</td>
<td>10,218</td>
<td>14,200</td>
</tr>
<tr>
<td>Bay Area</td>
<td>38,023</td>
<td>61,000</td>
<td>46,842</td>
<td>67,000</td>
</tr>
<tr>
<td>Residual</td>
<td>1,543</td>
<td>2,500</td>
<td>1,901</td>
<td>2,700</td>
</tr>
<tr>
<td>Out-of-state</td>
<td>8,932</td>
<td>14,300</td>
<td>11,004</td>
<td>39,000</td>
</tr>
<tr>
<td>California</td>
<td>133,972</td>
<td>214,800</td>
<td>165,046</td>
<td>254,700</td>
</tr>
</tbody>
</table>

Source: 1999 State Bar of California and RAND projections (as shown in Figure 4.1 and discussed in Appendix B). To obtain the 1998 estimates, we applied the distribution of inactive attorneys across regions provided by the California Bar Association as of January 4th, 1999 to the total number of attorneys for the state.

In truth, regions with faster rates of population growth may experience higher rates of growth in lawyer supply than others to the extent that California Bar membership and population are correlated. According to the population projections in Section 3 (Table 3.3), the Inland Empire and San Joaquin Valley will undergo the fastest rates of population growth (36 percent and 28 percent, respectively, between 1998 and 2010). The slowest rates of population growth will be in the Residual Region (4 percent), Los Angeles (14 percent), the Bay Area (16 percent), and Santa Barbara (18 percent) between 1998 and 2010. Accordingly, the forecasts in Table 4.1 may underestimate active and total members in Inland Empire and San Joaquin Valley and overestimate active and total members in Los Angeles and the Bay Area. The aggregate total projections for California, however, remain unaffected by these regional variations.

There are several potential limitations with the supply projection that have to do with factors that we were unable to model directly in this exercise. One concern is whether there will be a heavy outflow of attorneys among the baby boom cohort, due to retirement and death. Baby boomers are persons who were born between (mid-)1945–1964. The first five-year cohort of baby boomers will reach age 65 beginning in 2010. We do not anticipate that retirement will contribute to a substantial drop in the number of California Bar members by 2015 for several reasons. First, most baby boomers will not yet be 65 until after 2015. Second, lawyers tend to retire well after age 65, thus postponing the first year that the exodus of baby boomers from the profession might exert a real impact. Third, the expansion of ABA-approved law school classes affected the later, not the earlier baby boomers; so the earliest baby boomers, as they retire or die, are being

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8 The California Bar Association designates two categories of inactive attorneys to distinguish those who are partially or completely retired from younger inactive attorneys, using age 70 as the cutoff.
replaced by larger cohorts now passing the California Bar examination. Fourth, life expectancy and health status continue to improve, thereby extending the potential career of attorneys into later life. Although we do not believe that attrition from the profession due to retirement or death will be an important factor reducing the supply of attorneys before 2015, it may become important in the decade following 2015.

Another potential source of inaccuracy in projecting future numbers of active and inactive attorneys could be unforeseen changes in the number of persons passing the California Bar examination. Based on current trends in undergraduate college and law school enrollment, such changes seem unlikely. Currently, most of the deans of the ABA-approved law schools we interviewed report that they are operating near or at capacity. Total undergraduate enrollment at UC campuses is projected to grow by 34 percent between now and 2008 (California Department of Finance, 1999), which may produce more applicants to law schools. As discussed in Section 2, and corroborated by our law school survey (Section 5), when there are more applicants, law schools can be more selective and enroll higher quality students (Rosen, 1992). The deans we interviewed do not predict a noticeable change in law school enrollment. If, as predicted, the quality of law school graduates is higher, it is possible that the already high California Bar examination pass rates (assuming the bar is not raised) may rise thereby producing more California Bar members. Again, this is not a scenario under which the forecasted number of active and inactive attorneys is too high but rather may be too low.

2. Projected Employment Levels of Lawyers in California (Demand): Methods and Results

Our projections of employment levels (an indicator of demand) for attorneys are more complex and dependent on a broader range of factors than the projections of California Bar members (an indicator of supply). These factors are:

1. population trends,
2. change in local economies,
3. level of employment of attorneys within industries, and
4. current distribution of attorneys throughout California.

We utilized two methods to project employment levels in 2015. The first method assumes that employment of attorneys is determined entirely by population. This method involves applying the rate of lawyers per capita statewide in 1998 to state and regional population projections in 2015 provided by the state of California, Department of Finance.

The second forecasting method is based on the assumption that employment of attorneys is shaped by changes in both population and economic activity across major industries. Industries vary in the level of legal services they require. For example, the financial

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9 It is important to point out that we interviewed only spokespersons for California’s top ABA-approved law schools. Other California law schools may have more capacity and incentive to expand enrollments.
services sector, which includes real estate, banking, and securities, by the nature of the services and products provided, has a greater need for legal services than do wholesale manufacturers. We present this as an alternative method because the variation within California and across the United States in attorneys employed per capita indicates that economic considerations, in addition to population, are important. The results of these two projection methods are displayed in Table 4.2. (The two methods are described in more detail in Appendix B.)

Table 4.2

<table>
<thead>
<tr>
<th>Region</th>
<th>1998</th>
<th>Method 1</th>
<th>Method 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>32,400</td>
<td>36,900</td>
<td>42,800</td>
</tr>
<tr>
<td>Orange</td>
<td>9,700</td>
<td>11,400</td>
<td>13,900</td>
</tr>
<tr>
<td>Inland Empire</td>
<td>3,900</td>
<td>6,100</td>
<td>6,400</td>
</tr>
<tr>
<td>San Diego</td>
<td>9,900</td>
<td>12,800</td>
<td>14,900</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>7,400</td>
<td>9,500</td>
<td>10,300</td>
</tr>
<tr>
<td>San Joaquin Valley</td>
<td>4,000</td>
<td>5,700</td>
<td>5,800</td>
</tr>
<tr>
<td>Sacramento Valley</td>
<td>16,800</td>
<td>21,000</td>
<td>23,900</td>
</tr>
<tr>
<td>Bay Area</td>
<td>42,900</td>
<td>51,200</td>
<td>57,800</td>
</tr>
<tr>
<td>Residual</td>
<td>1,100</td>
<td>1,900</td>
<td>1,600</td>
</tr>
<tr>
<td>California</td>
<td>128,000</td>
<td>156,500</td>
<td>177,400</td>
</tr>
</tbody>
</table>

Source: 1998 CPS and RAND projections (as described in Appendix Tables B-5 and B-6). Numbers are rounded off to the nearest 100.

The first column in Table 4.2 shows the regional and statewide 1998 estimate of employed California attorneys—i.e., the base estimates from which the projected employment of California attorneys in 2015 are derived. Two points should be made about the 1998 data. First, as Table B.7 shows, the statewide number of employed attorneys derived from the CPS is about 96 percent of the number of active California Bar members indicating a close match between supply and employment levels. If one includes inactive California Bar members in the pool of persons eligible to practice law in California, then there was in 1998 a large reserve of qualified lawyers (165,046 total California Bar members compared to 128,000 employed lawyers in California).

Second, in general, the number of active California Bar members in a region is more than or approximately equal to the number of locally employed lawyers. For example, in Los Angeles in 1998, there were 43,003 active California Bar members compared with 32,400 employed attorneys (see Table B.7). However, there are also regions in which employment is markedly higher than the number of active California Bar members. The Sacramento Valley is the most striking example of this anomaly, with 8,294 active California Bar Association members compared with 16,800 employed attorneys. This unlikely scenario may reflect differences in how these data are reported. The CPS, a household survey, records lawyers as living in their primary region of residence, whereas the California Bar counts members as residing in the region where members receive their mail. In the case of the Sacramento Valley, the much higher count of employed attorneys
likely reflects the high number of attorneys working in a state bureaucracy for all or much of the year but who choose to have their mail sent to their permanent home addresses. This finding highlights the caution necessary in interpreting a seeming shortage of attorneys (as defined by an excess of employed attorneys over the number of California Bar members). Keeping this mind, we turn to the first projection of demand for lawyers in 2015.

The results of the first (population-based) method by region and for California are shown in Table 4.2 in the second column (see Appendix B for a description of method 1). The projected employment of lawyers based on the more complex mix of population and industry related method is shown in the third column (see Appendix B for a description of method 2). With the exception of the Residual Region, the projected employment of lawyers based on the second method is higher than the population-based projections. This is explained by the fact that the second method takes into consideration projected growth in various industries. Most of the growth in the employment of attorneys is based on increased employment in professional services (including legal services) and government. As discussed in Appendix B, both these industry categories have a high ratio of attorneys to employees. Nationally, for every 1,000 professional services and government employees there are 25 and 28 lawyers, respectively (Table B.6). In contrast, for every 1,000 employees working in the construction industry, there is less than one lawyer.

Figure 4-5 graphs the 1998 estimated and 2015 projected number of California Bar members and employed attorneys. The solid area of each California Bar represents the low projected numbers and the crosshatched represents the high projected number. Specifically, the solid area of the first California Bar represents the number of active California Bar members; the crosshatched area represents the number of inactive California Bar members. The second bar represents the number of attorneys employed in California in 1998. The third and fourth bars represent the 2015 projected number of active (solid area of bar) and inactive (crosshatched area) California Bar members and low (solid area of bar) and difference between low and high (crosshatched area) projected employment of lawyers. Our projections indicate that what is currently a match or slight surplus of active attorneys relative to employed attorneys may develop into a large surplus by 2015 if current trends continue. The surplus of total in-state active attorneys over the higher projected number of employed attorneys is expected to be greater than 22,000 based on these assumptions. If inactive attorneys are included in the pool of potential attorneys, the surplus of in-state attorneys in California may exceed 38,000 by 2015, again based on the assumptions of the model. The numbers are even higher (as seen in Figure 4.5) when out-of-state Bar members are included.
Figure 4.5
Current (1998) and Projected (2015) Number of California Bar Members
and Employed Attorneys, California

![Bar chart showing number of California Bar members and employed attorneys in 1998 and 2015.]


Figure 4.6 graphically presents the projected number of California Bar members and lawyer employment in California by region. Each region is represented by a pair of stacked bars, following the convention described for Figure 4.5. The first bar represents the active (solid region) and inactive (crosshatched area) California Bar members; the second stacked bar represents population-based projected employment (solid region) and the difference between that and population/industry based projected employment (crosshatched area).10 In Los Angeles, Orange, San Diego, and the Bay Area the low projection of supply (i.e., projected active Bar members) exceed the high projected demand (i.e., Population/Industry Mixed Based Projection). In three regions, the Inland Empire and San Joaquin Valley, as well as the Residual Region, the number of projected active attorneys approximates the lower projected level of lawyer demand. The addition of inactive attorneys to the potential pool of attorneys available to practice in the region, in each of these cases, results in an even greater surplus of California Bar members even when compared to the high demand projection.

10 In the case of the Residual Region, the population-based projection is higher than the industry-based projection; i.e., the solid area represents the industry-based projection and the crosshatched area represents the population-based projection.
Figure 4.6
Projected (2015) California Bar Members (Active and Total) and Employed Lawyers, by Region

Note: The numbers accompanying this figure are in Table B.7.
In the Inland Empire, the San Joaquin Valley and the Residual Region, the projected California Bar members approximate projected employment; that is, supply and demand are expected to be in near equilibrium by 2015 in these regions, with a projected slight deficit of California Bar members in the Inland Empire and a slight excess of California Bar members in the Residual Region. The only regions where there is an apparent shortage are Santa Barbara and the Sacramento Valley. As discussed previously, the latter shortage is misleading because many California Bar members working for the state government appear to use permanent addresses that are outside of the Sacramento Valley. We suspect that for whatever reason California Bar members are disproportionately not providing their Santa Barbara addresses to the California Bar even though they live (and presumably work) in the Santa Barbara region. In 1998, there are about twice as many lawyers residing in Santa Barbara according to the CPS than are indicated by the California Bar membership rolls.

Discussion

This section presented an analysis of wages and hours worked over the past decade by attorneys and other professionals as a preface to long-term projections of number of California Bar members (an indicator of supply) and lawyer employment (an indicator of demand) in California in 2015. A mixed picture emerges. The wage analysis section shows that California may be in the early stages of a lawyer shortage as indicated by rising wages relative to other professions during the late 1990s. If we go back further in time, it is evident that the market for lawyers is very responsive to economic conditions—during periods of economic expansion, wages of lawyers and their hours worked rise faster than wages for all other professions. During less robust economic periods, the wages and the average number of hours worked per week of lawyers declined faster than those of the average professional worker. We conclude from the wage analysis that the labor market for attorneys is very responsive to changes in the economy and that fluctuations in wages and hours worked by attorneys, relative to other professions, are due to business cycle fluctuations. While there may be occasional short-term shortages, as indicated by rising wages, lawyers from in-state or out-of-state are filling these slots, thus adjusting to a new equilibrium.

The estimated and projected numbers of active (and inactive) California Bar members and lawyer employment are consistent with this conclusion. Statewide, in 1998, there appeared to be only a slight surplus of active California Bar members relative to the number of attorneys employed. If inactive attorneys are included in the pool of available law practitioners, the current surplus is much greater. Projections based on current trends indicate that a substantial surplus will be present in the future. At the regional level, there also appear to be varying degrees of surplus of active over employed attorneys both currently and in the future depending on whether active or total California Bar members are used and on the forecasting method employed. In two regions, Inland Empire and San Joaquin Valley, the projections indicate that the number of attorneys available to practice will be about equal to projected employment levels, given the caveats provided earlier.
The indication of a current and projected shortfall of active California Bar members relative to lawyer employment in two regions—the Sacramento Valley and Santa Barbara—is, we believe, an artifact of data limitations for two reasons. First, California Bar representatives have informed us that some California Bar members, particularly state government employees, have their annual dues sent to a permanent address that may be in a different county from where the California Bar member lives and works. Second, there is currently a substantially higher number of lawyers employed in both regions than the number currently residing there, according to the California Bar membership rolls. We doubt that these two regions will experience a shortfall of attorneys to the extent forecasted by our models. Rather, they highlight the data limitations we encounter in making the regional forecasts and the need to interpret other apparent shortages/surpluses carefully. Needless to say, these data limitations apply across region-specific forecasts.

Finally, it is important to note that uncertainty with respect to several factors may affect the accuracy of the results of the preceding forecasting exercise. These include general data limitations, regional distribution of lawyers, and state and local economic changes.

Data Limitations

To derive state- and region-specific estimates and forecasts of supply and demand for attorneys, we relied on two separate data sources, each with its own set of limitations. The employment figures were based on the CPS, a household survey, and, as such, there is less than a one-to-one correspondence between region (or state, for that matter) of the respondent’s household and where the lawyer respondent works. Data for forecasting supply came from the California Bar Association. The regional breakdown of California Bar members is based on the address to which the California Bar member’s annual membership dues statement is sent. In some cases, particularly those involving state government employees, California Bar members may choose to have their annual fee statement sent to a permanent address to avoid loss of mail. These limitations combined with the greater error inherent in small-area estimation and forecasting make the regional estimates and projections subject to greater error than the state forecast. The CPS is designed to provide accurate estimates at higher units of analysis than those of a particular profession at the state level, not to mention the regional level.

Regional Distribution

Regional forecasts are subject to potentially large errors for three other reasons as well. First, the regional forecasts assume that the current regional distribution of lawyers will not change between now and 2015. Potential shifts in the population distribution make this assumption unlikely. To the extent that regions with faster rates of population growth (e.g., Inland Empire) attract relatively more attorneys over this period, the projections of California Bar members in these regions are underestimated. Conversely, in regions with slower projected rates of population growth, the projected number of California Bar members may be overestimated. Two factors mitigate the potential impact of this problem. First, population is directly incorporated in both sets of employment projections—we do not apply the regional distribution based on 1998 data to the
employment projections. Second, the importance of location to practice may diminish given the growing scope of large firms and the ability of new information and communication technologies to complement in-person lawyer-client interactions (see Sections 5 and 6 below).

Economic Factors

The employment projections, in general, are subject to a larger range of error because of the potential occurrence of large unforeseeable economic changes than are the California Bar membership projections. Economic trends are difficult to predict. Possible inaccuracies stem from the inability to predict economic growth with certainty and from the sensitivity of legal employment to economic growth in changing future employment scenarios, such as changes in the relative attractiveness of other professions to lawyers at a given point in time. Moreover, environmental and international factors that shape the demand for lawyers (e.g., new policies or new forms of legal practice) can change.

Another potential limitation is that the demand for lawyers within industries may change over time. In particular, rapidly transforming industries such as biotechnology and the computer industry may have greater need for attorneys per employee in the future and such changes may be region specific. Interview data suggest this may be happening with respect to intellectual property lawyers in Silicon Valley. It is impossible for us to examine this hypothesis, much less incorporate it in our projections because of data limitations.

What may matter most for employment projections in the long run is change in the way that legal services are delivered. With improving networked technologies and the increasing size of law firms, legal services for large and medium-sized clients can be increasingly provided by attorneys outside of the region. Thus, the regional match between California Bar members and employment may become increasingly less important. On the other hand, individuals and small business clients will probably continue to seek legal services from lawyers within the region. What will remain important is that there be an overall match between the demand for attorneys in California and a supply of California Bar members willing to provide legal services and that this match be accompanied by the desired distribution of lawyers across industries and clients.