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Stealth Restructuring in Legal Education

By Jerry Organ, [Legal Whiteboard](#)

Three years ago, in the depths of the economic recession resulting from the mortgage meltdown, the vast majority of major law firms in the country were engaged in significant restructuring, frequently called “downsizing” or more euphemistically “rightsizing.” This was a regular news item in legal publications such as [The American Lawyer](#) and on [blogs](#). Each week brought news of a few or several major law firms that were planning to cut staff, cut associates or even cut partners. Indeed, some of the major law firms, such as Howrey and Dewey LeBeouf, ultimately didn’t survive the economic downturn.

While the large firm legal marketplace was in turmoil in 2009 and 2010, law school enrollment and tuition continued to climb, even as law school graduates increasingly were having difficulty finding employment. According to the [LSAC Volume Summary](#), in the last two years, as prospective students have become increasingly aware of the challenging employment outlook for law school graduates, and the increasing cost of law school, the number of applicants to law schools has declined by over 20%, from 87,500 to roughly 68,000. According to the [ABA](#), the number of first-year students has declined by over 8000, a decline of 15%. Assuming an average net tuition of \$25,000 per student (a rough estimate of average sticker price tuition less a rough estimate of average scholarship) this decline of roughly 8000 in first-year enrollment means law schools probably are missing roughly \$200 million in first-year revenue for the 2012-2013 academic year as compared to the 2010-2011 academic year.

Of course, just as some law firms were more impacted by the economic downturn in 2009 than other law firms, some law schools are more impacted by the decline in first-year enrollment than other law schools. Comparing school-specific enrollment data between 2010 and 2012 for the 140 law schools which have published enrollment data for their entering class in fall 2012, 59 schools – over 40% of those with available enrollment data – have seen a decline of 20% or more in their first-year enrollment, and 15 of those 59 have seen a decline of 30% or more.

For a hypothetical law school with an entering class of 200 students in 2010, a decline of 20% or more in first-year enrollment means a first-year enrollment in 2012 of 160 students or fewer. Again, assuming \$25,000 in net tuition per student, that decline of 40 or more first-year students translates to at least \$1 million less in first-year revenue in 2012 than in 2010. If the hypothetical law school has seen a decline of 30% or more, that would mean a decline of 60 or more first-year students that translates to at least \$1.5 million less in first-year revenue in 2012 than in 2010. If similarly smaller classes are enrolled in 2013 and 2014, this hypothetical law school will be receiving \$3 million to \$5 million less in revenue in 2014 than it received in 2010.

There are 59 law schools with a decline in first-year enrollment between 2010 and 2012 of at least 20%, 15 of which have seen a decline of 30% or more. With that many law schools feeling significant revenue pressure, one might think we would be hearing regular news stories about layoffs or restructuring or downsizing or rightsizing among law schools, comparable to what we heard about major law firms in 2009-2010. But since the start of 2012, there have been only

two news stories on law school layoffs or restructuring -- one in spring of 2012 when the [University of California-Hastings School of Law](#) announced that it would shrink its class by 20% and layoff over a dozen staff members (while increasing tuition), and more recently, when the National Law Journal published a story about budget-cutting at [Vermont Law School](#). Notably, neither of these two law schools are among the 59 that have seen a decline of 20% or more in first-year enrollment between 2010 and 2012, as Hastings enrollment is down roughly 17% between 2010 and 2012 and Vermont enrollment is down roughly 18% between 2010 and 2012.

Law schools presently are going through the same revenue shortfalls law firms went through in 2009 and 2010. Enrollment is down significantly and revenue has declined significantly. Law schools have to be engaged in restructuring – in downsizing or rightsizing. My colleague, Mark Osler, engaged in a thought-exercise about how law schools might do this a couple of months ago on the [Law School Innovation blog](#). But almost no one is reporting on what is actually happening at the dozens of law schools trying to deal with significant budgetary distress.

In the coming months or in the next year or two, law schools will be leaner – with fewer staff and possibly fewer faculty (if early retirement options are put on the table or if untenured faculty are released). And quite possibly, some law schools may close. While a law school being forced to close likely will be news, it appears that law school restructuring generally is less newsworthy than law firm restructuring.

As a result, we are experiencing a stealth restructuring in legal education. Please don't tell anyone.

[posted by Jerry Organ]