IS A LEGAL EDUCATION A BETTER INVESTMENT THAN AN ECONOMICS DEGREE?

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ABSTRACT

In an earlier paper the authors showed that investment in an economics degree had become more profitable over time due mainly to the significant relative decline in the number of students graduating in economics. This paper considers the implications of the major changes in the labour market for a profession which has, in contrast to economics, experienced a very major expansion in graduates, namely, law. Other things being equal it might be expected that the large increases in supply of law graduates might have reduced the expected rate of return to the degree. The paper reports estimates based on Census data which show that the expected private rate of return to the degree did not fall between 1986 and 2001. One hypothesis that is consistent with this result is that a large increase in demand for legal skills has accompanied the growth in supply. However, despite perceptions that law is an elite degree leading to superior careers, the estimates suggest that an economics degree yields a higher rate of return.

1. INTRODUCTION

The past twenty years have seen some major changes in the supply side of the labour market for professionals. The number of Australian students graduating from universities increased by 50 per cent over the post-Dawkins era 1989 to 1999 but the rate of growth in graduates has differed between disciplines. The relative decline in economics graduates has been well documented (see, for instance, Lewis and Norris, 1997; Maxwell, 2003; and Milmow, 1995, 1997, 2000). The general conclusion from this literature is that an economics degree was regarded unfavourably relative to

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its competitors in terms of salaries and career prospects. In addition, brighter students with higher tertiary entrance scores were being attracted to the perceived elite courses, such as law, where places were expanding rapidly.

In contrast to economics, there has been a dramatic increase in the numbers completing a university degree in law and legal studies. Between 1989 and 1999 the annual number of people completing law and legal studies degrees in Australia increased almost 2.5 times. Following overseas trends, the proportion of female lawyers has been increasing and over half of the students enrolled in law courses are now female. In an earlier paper the authors (Lewis, Daly and Fleming, 2004) showed that the relative fall in economics graduates had resulted in a significant rise in the rate of return to an economics degree. The aim of this paper is to consider the implications of the changes in the supply of lawyers for the private rate of return to a law degree and contrast it with these results for economics.

The issue of the effect of large changes in the size of the tertiary educated population on the value of a degree was explored in considerable depth about 25 years ago when the post-war baby boomers reached adulthood. The evidence from the US for the 1970s showed a decline in the private rate of return to a four year college degree following the substantial growth in the number of college graduates entering the labour market in the early 1970s (see for example Berger, 1985; Freeman, 1976 and 1979; and Welch, 1979). It was even argued that this might produce permanently lower incomes as the new labour market entrants missed out on opportunities for on-the-job training and promotions (Berger, 1985). Holding other things equal, the large increase in Australian law graduates over the past decade might also have lowered the expected rate of return to a law degree.

Australian evidence suggests that private rates of return to university education in general have been sensitive to changes in the supply of and demand for graduates. It is difficult to compare calculations of private rates of return to university education from different studies because of variations in methodologies but the broad conclusion of a comparison of Australian studies over time is that the private rate of return to tertiary education has remained high since the mid 1970s although it appeared to decline in the late 1980s (Miller, 1982; Maglan, 1994; Daly and Jin, 1997; Chapman and Salvage 1997; Borland, Dawkins, Johnson and Williams 2000; Borland, 2001; Larkins, 2001).

The most recent study by Borland (2001) used data from the Australian Bureau of Statistics (ABS) Training and Education Experience Survey 1997 to estimate rates of return to broad categories of degrees. On
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the basis of his base case assumptions, the private rate of return to a university degree was 14.5 per cent in 1997. He found a higher rate of return for Business and Administration (18 per cent) and Engineering (19.5 per cent) degrees compared with other degrees. These results show that investment in higher education remained worthwhile for individuals.

This paper focuses on the expected private rate of return to university graduates in law, business and economics. Results for law graduates are particularly interesting because their growth has exceeded that of graduates in total. Between 1989 and 1999 the annual number of university graduates increased by 50 per cent but the number of law and legal studies graduates increased by almost 150 per cent (Department of Education, Science and Training (DEST) 2002). There was a similar growth in the numbers with business-related degrees (see below).

The paper begins with a short descriptive section outlining some of the characteristics of law graduates derived mainly from the Population Censuses of 1986, 1991, 1996, and 2001. Census data are then used to calculate private rates of return to investment in a law degree and results of some sensitivity analysis are reported.

2. AN OVERVIEW OF THE CHARACTERISTICS OF LAW GRADUATES

In the common law world lawyers are generally defined as legal professionals working as legal practitioners. The ABS Classification of Occupations, for instance, defines legal professionals as those engaged in the practice of law. In this paper we have adopted a broader definition to

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1 He assumed that it takes three years to complete a university degree, men retire at 65, HECS is paid up-front at the Band 2 level, direct costs are $2000/annum, the student works while studying but receives no government income support.

2 The ABS (1997) defines legal professionals as people who provide legal advice, prepare and draft legal documents, conduct negotiations on behalf of clients and plead cases before civil, criminal and industrial courts and other tribunals. The entry requirement for this unit group (2521) is a bachelor degree or higher qualification. Tasks include:

- Receiving written information in the form of briefs and verbal instructions concerning cases
- Researching statutes and previous court decisions relevant to cases
- Providing advice and written opinions on points of law
- Interviewing clients and recommending or undertaking appropriate legal action
- Preparing cases for court by conducting investigations, undertaking research, arranging witnesses, and giving notice of court actions
- Representing clients in court

Footnote continued on next page.
include all those with undergraduate or higher degrees in law or otherwise qualified to practise law. One reason is that we are not just interested in the returns to law graduates who work as legal practitioners but also in those who work in other occupations. This group appears to be growing in number. According to the 2001 Census, 38 per cent of employed persons with a law degree were not working in legal practice. In addition, the regulations governing the profession have altered over the past twenty years. While reservation of legal work for lawyers remains, lawyers do not control the number of people qualified to undertake legal work. The supply of lawyers is determined by the universities.

Table 1 shows that the growth in the number of people with law degrees in the period 1986-2001 was greater than the growth in the population of Australia. The number of lawyers per 1000 in the population grew from 1.8 to 3.3 over the period and there was a substantial increase in the number of females with law degrees. In 2001, 39 per cent of people reporting a law degree were female. The growth in the real income of law graduates reported in the Census appears to have exceeded that of average weekly earnings over the period although the figures are not directly comparable. Total real average weekly earnings grew by 6 per cent between 1986 and 2001 compared with the 22 per cent growth in the median income of law graduates recorded between the Censuses.

### TABLE 1

**CHARACTERISTICS OF LAW GRADUATES 1986-2001**

|----------------|-------|-------|-------|-------|--------------------
| Number         | 28,291| 39,339| 50,594| 64,351| 127.5              |
| Lawyers/1000 population | 1.8   | 2.3   | 2.8   | 3.3   | 83.3               |
| Median age category | 40-44 | 35-39 | 35-39 | 40-44 | na                 |
| Gender (percentage male) | 77.3  | 72.8  | 66.2  | 61.0  | -21.1              |
| Median income (2001 SAUD) | 56,887| 61,662| 57,619| 69,355| 21.9               |


- Outlining the facts to the court, calling and questioning witnesses, and making addresses to the court to argue a client's case
- Preparing contracts of sale, mortgage documents, lease documents and other documents relating to the purchase of land or buildings (Australian Standard Classification of Occupations)

The course of study and examinations conducted by The Law Extension Committee of the University of Sydney still offers an alternative, non-degree path to admission to the legal profession in NSW.
Net migration, retirement and deaths of working-age employed legal graduates accounts for a very small proportion of the change in the stock of lawyers in Australia (Daly, Fleming and Lewis, 2002). Most of the growth reported in Table 1 came from new graduates. Over the period 1991 to 2001, Australian universities produced about 60,000 new law and legal studies graduates (DEST 2002), equivalent to 175 per cent of the existing pool of qualified legal professionals in 1991. However it is important to note that these data include both graduates in law and the related field of legal studies (for example graduates of the Bachelor of Justice Studies program at Charles Sturt University and the Bachelor of Legal Studies program at Southern Cross University). One third of respondents counted in the Graduate Destination Survey as “Law” graduates, were in fact from these related disciplines (GCCA, 2000).

**FIGURE 1**

**COURSE COMPLETERS BY AREA OF STUDY 1989 = 100**


Figure 1 presents the data for course completions for non-overseas students from Australian universities, for law and legal studies, business

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4 The numbers reported in the Census with a law degree do not fully reflect this significant increase in people completing law degrees. This probably reflects the fact that the Census asks people for their highest qualification which may be in an area other than law. In addition, the ABS codes double degrees to one of the subject areas only so some people with a double degree with law will be coded to another subject area. The figures in Table 1 therefore reflect minimum estimates of the people with law degrees.
administration and economics and all degrees by way of comparison. Course completions in law and legal studies and business administration more than doubled over the decade reflecting in part, the growth of double degrees. This increase was much faster than for course completions as a whole. Against these rising trends, the number of students completing an economics degree was actually lower in 2002 than in 1989 (Lewis, Daly and Fleming 2004). It is hard to be sure how much of these changes reflect real changes rather than just naming changes for degree programs.

The growth in the number of law and legal studies graduates reflects both a larger number of universities offering law and legal studies degrees and increased intakes in existing law programs. In 1970 there were eight law schools in Australia, in 1985 12 law schools and today there are 29 law schools. In the five years to 1993, the number of students graduating with a law degree increased by 67 per cent, from 2,900 in 1989 to 4,800 and, in 1999, there were over 25,000 law students. This increase was facilitated both through the expansion of the existing established law schools, such as the University of Melbourne, Queensland University of Technology and the Australian National University all of whom had either doubled, or more than doubled in size over the period; and via the creation of new law schools in emerging universities such as the University of Wollongong, Griffith University and Murdoch University. By the late 1990s the trends apparent at the start of the decade had continued with universities such as the Royal Melbourne Institute of Technology, the University of Western Sydney, the University of Canberra and the Northern Territory University, developing their own law schools. This follows similar trends in the US in the 1980s (Rosen 1992).

3. THE PRIVATE RATE OF RETURN TO A LAW DEGREE

In a labour market for skilled workers such as law graduates, experienced workers and new entrants may not be close substitutes. In the career phase model developed by Welch (1979), workers with different levels of experience are not substitutes for each other. A large number of new entrants to the labour market competing for a limited number of entry-level jobs is expected to bid down their own wage relative to those well established in the labour market. Alternatively, where relative wages are not flexible, unemployment is likely to rise among this group.

There is no evidence from the Census data of increasing unemployment among young law graduates over the 1990s. According to the Census, unemployment fell among male law graduates aged 29 years and under from 4.7 per cent in 1991 to 3.1 per cent in 2001 and for females from 4.4 per cent to 2.9 per cent. However there is some evidence from the
Census that young law graduates were increasingly likely to find employment outside the tradition occupation of legal practitioner.

Figure 2 considers the median income - age profiles for 2001. It shows that law graduates earned, on average, consistently higher incomes over their lifetime than all graduates. Starting salaries were not significantly higher for law graduates than other graduates but there was a steeper age income profile for this group as graduates moved into their prime working ages than for graduates as a whole. This is consistent with more on-the-job training and higher returns to experience among law graduates than among other graduates. All graduates over 55 reported lower median incomes than prime age workers.

**FIGURE 2**

**AGE INCOME PROFILE, MEDIAN SALARIES, 2001**

Note: Median income of year 12 graduate aged 15-29=100.

Table 2 presents estimates of the private rate of return for males and females to a law degree compared to an economics degree, a business degree and other university degrees. The business degree has been chosen as a likely alternative for people who chose law or economics. The methodology adopted follows that used by Borland et al (2000) and Borland (2001). The rates of return are calculated by comparing the lifetime income stream for a person who has completed year 12 with the lifetime income stream for a person who has completed a university degree (assumed to take 3 years (Blondal, Field, Girouard, 2002) or a law degree (assumed to take 4 years). The calculations are, therefore, based on cross-section data for each year and do not track a cohort over time. We have,
therefore, focussed on an ex ante estimate of the private rate of return rather than an ex poste estimate which could be calculated by tracing cohorts over time. The justification for this approach is that people making choices about their future education will be making rational choices based on the available data on incomes of those currently employed and will not have perfect foresight as to actual outcomes. We are interested in how those ex ante calculations have changed over time.

**TABLE 2**

PRIVATE RATE OF RETURN TO A LAW DEGREE COMPARED WITH COMMERCE AND OTHER DEGREES, MALE 1986-2002 PER CENT

<table>
<thead>
<tr>
<th>Year</th>
<th>Econ</th>
<th>Law</th>
<th>Business</th>
<th>Other</th>
<th>Econ</th>
<th>Law</th>
<th>Business</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Base case</td>
<td>11.6</td>
<td>10.5</td>
<td>11.6</td>
<td>12.6</td>
<td>14.2</td>
<td>14.5</td>
<td>12.5</td>
<td>14.1</td>
</tr>
<tr>
<td>2. Earnings while studying</td>
<td>18</td>
<td>15.4</td>
<td>17.6</td>
<td>19.4</td>
<td>23</td>
<td>21.2</td>
<td>20.1</td>
<td>22.7</td>
</tr>
<tr>
<td>3. Adjusted for probability of unemployment</td>
<td>14.2</td>
<td>12.6</td>
<td>14.2</td>
<td>15.3</td>
<td>16.9</td>
<td>17.4</td>
<td>15.7</td>
<td>17.3</td>
</tr>
<tr>
<td>4. Extra year to complete degree</td>
<td>9.0</td>
<td>8.7</td>
<td>9.0</td>
<td>9.4</td>
<td>10.7</td>
<td>11.8</td>
<td>9.1</td>
<td>10.3</td>
</tr>
<tr>
<td>5. Adjusted for unemployment and earnings while studying</td>
<td>20.1</td>
<td>20.3</td>
<td>23.8</td>
<td>26.2</td>
<td>22.6</td>
<td>29.4</td>
<td>30.0</td>
<td>33.1</td>
</tr>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Econ</th>
<th>Law</th>
<th>Business</th>
<th>Other</th>
<th>Econ</th>
<th>Law</th>
<th>Business</th>
<th>Other</th>
</tr>
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<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Base case</td>
<td>14.8</td>
<td>13.5</td>
<td>12.8</td>
<td>13.6</td>
<td>17.6</td>
<td>16.4</td>
<td>13.4</td>
<td>15.9</td>
</tr>
<tr>
<td>2. Earnings while studying</td>
<td>24</td>
<td>19.7</td>
<td>20.8</td>
<td>22.3</td>
<td>25</td>
<td>24.9</td>
<td>21.0</td>
<td>25.5</td>
</tr>
<tr>
<td>3. Adjusted for probability of unemployment</td>
<td>17.2</td>
<td>15.6</td>
<td>15.5</td>
<td>16.3</td>
<td>19.6</td>
<td>18.1</td>
<td>15.0</td>
<td>17.6</td>
</tr>
<tr>
<td>4. Extra year to complete degree</td>
<td>11.3</td>
<td>11.3</td>
<td>9.5</td>
<td>10.0</td>
<td>13.2</td>
<td>13.1</td>
<td>10.2</td>
<td>11.7</td>
</tr>
<tr>
<td>5. Adjusted for unemployment and earnings while studying</td>
<td>24.6</td>
<td>26.3</td>
<td>29.7</td>
<td>31.9</td>
<td>29.5</td>
<td>30.9</td>
<td>26.7</td>
<td>32.1</td>
</tr>
</tbody>
</table>

Notes:

a. Incomes for graduates and high school graduates are taken from the Population Census in each year. It is assumed it takes three years to complete an average university degree and four years to complete a law degree. Earnings while at university are zero. Retirement age is 65 years. HECS is paid on completion of the course. Direct costs are $2000 (1996 $).

b. Assuming real average earnings of university students based on results reported in McInnis and Hartley (2002) of $11,466/annum.
c. Income has been adjusted for the age-related probability of unemployment for high school graduates, law graduates, commerce and other graduates.
d. Assuming the average length of a degree, including law is four years.
e. See notes b and c.

The income data from the Census are available for five-yearly age groups. These data have been used to estimate a simple earnings regression relating income to age and age squared in order to interpolate incomes for each individual age. Net incomes have been calculated from these equations after the appropriate adjustments for income tax. Further details of the calculation of the rates of return including the detailed regression results are available from the authors upon request.

The base case reported here assumes that university students do not earn income while studying and that they incur $(1996) 2000 pa in direct costs. In addition they are assumed to pay the student fees applicable to each year; in 1986 the Higher Education Administration Charge and in 1991, 1996 and 2001 the Higher Education Contribution Scheme (HECS) charge. There has been no so-called ‘alpha adjustment’ made to account for the fact that university graduates may earn higher incomes than high school graduates for reasons unrelated to their education such as natural ability or motivation to succeed. Tertiary entry score cut-offs for law tend to be higher than for many other degrees so part of the higher estimated rate of return to a law degree might reflect higher average ability and motivation of this group compared with other graduates.

The results of these calculations are particularly sensitive to the assumptions made, the year to which they relate and the data source but these results are of a similar order of magnitude to other Australian studies for males (see Maglen 1994, Daly and Jin 1997, Chapman and Salvage 1997, Borland, Dawkins, Johnson and Williams 2000 Borland 2001). A recent study by Larkins (2001) estimated the private rate of return to Humanities and Social Science degrees in 1997-98 at 13.7 per cent for a three-year degree and 10.3 per cent of a four-year degree. These results are also similar in magnitude to the rates of return calculated by Mulvey (1980) for the legal profession in Scotland. However, since the same methodology and assumptions are employed here across disciplines and across time, valid comparisons can be made more easily.

According to these calculations investment in higher education from an individual’s viewpoint was expected to be worthwhile. Taking the base case, Table 2 shows that the ex ante private rate of return for all groups of male graduates actually rose between 1986 and 1991, especially in the case of law. There was some decline for law and other graduates between 1991 and 1996 followed by a higher rate of return estimated for 2001.
In summary, this evidence suggests a relative improvement in the expected private rate of return to studying law. The relatively high rate of return to a law degree in part, reflects the longer hours law graduates were working. In 2001 63 per cent of law graduates worked more than 45 hours per week compared with 42 per cent of other graduates (ABS 2002).

For ease of comparison, the base rates of return are also presented in Figure 3. The growth in the number of law graduates over the 1990s has not reduced the rate of return to a law degree compared with other university degrees and despite the expansion of numbers completing tertiary education, the private rate of return estimated on this range of assumptions for all types of degrees remains high. After 1986 the private rate of return estimated for law was higher than for business degrees and the gap was largest at three percentage points in 2001. In 1986 the rate of return to a law degree was below that of ‘other’ degrees but by 2001 it was slightly above. In 2001, the expected rate of return to an economics degree however had increased even more than the returns to law. This evidence suggests a relative improvement in the rate of return to studying law compared with all degrees except economics.

**FIGURE 3**

PRIVATE RATE OF RETURN BY DISCIPLINE, 1986-2001


From the early 1990s at the time when the decline in economic enrolments was gathering pace, the rate of return to an economics degree
began to rise. In particular, the rate of return to an economics degree was significantly higher than the rate of return to a business degree.

The remainder of Table 2 presents some results on the basis of varying assumptions from the base case. The largest cost of a full-time education is the earnings foregone while undertaking full-time study. McInnis and Hartley (2002), on the basis of a survey undertaken in 2000 in nine Australian universities, estimate that the average student works about 15 hours a week for an average pay of $15/hour. This produces a conservative estimate of annual earnings of $(2001) 11,466, which partially offset earnings foregone. The rapid growth of full-time students in employment has dramatically increased the rate of return to education for those students able to combine paid employment and study. The ability and the propensity to do this varies between degree programs (McInnis and Hartley, 2002). Evidence suggests that students did not work such long hours during term time in 1986 and 1991 (McInnis and Hartley, 2002) so the estimated rates of return in 1986 and 1991 presented in the second row will exaggerate the rate of return to education in these two periods.

Not only does a university education increase income but also it is associated with a lower level of unemployment. While people without an educational qualification had an unemployment rate of 8.2 per cent in 2001, the rate for university graduates was 3.3 per cent and for law graduates, 2.2 per cent. Adjusting the rates of return for the probability of unemployment in each age group therefore increases them as shown in the third row of Table 2.

The fourth adjustment to the base case adds an extra year to the time taken to complete a degree. Law degrees are assumed to take five years and other degrees to take four. If this adjustment is interpreted as the expected rate of a return on a double degree that usually takes five years for law and four years for other degrees, the estimated return includes the return to both degrees. As the extra year increases the immediate costs of a degree, it reduces the private rate of return. The final row of the table presents estimates for the rates of return adjusting for both unemployment probabilities and earnings while studying full-time. These results show a very high private rate of return to investment in tertiary education.

According to these results, the labour market for lawyers has successfully absorbed the large increase in the numbers graduating with law degrees without dramatic reductions in the income of lawyers or rising levels of unemployment. It appears that the expansion in supply over the 1990s has been met by an expansion in demand for legal services.
4. THE DEMAND FOR LEGAL SERVICES

The ABS survey of the legal services industry in Australia, shows that real income has risen from $(1999) 4528.1m in 1987/88 to $6652.0m in 1998/99; a growth in real terms of 47 per cent over the period. This growth was particularly marked between the ABS survey of legal services in 1992/3 and in 1998/9 (ABS 1994 and 2000). Changes in the classification of sources of income make comparisons over the whole period difficult but between the surveys of 1992/3 and 1998/9, the major areas of growth for the industry were in commercial and financial law and ‘other’ law (including personal injury, intellectual property and industrial relations) (see Table 3). Commercial legal services accounted for 37 per cent and ‘other’ 32 per cent of income for the industry in 1998/9. These were also the major growth areas with such areas as property and criminal law actually experiencing falls in their income.

### TABLE 3

REAL INCOME FOR THE LEGAL SERVICES INDUSTRY, 1992/3-1998/9, $1999

<table>
<thead>
<tr>
<th></th>
<th>1992/3 $m</th>
<th>1998/9 $m</th>
<th>Percentage change</th>
<th>Share 1998/9 Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
<td>1201</td>
<td>1174</td>
<td>-2.25</td>
<td>17.6</td>
</tr>
<tr>
<td>Wills, probate and estate</td>
<td>231</td>
<td>258</td>
<td>12</td>
<td>3.9</td>
</tr>
<tr>
<td>Commercial, finances and business</td>
<td>1839</td>
<td>2460</td>
<td>34</td>
<td>37</td>
</tr>
<tr>
<td>Family</td>
<td>346</td>
<td>322</td>
<td>-7</td>
<td>4.8</td>
</tr>
<tr>
<td>Criminal</td>
<td>271</td>
<td>220</td>
<td>-19</td>
<td>3.3</td>
</tr>
<tr>
<td>Environmental</td>
<td>92</td>
<td>77</td>
<td>-16</td>
<td>1.2</td>
</tr>
<tr>
<td>Other</td>
<td>1340</td>
<td>2141</td>
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<td>Total</td>
<td>5320</td>
<td>6652</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>


The rapid growth in the demand for legal services could be linked with a number of factors, including the heightened awareness of law and legal remedies among Australian consumers, the introduction of competitive neutrality and public sector reform which has revived contract and contract-like controls such as purchaser-provider mechanisms “as the foremost organising mechanism of economic activity” (Deakin and Michie, 1997) and led to an increased need for legal advice in government and private organizations. An example of the increased expenditure on legal advice was highlighted in the Humphry review of the Commonwealth government’s IT outsourcing policy (2000). When the in-house provision
of IT support was replaced by outside providers, legal expertise was required by both parties to establish the contract under which the required services would be provided. There has also been a growth in international business opportunities for Australian legal firms and foreign firms establishing in Australia. Over the course of the 1990s Australia has become a net exporter of legal, accounting and managerial services to the value of $200m in 2000 (ABS, various issues).

Within a booming services sector, the legal services industry has excelled, helping to explain the increase in the demand for legal professionals. The mechanisms by which the legal industry has adapted to these changing demand conditions will be the subject of future research. Changes in the organisation of work, the recruitment of non-core staff, increased opportunities for promotion, poaching of staff from other law firms, the use of para-legal workers and those without legal qualifications are some of the possible mechanisms used to meet the increasing demand for legal services.

5. CONCLUSION

This expansion in those qualified to provide legal services did not lead to a reduction in the private rate of return to a law degree. The estimated expected private rates of return presented in this paper were at their highest level of 16.4 per cent in 2001. In 1986, the estimated private rate of return on a law degree was lower than that on an economics, business or ‘other’ degrees. By 2001 it was higher than on business and “other” degrees but remained below that of economics.

This result reflects the growing demand for legal services and the ability of law graduates to find relevant work outside the traditional occupation of practicing lawyer. The rapid growth in demand for legal services has been due to a number of factors including an increasingly litigious society and the shift to more contract-based business practices, especially in the public sector. The strong areas of growth in legal services were in the areas of commercial, finance and business services and “other” (including personal injury, intellectual property and industrial relations) services.

There have been significant changes over the 1990s in the regulatory environment in which lawyers operate. While the reservation of legal work for lawyers remains and is underpinned by legislation, changes from within the profession and through external pressures such as the application of National Competition principles to the professions have reduced the guild-like nature of the labour market for lawyers.
Compared to other degrees the growth in rate of return to a business degree has been modest and, in relative terms, business graduates have fallen behind other graduates particularly those in related disciplines such as law and economics. This indicates that the huge increase in supply of business graduates has had a significant negative effect on the relative position of these graduates in the labour market.

The relative decline in economics graduates has had a significant positive impact on the careers of economists. The rate of return to an economics degree has risen over time from 11.6 per cent in 1986 to 17.6 per cent in 2001, in the base case scenario. Economics has far outstripped its nearest rival, business, and overtaken its (often thought of) more prestigious alternative law.

REFERENCES


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