Los Angeles Law Firms Before and After Recessions

Lowell Milken Institute Report

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INTRODUCTION

Three years ago, the Lowell Milken Institute published a study of Los Angeles law firm offices in the years after the financial crisis of 2008.[1] We documented a slow but uneven recovery in the number of lawyers working at national law firm offices in Los Angeles. The largest firm offices with a longstanding presence in Los Angeles had become significantly smaller over the decade from 2008 to 2018. The number of partners working in Los Angeles offices at those firms remained fairly constant over this period, but the number of associates was significantly lower. In contrast, new entrants to the Los Angeles market opened up new offices and their growth offset the decline of the established firms.

The spring of 2020 saw a new crisis that threatened the national and local economy. The Covid-19 pandemic caused a sudden stock market crash and plunged the nation into recession. In the first few months of the pandemic, there was speculation that its impact on law firms could be as bad or worse than the impact of the financial crisis of 2008.[2] The number of new Covid-19 cases declined significantly by the fall (only to worsen around the end of 2020), the stock market recovered and reached new highs, and the development and administration new vaccines presents the possibility that a strong economic recovery is on the horizon. But even with the hope that life will return to normal, there is significant uncertainty about the near and long-term impact of the 2020 recession on the practice of law in Los Angeles.

While it is impossible to predict the future, we can look to the past for lessons about how periods of economic turmoil affect law firm offices in Los Angeles. This report thus examines three recessions – the 1990 recession, the 2001 recession, and the 2008 recession – and how they impacted Los Angeles law firm offices. We collected data on a sample of major Los Angeles law firm offices – some of local firms, some of out-of-state firms – and examined how this group of firms fared during these three recessions.[3]

Our main conclusion is that significant reductions in the number of attorneys employed by law firm offices after a recession largely reflect reversals of high growth prior to the recession. The 1990 and 2008 recessions in particular reversed substantial increases in the size of Los Angeles law firm offices. In contrast, the 2001 recession had a limited impact on Los Angeles and mainly had lasting effects with respect to Northern California firms. **The 2020 recession may only have a modest impact on Los Angeles law firm offices because they have been conservative in their growth for the past decade.**

Recessions have not only affected the size of law firm offices, they have prompted changes to the law firm model in Los Angeles. The large, leveraged model of the New York City law firm never firmly took root in Los Angeles. Examining the last three major downturns and their impact on Los Angeles provides some insight into why Los Angeles law firm offices differ from their New York City counterparts. It is possible that the 2020 recession will also spur lasting change in law firms in Los Angeles and elsewhere.

[1] James Park, Law Firms in Los Angeles After the Financial Crisis, Lowell Milken Institute Policy Report (2018), https://lowellmilkeninstitute.law.ucla.edu/wp-content/uploads/2019/06/Law-Firms-in-LA.pdf.

[2] *Are Layoffs Coming? And if So, Who Will Be Impacted?*, THE RECORDER, June 1, 2020.

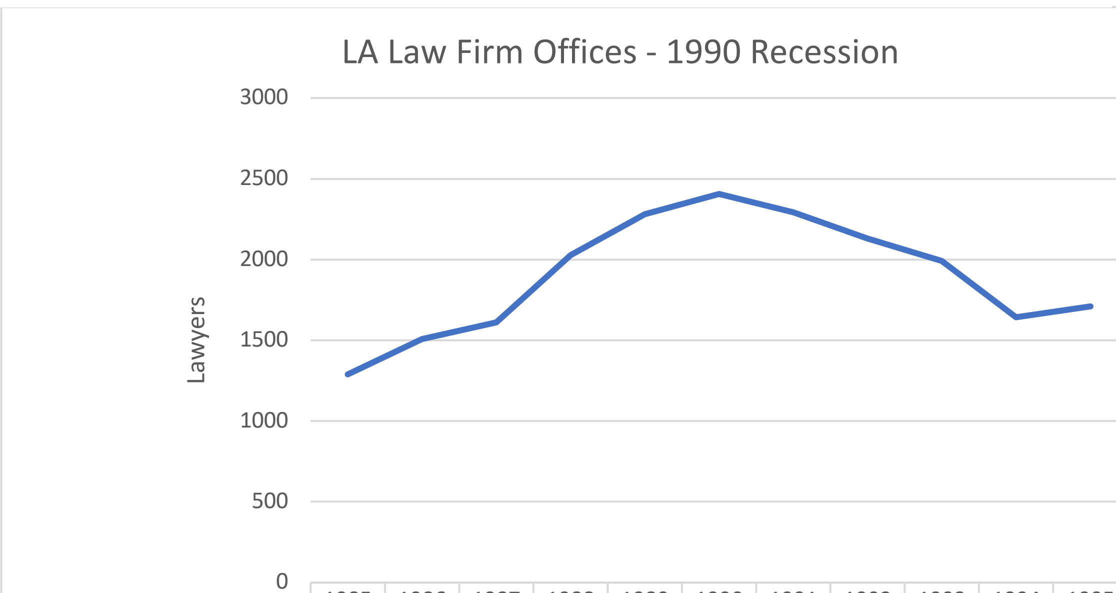
[3] The sample of Los Angeles firms included six law firms that were founded in Los Angeles and seven law firms that were founded outside of Los Angeles.

THE 1990 RECESSION

At the start of the 1990s, Professors Marc Galantar and Thomas Palay famously described the modern law firm as a tournament of lawyers.[4] Firms hire the top law school graduates as associates. During a trial period, these new lawyers are tested and essentially compete with each other for the reward of partnership. At the end of the partnership, the winners ascend to the partnership rank and those who are passed over are expected to eventually leave the firm. As these experienced associates leave for other opportunities, the firm must hire new associates to replenish their ranks. As a result of the tournament, there is a tendency for law firms to grow larger over time.

The modern law firm model became firmly establishing in Los Angeles during the 1980s. From 1980 to 1985, the major Los Angeles offices increased their partner to associate ratio from 1:1 to 1:4. As documented by **Table 1**, from 1985 to 1990, the Los Angeles law firm offices in our sample doubled in size.

Table 1*: Lawyers Employed by Sample of Large Los Angeles Law Firms – 1985 to 1995*



	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Los Angeles Firms	1289	1507	1612	2027	2280	2406	2292	2131	1993	1644	1710

This growth was spurred by a growing demand for sophisticated legal services. As the economy and stock market grew after the stagnation of the 1970s, companies issued securities and acquired other companies, often through hostile takeovers. The stakes of litigation grew as it became more common to file class actions against corporations. The Reagan administration deregulated the Savings & Loan (S&L) industry, permitting S&Ls to invest their deposits in riskier investments than the safe home loans they had issued before. The boom in the industry created work for lawyers who helped form and advise new S&Ls.

The 1990 recession, which was prompted by a number of factors such as tight monetary policy and the oil price shock caused by the first Gulf War, not only reduced demand for legal services but forced Los Angeles firms to face the reality that they had grown too large too fast. The sample Los Angeles law firm offices saw a gut wrenching 30% decline in their head counts from 1990 to 1994.

[4] MARC GALANTER & THOMAS PALAY, TOURNAMENT OF LAWYERS (1991).

Some practices had slowed even before the 1990 recession. A *National Law Journal* article noted that nationwide demand for corporate transactional work was declining towards the end of 1987.[5] Hostile takeovers became more difficult as courts and state legislatures permitted companies to implement strong takeover defenses. Companies that had taken on too debt during the boom years were starting to struggle. Even prior to the recession, corporations began using the bankruptcy process to restructure their debt. The rising number of corporate bankruptcy filings prompted a Los Angeles recruiter to note that restructuring companies had become a "hot" practice nationally.[6]

The 1990 recession accelerated these trends. Towards the end of 1990, an article noted that the mergers and acquisitions market had collapsed.[7] Corporate clients that were affected by the recession became more sensitive to the price of legal services and sought to reduce legal costs.[8] Los Angeles was especially affected at this time by the migration of corporate clients from the city.[9] The downturn coincided with the collapse of the S&L industry. By the end of 1991, 18 of the largest 50 S&Ls had been taken over by the Resolution Trust Corporation, which formed to liquidate insolvent S&Ls.[10] Some law firms in Los Angeles and elsewhere were subject to lawsuits arising out of their work with the S&Ls.[11] Over the next decade, the trend continued with "half a dozen major corporate headquarters lost to consolidations" in important industries such as banking and defense.[12]

Many Los Angeles law firms responded to the recession by reducing their associate to partner ratio.[13] Los Angeles firms have never been as highly leveraged as New York City firms. But by the end of the 1980s, some the largest firms in Los Angeles had close to 1.5 associates per partner (at the start of the decade, the ratio was 1:1). Associate salaries had also increased significantly over the 1980s. Entry level lawyers at firms earned $40,000 in 1984 and $65,000 in 1989.[14] Firms could thus save significant costs by reducing hiring of entry-level attorneys. By October 1990, it was clear that summer hiring of law students would not be as strong.[15] Some more senior associates were laid off or left and were not replaced.

The recession also affected law firm partnerships. Firms delayed the partnership decision for senior associates and lengthened the number of years it took for associates to make partner.[16] More radically, a number of Los Angeles firms moved away from a seniority-based lockstep compensation system for their partners.[17] Scholars have observed that such a lockstep system is a way for lawyers to diversify their human capital. A corporate partner whose practice is booming during good times will benefit from the ability to share in revenue from the bankruptcy partner whose practice is booming during bad times. But such a system can be inefficient if one practice brings in significantly more than another practice. If that is clearly the case, there is an argument that an individual partner's compensation became based on the amount of business he or she generated for the firm. The challenges of the recession for the business of law firms helped advocates of merit-based compensation eliminate the lock-step system at some Los Angeles firms.[18]

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[5] Margaret Cronin Fisk, *Hot Fields For Savvy Lawyers*, 12 NAT'L L. J., Oct. 23, 1989.

[6] *Id*.

[7] Margaret Cronin Fisk, *Hot, Cold Tickets in Hard Times*, 12 NAT'L L. J., Sept. 10, 1990, at 28.

[8] Victoria Slind-Flor, *Some Just Say*, 15 NAT'L L. J., Nov. 2, 1992, at 49.

[9] Margaret Cronin Fisk, *Hot, Cold Tickets in Hard Times*, 12 NAT'L L. J., Sept. 10, 1990, at 28.

[10] Margaret Cronin Fisk, *S&L Crisis' Impact on Firms is Mixed*, 14 NAT'L L. J., Oct. 28, 1991, at 4.

[11] *It Was a Perilous Year For Many Law Firms*, 15 NAT'L L. J., Dec. 28, 1992, at 28.

[12] Susan Beck, *O'Melveny's Makeover*, AMERICAN LAWYER, Feb. 2000, at 55.

[13] John E. Morris, *End of the Pyramid?*, THE RECORDER, Feb. 1992, at 21.

[14] *Associate Salaries at Big L.A. Firms Spurt to Record: $40,000 Median*, L.A. DAILY J. 1, Nov. 27, 1984; *New Associates at Large Firms Earning $65,000; Competition Blamed for Skyward Climb of Starting Salaries; N.Y. Firms Pay $80,000 Plus*, L.A. DAILY J. 1, Oct. 23, 1989.

[15] Judith O. Saunders, *Law School Hiring: Students Have Fewer Opportunities, Says a Campus Placement Director*, NAT'L L. J., Oct. 22, 1990, at 17.

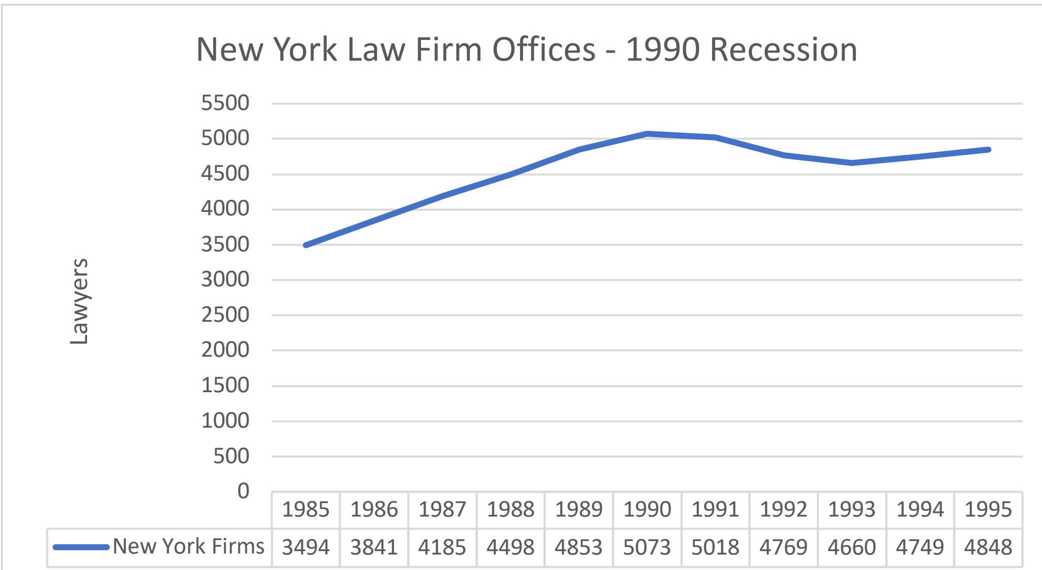
[16] Karen Lloyd, *Scrambling to Preserve Profits*, THE RECORDER, Dec. 18, 1990, at 10; Thom Weeidlich, *But Dire on West Coast*, 16 NAT'L L. J., Jan. 10, 1994, at 15.

[17] D. M. Osborne, *Latham's Leap Forward*, AMERICAN LAWYER, Apr. 1997, at 47.

[18] Renee Deger, *Latham's Ladder*, THE RECORDER, May 30, 2003, at 4.

In many legal markets, the 1990 recession prompted reconsideration of the large law firm structure that had been erected over the 1980s.[19] In Los Angeles, the aftermath of the 1990 recession made it clear that local law firms could not replicate the model of law firms in New York City. With fewer large corporate clients, particularly those in the financial sector, there was less need for substantial amounts of leverage. As shown by **Table 2**, New York City law firm offices were able to rebound much more quickly from the recession than Los Angeles law firm offices.[20] This recovery likely reflected the persistence of the need for leverage in that larger market. Moreover, as the number of institutional clients willing to establish long-term relationships with a few firms declined in Los Angeles, it made it more difficult for law firms to argue that such clients belong to the firm rather than individual partners. In such an environment, there is a stronger argument against the lock-step system.

***Table 2**: Lawyers Employed by Sample of Large New York Law Firms – 1985 to 1995*



The 1990 recession lasted about eight months and ended in March 1991. However, its impact on law firms persisted for more than a year and a half through 1992.[21]

By 1993, the impact of the recession had diminished. Major Los Angeles firms began to increase the size of their summer associate classes.[22] By 1994, law firm hiring increased nationwide.[23] A 1994 article noted that in California, corporate practices were growing and that fourth and fifth year corporate laterals were in demand.[24] The major Los Angeles law firms began promoting more associates to partner.[25]

The recovery was not as robust in Los Angeles as in New York. By 1995, New York firms had essentially recovered to their pre-recession high. In contrast, even as late as 1995, an article reported a decline in the size of Los Angeles law firms relative to the prior year by 2%.[26] It was not until 2000 that the Los Angeles law firms in our sample recovered to their 1990 high.

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19 Ellen Pollock, *Big Law Firms Learn That They, Too, Are a Cyclical Business*, Wall St. J., Aug. 15, 1991, at A1.

20 This sample consists of 14 New York City law firm offices.

21 *It Was a Perilous Year For Many Law Firms*, Nat'l L. J., Dec. 28, 1992, at 28.

22 Charise K. Lawrence & Thom Weidlich, *Summer Freeze Ends For Some Law Students*, 15 Nat'l L. J., Mar. 8, 1993, at 7.

23 Nancy Zeldis, *Law Firm Recruiting Picks Up*, 16 Nat'l L. J., Feb. 21, 1994, at 6.

24 *Id*. at 6.

25 Thom Weidlich, *But Dire on West Coast; Megafirm Partner Tracks Loosen*, Nat'l L. J., Jan. 10, 1994, at 15.

26 Mike France, *'95 Strongest Year Since Boom of '80s*, 18 Nat'l L. J., Oct. 9, 1995, at 4.

2001 Recession

Nationally, by the latter half of the 1990s, law firms were growing again and by 2001 they reported record profits.[27] The 1990 recession was followed by one of the longest periods of economic expansion ever experienced by the United States. The creation of the internet spurred the formation of thousands of new businesses. The value of these technology companies boomed and created substantial wealth. Legal work was generated as these companies formed and went public. Law firms outside of Silicon Valley faced competition for the top law school graduates. As a result, first-year associates increased by about 50% in a span of a few years.[28]

As summarized in **Table 3**, the Los Angeles firm offices in our sample increased by about 30% over the late 1990s.

***Table 3**: Lawyers Employed by Sample of Large Los Angeles Law Firms – 1998-2003*

The internet bubble peaked in March of 2000. The Nasdaq Composite stock market index fell by more than 75% by October 2002. In the interim, Enron collapsed towards the end of 2001 and was accompanied by several other large public companies like WorldCom over the next year. The attacks of 9/11 created significant uncertainty and economic damage.

Unlike the 1990 recession, the recession of the early 2000s had a limited impact on Los Angeles firm offices. The 2001 recession mainly affected Initial Public Offering and Mergers & Acquisition practices,[29] particularly in Northern California where many of these companies were formed. An article described the market for corporate services in Los Angeles as "sluggish."[30] In contrast, the wave of securities fraud towards the start of the 2000s and ensuing government enforcement generated significant work for litigators. As documented by Table 3, the growth in Los Angeles firm offices thus slowed around this period but there was not a significant correction.

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27 Andrew Longstreth, *The Price of Growth*, American Lawyer, Jul. 2002, at 32.

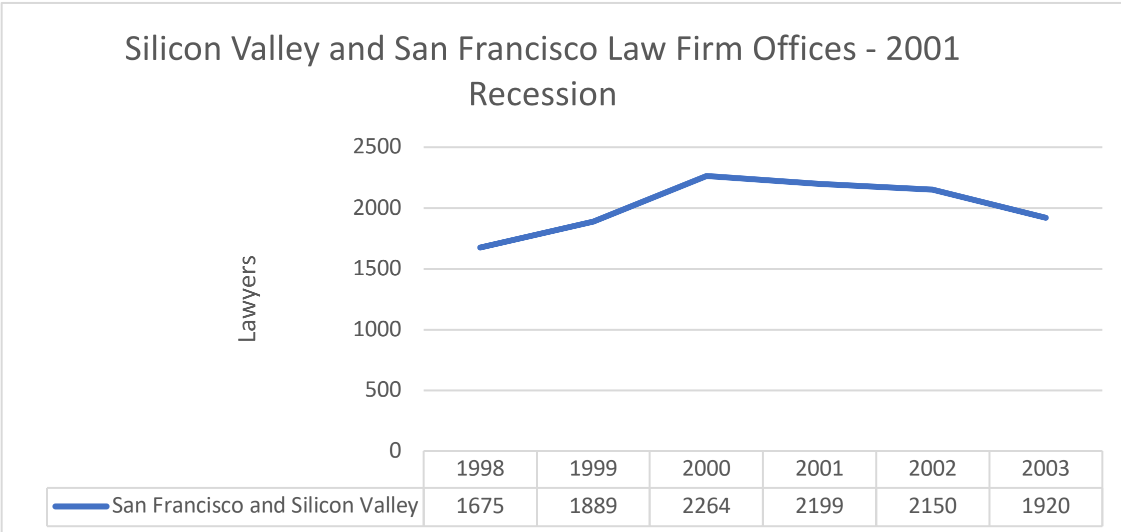
28 Another explanation for rising associate salaries is that as it became more difficult to become partner, associates were more likely to look after their own interests rather than viewing the firm as a place to build a career. Higher salaries were necessary to retain associates.

29 Karen Hall, *Layoffs: The Big Picture*, Law.com (Mar. 27, 2002), https://www.law.com/almID/900005529320/ [https://perma.cc/8KP6-C2E2].

30 Alexei Oreskovic, *Akin Gump and Skadden, Arps Lay Off Lawyers in Los Angeles*, The Recorder, Nov. 4, 2002, at 4.

In contrast, as summarized in **Table 4**, Northern California firms saw a decline of about 15 percent from their peak. By 2000, this sample of Northern California firm offices was about as large as our sample of Los Angeles firm offices. But by 2003, the Northern California firms were about 25 percent smaller than the Los Angeles firms.

***Table 4**: Lawyers Employed by Sample of Large Northern California Law Firms – 1998-2003*



The earlier increase in associate salaries again created an incentive for law firms to save substantial costs through associate layoffs.[31] The bulk of associate layoffs happened in Silicon Valley but also occurred nationwide.[32] Many firms cited performance reviews in dismissing associates.[33] A 2002 article in the *Recorder* noted that there were fewer layoffs in Los Angeles relative to Northern California.[34]

Law firms also responded to the 2001 recession by increasing their number of nonequity partners.[35] Rather than presenting associates with the stark choice of making partner or leaving the firm, law firms gave associates the option of achieving an intermediate status where they would not have equity in the firm but still be considered a partner with a higher income than a senior associate. Some firms made the nonequity partnership status a prerequisite before an attorney could be considered for equity partnership. Limiting the number of equity partners permits law firms to retain experienced lawyers while reducing the pressure to grow the number of equity partners.

Law firms nationally recovered more quickly after the 2001 recession than after the 1990 recession. Less than a year after the recession ended in November 2001, large firms were reporting double digit growth.[36] By 2003, corporate practices had mostly recovered.[37] Litigation work continued to grow during this period as white-collar enforcement became more aggressive.

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31 Wheatly Aycock et. al, *Keeping Firm in a Soft Economy*, 25 LegalTimes, Jan. 28, 2002 at 1. ("If it was the year that saw revenue increase almost across the board, it was also the year when many firms were hit with huge increases in the cost of associates. Firms driven by dot-com hysteria not only had handed out big raises the year before, but also had staffed up for a boom in business that went bust.").

32 Andrew Longstreth, *The Price of Growth*, American Lawyer, Jul. 2002, at 32.

33 Karen Hall, *Layoffs: The Big Picture*, Law.com (Mar. 27, 2002), https://www.law.com/almID/900005529320/ [https://perma.cc/8KP6-C2E2].

34 Alexei Oreskovic, *Akin Gump and Skadden, Arps Lay Off Lawyers in Los Angeles*, The Recorder, Nov. 4, 2002 at 4 ("The Los Angeles legal market has fared better than its northern cousin during the economic downturn").

35 Alexei Oreskovic, *The Bottom Line*, The Recorder, Jan. 22, 2003, at 38.

36 Andrew Longstreth, *The Price of Growth*, American Lawyer, Jul. 2002, at 32.

37 Renee Deger, On the Mend, Law.com, (Jan. 22, 2004), https://www.law.com/therecorder/almID/900005399448/on-the-mend/ [https://perma.cc/6KM3-A7VF]; Adrienne Sanders, *Firms See Rising Tide of Deals, With More to Come*, The Recorder, (Jul. 16, 2004), https://www.law.com/therecorder/almID/900005411439/firms-see-rising-tide-of-deals-with-more-tocome/

THE RECESSION AFTER THE FINANCIAL CRISIS OF 2008

Like the recessions of the early 1990s and 2000s, the financial crisis of 2008 was preceded by prosperous years for law firms. The Los Angeles firms in our study grew an additional 8 percent from 2005 to 2007. A 2006 article declared that *Good Times Roll for L.A. firms* as profits and revenue grew by double digits in 2005.[38] The next two years also saw significant revenue gains in Los Angeles – leading another article to describe the state of affairs as *Palm Trees and Profits*.[39] Looking back on those years, one observer noted that "[a] few years ago, single-digit growth brought ridicule, and PPP [profits per partner drops] were unheard of."[40] After East Coast firms upped starting salaries to $160,000, major California firms soon followed in May 2007.[41]

Some of the prosperity of Los Angeles national law firms reflected the growth of their offices in New York City and Washington, DC. Professors Marc Galantar and William Henderson have documented a broad geographic dispersion of national law firms that started in the early 2000s.[42] Strong Los Angeles firms could leverage their reputations and culture of excellence to form elite offices in other cities. As Los Angeles continued to see the number of its corporate clients decline, it became attractive to expand to other cities. While the increasing expansion of law firms had its benefits, one challenge is maintaining cohesive firm culture when lawyers in the same firm are tied to different cities.

The financial crisis went into full gear in the fall of 2008. The turmoil in financial markets and failure of investment banks such as Lehman Brothers significantly affected the practice of large Los Angeles firms.[43] One report noted that the demand for legal services dropped by six percent in Los Angeles in 2008.[44] In the first quarter of 2009, demand for legal services in Los Angeles declined by eight percent.[45] Practices especially impacted included general corporate work (down fourteen percent) and real estate work (down twenty percent). On the other hand, there was some uptick in bankruptcy work.[46] The *Daily Journal* noted that because the financial crisis of 2008 affected international markets, it especially affected Los Angeles firms with global capital markets practices.[47]

[https://perma.cc/9Z5R-4G7A] ("According to data supplied by the firms and Thomson Financial Securities Data, most California firms saw mergers and acquisitions tick up in the first half of the year").

[38] Kellie Schmitt & Petra Pasternak, *Good Times Roll for L.A. Firms*, THE RECORDER, (Feb. 3, 2006), https://www.law.com/almID/900005446491/ [https://perma.cc/DQC8-C73K].

[39] Kellie Schmitt, *Palm Trees and Profits*, THE RECORDER, (Feb. 27, 2007), https://www.law.com/therecorder/almID/900005473773/la-revenue-palm-trees-profits/ [https://perma.cc/AS43-9XBB].

[40] Amanda Royal, *L.A. Firms Brace for Rough '09*, THE RECORDER, (Feb. 23, 2009), https://www.law.com/therecorder/almID/1202428491350/la-firms-brace-for-rough-09/ [https://perma.cc/9H8X-7295].

[41] Zusha Elinson, *More Calif. Firms Follow Orrick's Move to $160K Associate Pay*, THE RECORDER, (May. 07, 2007), https://www.law.com/almID/900005555053/ [https://perma.cc/H3G3-6C56]; Amanda Royal, *Allen Matkins Cuts Salaries*, (Apr. 1, 2009), THE RECORDER, (Apr. 1, 2009), https://www.law.com/therecorder/almID/1202429566965/allen-matkins-cuts-salaries/ [https://perma.cc/5PJV-9EAR].

[42] Marc Galanter & William Henderson, *The Elastic Tournament A Second Transformation of the Big Law Firm*, 60 STAN. L. REV. 1867 (2008).

[43] Amanda Royal, *L.A. Firms Brace for Rough '09*, THE RECORDER, (Feb. 23, 2009), https://www.law.com/therecorder/almID/1202428491350/la-firms-brace-for-rough-09/ [https://perma.cc/9H8X-7295].

[44] *Id*.

[45] Amanda Royal, *S.F. Not So Shabby*, THE RECORDER, (Apr. 16, 2009), https://www.law.com/therecorder/almID/1202429943501/sf-not-so-shabby/ [https://perma.cc/C579-64N3].

[46] Niraj Chokshi, *Red Ink Spills Over*, THE RECORDER, (Jul. 31, 2008), https://www.law.com/therecorder/almID/1202423402075/the-red-ink-spills-over/ [https://perma.cc/Z8H5-VR4E] (noting sixty Chapter 11 fillings in the first half of 2008, compared to a mere thirty-eight in 2007).

[47] Jill Redhage, *Legal Work Drops Sharply In L.A., Not S.F.*, DAILY J. (May 14, 2009), https://dailyjournal.com/articles/305819.

Nationally, law firms made significant cuts. As shown by **Table 5**, there was a quick decline of 10 percent in the Los Angeles sample reflected in the numbers by the start of 2009. The relatively quick cuts may have come in anticipation of revenue declines and were likely motivated by the desire to maintain financial performance to ensure partner loyalty.[48] As the *Recorder* noted in the midst of the crisis, "[t]he very assets of these law firms are the partners that generate business, and they cannot afford to have those partners unhappy with the financial performance of their law firms."[49] The *Daily Journal* opined that "[t]he economy has brought to the forefront a new culture emerging at firms where management more closely scrutinizes its attorney ranks, acting quickly to shed inefficient lawyers, without past qualms about protecting collegiality and camaraderie."[50]

***Table 5**: Lawyers Employed by Sample of Large Los Angeles Law Firms – 2005-2012*

The rising salaries over the prior decade and the prospect of a steep revenue decline prompted many law firms to layoff associates in unprecedented numbers. Headlines such as the announcement in February 2009 of *800 Law Firm Jobs Lost in One Day* became common. Even recent graduates with job offers were required to delay their start times significantly and hiring for summer associate positions significantly slowed.

The drastic nature of the measures taken by law firms highlights the fragility of the law firm model. As Professor John Morley recently explained, there is a danger that the most productive members of a firm can trigger a chain reaction if they decide to exit the firm.[51] If rainmaking partners leave, then profits per partner will decline, increasing the incentive of more partners to jump ship. It is thus important for law firms to act quickly to maintain their profits in a crisis to prevent departures that could cause a death spiral for the firm. The decisions of law firms to quickly cut costs during the financial crisis reflected the need to ensure that profits per partner would not dip too quickly and create incentives for partners to leave.

48 Amanda Royal, *L.A. Firms Brace for Rough '09*, THE RECORDER, (Feb. 23, 2009), https://www.law.com/therecorder/almID/1202428491350/la-firms-brace-for-rough-09/ [https://perma.cc/9H8X-7295].

49 Amanda Royal, *800 Law Firm Jobs Lost in One Day*, THE RECORDER, (Feb. 13, 2009), https://www.law.com/texaslawyer/almID/1202428279693/ [https://perma.cc/R8T4-KBZB].

50 Maya Meinert & Rebecca U. Cho, *Recession's Legacy: Lasting Change*, DAILY J. (Jun. 24, 2009) https://dailyjournal.com/articles/333828.

51 John Morley, *Why Law Firms Collapse*, 75 BUS. LAW. 1399 (2019).

The effects of the 2008 recession lingered much longer than the 1990 and 2001 recessions. Demand for large transactions remained soft through at least 2011.[52] Los Angeles in particular saw only two-thirds of large firms paying starting salaries of $160,000 in 2011, when ninety percent had paid that much in 2009.[53] Cost cutting measures persisted years after the recession in California due to an emphasis on financial statistics and an absence of strong demand for legal services.[54] To remain competitive—attracting new lateral rainmakers and preventing defections—firms strove to keep their partner profits up at the cost of reducing their size.[55]

As we reported in 2018, the recovery by Los Angeles law firms has been uneven. Large firms continued to decline in size even as the economy became stronger. On the other hand, new, out-of-state law firms have opened new branches in Los Angeles.[56] Notably, white collar defense practices have expanded in Los Angeles since the 2008 recession.[57] Some firms have established and grown practices aimed at advising start-up technology companies in Los Angeles.[58]

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[52] Petra Pasternak, *Firms See Ray of Hope in Outlook for California Corporate Practices*, The Recorder, (Feb. 24, 2012), https://www.law.com/therecorder/almID/1202543469337/firms-see-rays-of-hope-in-outlook-for-california-corporate-practices/ [https://perma.cc/8UT2-XJFS].

[53] Karen Sloan, *First-Year Associate Pay Remains Stagnant, NALP Reports*, The Recorder, (Sept. 20, 2009), https://www.law.com/therecorder/almID/1347823038895/ [https://perma.cc/MVN9-D8JK].

[54] Amanda Royal, *Revenue Growth Modest at Many Firms, But Profits Surge*, The Recorder, (Feb. 15, 2013), https://www.law.com/therecorder/almID/1202588541180/revenue-growth-modest-at-many-firms-but-profits-surge/ [https://perma.cc/E2RB-2CB4].

[55] *Id*.

[56] Amanda Bronstad, *Law Firms Flock to Open Offices in Los Angeles Area*, 31 Nat'l L. J., Mar. 30, 2009, at 1.

[57] Amanda Bronstad, *U.S. Attorney Hire Intensifies White-Collar Competition in L.A.*, 242 N.Y. L. J., Aug. 13, 2013, at 6.

[58] *Goodwin Adds Tech Partner Trio, Bulking Up Silicon Beach Presence*, The Recorder, (Mar. 5, 2020) https://www.law.com/therecorder/2020/03/05/goodwin-adds-tech-partner-trio-bulking-up-silicon-beach-presence/ [https://perma.cc/5KGY-C2JH] ("Led by Cooley in 2012, several tech-focused firms, including Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, Orrick, Herrington & Sutcliffe, Cooley, Fenwick & West and Goodwin have set up shop in Santa Monica, hoping to capitalize on the tech, start-up and venture clients that populate the region.").

YEARS PRECEDING THE PANDEMIC

The economic impact of the 2020 pandemic was unprecedented. Major cities issued stay-at-home orders and closed non-essential businesses. Some businesses saw revenue decline to nearly zero in a matter of weeks. New York City was particularly hard hit with cases. Both domestic and international travel ground to a halt. Many corporations stopped issuing forecasts because of the uncertainty of the situation.

The practice of law was affected in numerous ways. Towards the start of the pandemic, the *Daily Journal* reported that "deal flow has softened, transactional work is down—especially in M&A, real estate/finance" but that other practices such as litigation and bankruptcy would likely generate work.[59] Most lawyers began working from home. Summer associate programs were cancelled or conducted remotely.[60] Some law firms reacted by laying off associates and reducing their hiring. Some partnerships delayed paying partners because of the uncertainty of the situation.[61]

While it is impossible to predict how the pandemic will affect Los Angeles law firms, the past three recessions suggest the worst declines tend to come after significant expansion. Large Los Angeles law firm offices have not increased significantly in size for more than a decade. **Table 6** shows how the Los Angeles firms in our sample declined by about 9 percent from 2017 to 2020. This decline likely reflects the desire for elite firms to maintain high profits per partner. As high billable work has migrated out of Los Angeles, national law firms have expanded their offices in cities such as New York and reduced the size of their offices in Los Angeles.

***Table 6**: Lawyers Employed by Sample of Large Los Angeles Law Firms – 2017-2020*

[59] Sandy Lechtick, *How COVID-19 Will Impact the Legal Profession*, DAILY. J. (Apr 13, 2020) https://dailyjournal.com/articles/357167.

[60] Henrik Nilsson, *Law Firms Reluctantly Cut Back on Summer Associate Positions*, DAILY J. (Apr. 6, 2020) https://dailyjournal.com/articles/357079.

[61] *Pay Cuts, Layoffs, and More: How Law Firms are Managing the Pandemic*, THE RECORDER, May 22, 2020.

While the continued decline in the size of Los Angeles law firm offices after the financial crisis of 2008 is troubling, it suggests that these offices are operating efficiently and are not over-leveraged. It is thus possible that the pandemic will not significantly impact employment at large Los Angeles law firm offices. As the world returns to normal, such firms may even see a substantial need for new and lateral lawyers to meet increased demand.

On the other hand, past experience has shown that the lingering effects of a recession can affect law firms for years after the recession ends. Even if initial declines are modest, it is possible that later declines are greater.

It is evident that maintaining profits-per-partner will be the priority of national law firms. This metric takes the law firm's yearly profit and divides it by the number of equity partners in the firm. It is a rough proxy for the compensation for such partners. As early as 2008, a Los Angeles recruiter observed that the measure is "disproportionately important indicator of a firm's health."[62] A June 2020 article in the *Recorder* noted the increasing focus on equity partners and profits.[63] A September 2020 article in *Legal Week* noted that the main focus of firms was to keep the most productive partners happy.[64] An October 2020 article in the *American Lawyer* observed that the failure to maintain profits could result in an exodus of partners.[65]
On the bright side, after a pause, significant initial public offerings resumed after the stock market stabilized and achieved significant returns by the end of the year. Transactional work is a significant driver of law firm profits. A November 2020 article reported that the demand in legal services declined by 2.4% in the third quarter of 2020, an improvement over a 5.0% drop in the second quarter.[66] Moreover, law firms saved substantial amounts in travel, recruiting, and entertainment expenses.[67] It is possible that as the pandemic subsides, there will be a boom in economic activity that could create work for lawyers.

The pandemic has raised larger questions about the practice of law. As a report published towards the end of 2020 by the Georgetown Law Center on Ethics and the Legal Profession and Thomson Reuters observed, "despite positive reports on progress in the development of vaccines and other therapeutics, uncertainty persists as to the length of the pandemic-related disruptions and . . . considerable uncertainty and speculation as to what 'normal' operations will be, even in a post-pandemic world."[68] With so many lawyers working remotely, will there be as much of a need for physical office spaces? How will the dispersion of lawyers affect culture and cohesiveness? Will it be meaningful to think of law firms as having offices located in large cities? A partner who lives in Denver can easily do work throughout the country. What will this mean for Los Angeles law firms?

Answering these are questions that are beyond the scope of this report and will be worth addressing in the future.[69]

[62] Kellie Schmidt, *Latham Leads Strong Year in L.A.; SoCal Firms Score High, With a Few Exceptions*, THE RECORDER, FEB. 8, 2008, at 1.

[63] *Are Layoffs Coming? And if So, Who Will Be Impacted?*, THE RECORDER, June 1, 2020.

[64] *More Cuts Coming as Firms Slim Down to Keep Partner Pockets Full*, LEGAL WEEK, Sept. 3, 2020.

[65] *How Law Firms are Handling the "Most Interesting" Budgeting System in Years*, AMERICAN LAWYER, Oct. 5, 2020.

[66] *After Drop in Hiring, Big Firms Are "Lucratively Positioned" for Year-end*, AMERICAN LAWYER, Nov. 9, 2020.

[67] *How Law Firms are Handling the "Most Interesting" Budgeting System in Years*, AMERICAN LAWYER, Oct. 5, 2020.

[68] 2021 Report on the State of the Legal Market 2 (2021).

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