Economic Reality Facing 21st Century Lawyers

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ECONOMIC REALITY FACING 21st CENTURY LAWYERS

Thomas D. Morgan*

It is difficult, if not impossible, to envision the world of lawyers twenty years hence. To appreciate the problem doing so, think back twenty years to 1974. Law schools and the legal profession were still predominantly the domain of white males. Of the approximately 425,000 lawyers then practicing in the United States, only about 20,000 were women and fewer than 10,000 were African-American. Additionally, lawyers in 1974 followed minimum fee schedules as though they were religious dogma. And in this non-competitive environment, self-promotion by attorneys was strictly regulated. In fact, lawyers were subject to professional discipline if they so much as gave a self-laudatory interview to a newspaper.

Now, twenty years later, the number of lawyers has doubled. The number of women and minority lawyers, while not proportional to their numbers in society, has grown at a rate far faster than the rate for white

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1. The numbers are extrapolated from Barbara A. Curran, The Lawyer Statistical Report: A Statistical Profile of the U.S. Legal Profession in the 1980s 4–5 (1985). All of the data here and in most other sources on the number of lawyers is necessarily estimated. We have reliable data on the number of law graduates each year and numbers admitted to the bar. What we lack is reliable data on the number of lawyers who die or retire each year and the number who choose not to use their legal education to practice law.

2. Id. at 9. See also, Section on Legal Educ. and Admissions to the Bar, American Bar Ass’n, Legal Education and Professional Development—An Educational Continuum 18–20 (Report of the Task Force on Law Schools and the Profession: Narrowing the Gap, 1992) [hereinafter MacCrate Report] (discussing the growth in the number of women joining the legal profession since the mid-1960s).

3. See MacCrate Report, supra note 2, at 25.

4. The U.S. Supreme Court held in 1975 that minimum fee schedules were unlawful because they violated the Sherman Act. Goldfarb v. Virginia State Bar, 421 U.S. 773 (1975).

5. See, e.g., Belli v. State Bar, 519 P.2d 575 (1974) (upholding the censure of a lawyer for permitting his name to appear in an advertisement for Scotch whiskey in which his legal ability was indirectly praised).

6. Projecting from 1990 data presented in the MacCrate Report, supra note 2, at 15, the number of American lawyers is currently about 850,000 and growing at a rate of about 24,500 per year.
Fee schedules no longer exist; lawyers now face price competition, market themselves to the clients of other lawyers, and seek advertising and publicity to put their names before television viewers.

Who could have predicted it? Who can predict the state of the profession 20 years hence and the kinds of skills it will require? However, despite this uncertainty, it is useful to think about the future because the leaders of the bar in 2014 and 2024 sit in law school classrooms today. Our predictions of future developments may be wrong, but if we do not at least think seriously about what skills these students will need to participate in the rapidly changing legal profession, we as legal educators will be certain to disserve both our students and their future clients.

I. THE DEMAND FOR NEW LAWYERS

Perhaps the most basic question is whether we are producing lawyers for jobs that will exist in the twenty-first century. Law school placement offices around the country are working overtime but meeting little success in placing qualified graduates in law firm jobs. Editor Steven Brill has calculated that major law firms will need to lay off one-third of their lawyers. Are such concerns pointing to a fundamental change in the way lawyers practice law? Will deregulation enable clients to cut back on their legal expenses? Will alternatives to litigation such as arbitration and mediation take more work away from lawyers?

My answers to these questions may be more optimistic than one might expect. Indeed, I believe that the current recession in lawyer jobs will end relatively soon. In my judgment, a study performed by University of Chicago economist Peter Pashigian remains to date the best explanation of that market. Pashigian was interested in determining what factor or

7. Women make up over 40% of the new bar admissions each year. MacCrate Report, supra note 2, at 19. The number of African-American lawyers in 1990 was only about 3.3% of all American lawyers, id. at 25, but their absolute number in 1974 was so low that the rate of growth has been significant.
8. The key case starting this revolution, of course, was Bates v. State Bar of Arizona, 433 U.S. 350 (1977).
combination of factors best explains the demand for lawyers. Is it, as might seem reasonable, the level of regulation in the country? Is it changes in procedural rules or the expansion of tort liability?

Pashigian found that none of these seemingly law-related factors explains the demand for lawyers very well. Rather, the key correlate of that demand is the rate of increase in the gross national product. Stated more directly, as the amount of economic activity increases, the number of lawyers needed to facilitate it increases proportionately.

Initially this conclusion may seem too simple, but its logic is apparent. The work of lawyers facilitates economic activity, even the work of those lawyers who represent the victims of that economic activity. Clients use lawyers to plan strategies, negotiate deals, consummate transactions, resolve disputes, redress wrongs, and, when necessary, handle bankruptcies. Clients' collective demand for these services is ultimately driven by the gross amount of economic activity taking place.

Other observers have pointed to essentially the same conclusion using different language and without using mathematics. Dean Robert Clark, for example, describes the lawyer's role as that of "normative ordering." He identifies six kinds of such ordering: (1) drafting and advocating legislation, (2) drafting and advocating administrative rulemaking, (3) making private deals, (4) counseling and planning, (5) resolving disputes through non-judicial means, and (6) litigating disputes.

Similarly, Professor Ronald Gilson calls lawyers "transaction cost engineers," meaning persons who minimize the inevitable risks and costs associated with interpersonal dealing. Professor Frank Cross notes that lawyers serve as "information brokers" by resolving disputes and by fighting efforts by others to take a client's resources.

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*Role of the Corporate Attorney* 3 (William J. Carney ed., 1982) (arguing that the number of lawyers is influenced by the increasing affluence and mobility of U.S. society and the relatively diverse roles played by U.S. lawyers).


13. *Id.* at 281–82.


One might argue with these characterizations of lawyers' work. Many lawyers' clients do not seek legislation, for example, or require "normative ordering" skills. But Pashigian's analysis does not depend on all lawyers engaging in all of the identified functions. Solo practitioners or small firm lawyers may seldom perform administrative rulemaking functions for their clients, but such lawyers may frequently help clients with their planning and dispute resolution needs. Similarly, "transaction cost engineering" is not limited to work related to an issue of securities; it includes smaller-scale work such as negotiating a residential lease. The point is that the demand for lawyers increases as more people get jobs, start businesses, accumulate assets, and have disputes that require a lawyer's attention.

The period Pashigian studied ran only through 1970. During that period Pashigian was interested in what seemed to him to be an under-supply and over-compensation of lawyers. Pashigian concluded that in 1970 the nation had 17% fewer lawyers than it would have had if supply and demand had been in equilibrium.

Even conceding uncertainties inherent in any data about the number of lawyers, or for that matter the size of the economy, application of Pashigian's hypothesis to post-1970 data strikingly confirms the power of his analysis, as demonstrated on this graph:16

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The estimates of the number of U.S. lawyers (in thousands) for the years 1970-93 come from Curran, supra note 1, at 4, and Barbara A. Curran & Clara N. Carson, Supplement to the Lawyer Statistical Report: The U.S. Legal Profession in 1988 1 (1991). The author extrapolated the figures for the years between 1972-79 and 1981-87. Additionally, the author necessarily projected the figures for the years from 1989-93 due to the lack of current data.

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<td>-0.6</td>
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What the graph and data show is that a rapid growth in the number of lawyers began in the 1970s and increased at a rate of almost 5% per year during the middle of the decade. The economy was erratic during the 1970s but grew at an average rate of about 3%. Because Pashigian was apparently right that we started with an unmet need for lawyers, however, the profession did not experience a hiring crisis even during the

<table>
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recession that began in 1979 and lasted through 1982. The nation simply emerged from that recession with the number of lawyers and the economy in approximate equilibrium.

Growth in the number of lawyers continued at a rate of about 3.5% during the mid-1980s. This growth, however, did not significantly disturb the equilibrium between lawyer supply and demand. Until 1989, the American economy expanded at almost exactly the same rate each year as did the number of lawyers. The growth in the economy created sufficient work to sustain the growing legal profession.

By the end of the decade, however, the economy again slowed. From 1989 until 1992, the total three years' net growth in the United States gross domestic product was less than 2%, while the supply of new lawyers grew at a rate of over 3% per year. Put another way, the nation produced over 70,000 new lawyers during that three-year period, but the economy created a need for only 15,000 of them. This disparity between the supply and demand helps explain why new graduates have experienced such intense pressure in finding jobs during the last three years.

There is both good news and bad news in this for twenty-first century lawyers. The average annual growth in the American economy over at least the last forty years has been about 3%.17 The growth rate for 1993 was 3%,18 and a comparable rate is predicted for 1994.19 At the same time, the current growth rate in the number of lawyers entering the profession is about 3% and slowly falling.20 Thus, the nation is once again increasing its production of goods and services as fast as its production of lawyers.21 If that trend continues, a shortage of new jobs may not be a major problem for twenty-first century lawyers.


20. The decrease is a statistical effect of a constant absolute increase in the number of lawyers applied to an increasing base.

21. We still have a generation of qualified 1989–92 graduates who are underemployed, but the current economic numbers may explain recent news stories about a renewed demand for new lawyers. E.g., Nancy Zeldis, Law Firm Recruiting Picks Up, Nat'l L.J., Feb. 21, 1994, at 1.
II. CHANGES IN THE WAY LAW WILL BE PRACTICED

The next time the nation experiences a recession, however, as it inevitably will, there will be little excess demand for legal services to provide jobs for the lawyers being produced. Furthermore, these projections from past data may be optimistic. Such projections necessarily assume that law will continue to be practiced the way it has always been practiced. However, basic aspects of law practice will likely change even before the start of the next century.

First, pressure from international competition has mandated cost-cutting measures in American industry. The days of American productivity being uniformly greater than that of the rest of the world are over. American companies increasingly rely on off-shore production, for example, which substitutes lower-cost foreign labor for relatively high-paid American workers. Cost-cutting also has required the elimination of mid-level managers who do not directly improve a company's bottom line.

Unfortunately, lawyers are the functional equivalent of middle-management. Lawyers facilitate transactions and help resolve disputes, but we do not make widgets. Middle-class clients have long been unable to afford legal services. Soon, business clients may have no choice but to be ruthless in limiting their use of lawyers and restricting what they are willing to pay for legal services. It is self-evident when one thinks about it, but lawyers will only be used when their contribution to their clients' activity equals or exceeds the amount of their fees.

Individual twenty-first century lawyers will need to increase their efficiency. Some of that increase will come from the increased use of advanced technology, but it is clients' inevitable tendency to look at alternatives to the use of lawyers—or at least the use of law firms—that is most likely to characterize practice in the twenty-first century.

That trend is now materializing in the development of alternatives to hourly rate billing. "Value-based" billing, for example, basically

22. See, e.g., Martha Middleton, Firms Find New Ways to Save, Nat'l L.J., Jan. 24, 1994, at 1 (discussing the decision of some law firms to "outsource" internal support operations, including records management and management information systems).


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means charging a contingent fee where the contingency is how successful the lawyer is in improving the client’s position. Negotiating a deal in which the client gets more than expected would, in principle, justify a higher fee; failure to get the desired results would require a lower fee even if the number of hours devoted to the matter were greater than expected.25

There is now talk of “fixed-fee counseling,” which would enable clients to call their lawyers about given subjects any number of times in a year for a specified fee.26 Similarly, lawyers may contract routine litigation27 at fixed rates subject to increase only for special circumstances.28

For a number of years corporate clients’ efforts at cost control have included hiring in-house counsel to provide legal services tailored to a company’s needs but without a law firm’s overhead. While corporations will likely keep their in-house offices, many have come to recognize that in-house capacity is itself costly to maintain. Legal problems vary, and “renting” the services of outside counsel may often address a problem faster and more effectively than “buying” in-house staff.

Even if sophisticated problems continue to be referred to outside firms, however, the future may permit less of a pyramid approach to law firm organization. For several years, firms have been organized so that partners make a significant portion of their income from the billings of associates.29 Corporate clients, however, can often hire people with associate-level experience in-house. Outside firms will likely need to do a job quickly and with experienced people personally in charge to maintain those clients’ loyalty.30

25. In fact, the forms of value billing vary widely and there seems to be much greater client interest in lawyer’s sharing the risk of bad results than sharing the gains from success. See, e.g., Succeeding in the Post-Gold Rush Era, Am. Law., Sept. 1992, at 6 of special report.


27. Routine litigation might include, for example, collection work and accident defense cases.


29. Paying an associate $100,000 per year may seem expensive for a law firm. If that associate bills as few as 2000 hours per year, however, at a rate of $150 per hour, the firm will receive $300,000, a significant portion of which will go to the partners.

The key factor determining whether a lawyer succeeds or fails in the twenty-first century will be whether the lawyer can add value to a client's activity. This will be as true of the lawyer consulted about a middle-class client's purchase of a house or retirement planning as it is of a corporation's expansion into Eastern Europe. Do-it-yourself books and non-lawyers—not to mention other lawyers—will compete for all of this business. The lawyers who will succeed will be those who have been well-prepared to do so.

III. THE WORLD IN WHICH THE 21ST CENTURY LAWYER WILL WORK

To prevent a sharp decline in the demand for their services, lawyers must anticipate the changes their clients will experience and help their clients manage that change. The task of legal education will be to improve students' chances of developing the skills necessary to do that. It will help in that task to look at what we know or can predict about the realities of the world in which lawyers will work during the early twenty-first century. At least five important trends can be predicted with confidence:

1. The internationalization of economic life will not be reversed. The world will increasingly move toward a common currency. The flow of money across borders will be commonplace, and large-scale movements of people will follow closely.

2. Scientific and technical issues will become more complex and sophisticated. Pressure on the world’s limited resources will increase and environmental issues will necessarily become global issues. For example, hazardous waste disposal and increasing demands for energy in developing countries will be issues with world-wide implications.

3. People will live longer and have a greater need for long term medical care. Doctors will continue developing methods to overcome disease and to prolong and virtually create life. As a result, pressure on families will increase; eldercare will become as significant an issue in the twenty-first century as child care.

31. The organizing theme of 1991 Annual Meeting of the Association of American Law Schools was the world in which the students will be practicing. In the plenary session of the meeting, analysts such as political scientist Seymour Martin Lipset and economist Alice Rivlin tried to envision the world twenty years hence. No transcript was made of their presentations, but they were tape recorded. The recordings can be found in the Jacob Burns Law Library of The George Washington University and most other academic law libraries around the country.
is today. Moreover, as people expect to live longer and healthier lives, second careers will become common. This trend will raise issues regarding the effects on social security and pension benefits as well as increased competition with younger generations for career opportunities.

4. Cultural diversity will become more pervasive than ever. The movement of peoples, as well as differential birth rates, will mean that most individuals and groups will find themselves in a minority status wherever they live. Even males of European ancestry, for example, will be a minority in the U.S. labor force by early in the next century.\(^{32}\)

5. Competitive pressure in world economic production and an increase in numbers of people too young or too old to work mean it is unlikely that twenty-first century Americans will see as much growth in their standard of living as their parents and grandparents saw. This reality will be reinforced as services will become an even larger component of the economy; it will be harder to increase efficiency in the delivery of those services than it was to improve the efficient production of goods.

IV. EDUCATION OF THE 21ST CENTURY LAWYER

The task of training lawyers for twenty-first century problems should not be delayed for future speculation; those lawyers are today’s law students. Preparation of today’s students for today’s practice is tempting, but it is a mistake. It is tempting because students are applying for jobs now, but if we can predict anything, it is that today’s truths about needed skills will soon be anachronistic.

The most fundamental skill of a twenty-first century lawyer is likely to be understanding a client’s business or family problem. Skills of lawyering will more and more become skills of problem-solving and will call upon what we now describe as interdisciplinary training. No lawyer

will be as good as the client at doing the client’s business, and no lawyer will be able to solve the problems of a client’s aged parent or delinquent child. The more lawyers know about science, technology, economics, psychology, management, and other matters affecting their clients’ interests, however, the more value lawyers will be able to add to their clients’ activities.

In the same vein, twenty-first century lawyers will need to know the international implications of all that they do. That will be true of lawyers in mid-western states as well as those on both coasts. It will be as true in the fields of family law and trusts and estates as it is in commercial law. The law of Germany will be as important to a lawyer in the state of Washington as is the law of Oregon. The fact is that learning a foreign language may be more important for a twenty-first century lawyer than taking a trial advocacy course.  

Finally, developing an understanding of the pluralism within this country, as well as around the world, will be even more fundamental in the future than it is today. Very little legal advice to a domestic or international business client will even be competent if it ignores the impact of a decision on the sensibilities of persons of different nationalities, races, ages, religions, genders, and sexual orientations. Lawyers serving individual clients will likewise be required to counsel a diverse group of clients for their practices to grow and develop.

V. CONCLUSION

When all is said and done, today’s legal education cannot effectively prepare people to be lawyers in the next century. Change will be so rapid and profound that we cannot today predict exactly how the

33. Indeed, before we react too vigorously to a perceived crisis in producing lawyers with practice skills today, it may be useful to look at the 1990 survey by the ABA Young Lawyers Division. One conclusion of the survey was that 48% of the respondents thought the skills training they had received was not very useful. Almost two-thirds of respondents reported they had “not much” difficulty with investigating facts and dealing with ethical problems in their early practice years. Over one-fifth reported great difficulty conducting a trial and knowing their way around the courts, but even among lawyers who began their careers in solo practice, fewer than 20% reported great difficulty in drafting documents and handling pre-trial pleading and motions. ABA Young Lawyers Division, The State of the Legal Profession 1990 38–39 (1991).

When asked to specify the experience that helped them most in making the transition to practice, summer employment and other work experience were reported to be more valuable than programs created by the law school, and law firms, not law schools, were identified by a majority of respondents as the entities that should be responsible for dealing with these problems of transition. Id. at 40–41. Respondents did, however, believe that law schools should do more to provide skills training. Id. at 42.
profession will evolve. It will be the capacity to respond to that change—and to contribute to clients' activities—that will distinguish successful lawyers from the rest.

The Association of American Law Schools recently published the report of its Special Committee on Legal Education for Twenty-First Century Lawyers.\textsuperscript{34} I believe it captures well the challenge law schools face, and it summarizes my own views about how law schools should prepare students for the future. After reviewing many of the trends identified here, the Committee wrote:

It is essential that law schools continue to experiment, to adapt, and to evolve to meet the needs of future law graduates in the changing and increasingly diverse sociological, technological, economic, geographic, and intellectual context in which they will be spending their professional lives.

However, a common core probably should remain for all who receive a legal education, no matter what a student's or a law school's ultimate focus. The twenty-first century lawyer, like generations of lawyers before, must seek to communicate clearly, mediate the disputes of diverse persons, and help create understanding of and appreciation for differences within institutions in ways that build community rather than foster division. The twenty-first century lawyer must, as today, still be committed to the rule of law and to fair and equitable legal processes. These ideas perhaps seem more appropriate to the eighteenth or nineteenth century rather than to the beginning of the next millennium, but even in the midst of change, some things [will] remain fundamental.\textsuperscript{35}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{34} Special Comm. on Legal Educ., Association of Am. Law Sch., \textit{Legal Education for Twenty-First Century Lawyers} (1993) (on file at Washington Law Review). The Committee was appointed by the author when he was President of the Association of American Law Schools in 1990.
\item \textsuperscript{35} \textit{Id.} at 8–9.
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