ISSN 1045-6333

HARVARD

JOHN M. OLIN CENTER FOR LAW, ECONOMICS, AND BUSINESS

THE INDUSTRIAL ORGANIZATION OF THE JAPANESE BAR: LEVELS AND DETERMINANTS OF ATTORNEY INCOMES

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Discussion Paper No. 559

10/2006

Harvard Law School
Cambridge, MA 02138

JEL Classifications: K23, K40, L84
Draft of September 5, 2006

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The Industrial Organization of the Japanese Bar:

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Abstract: Using micro-level data (from tax records) on attorney incomes in 2004, we reconstruct the industrial organization of the Japanese legal services industry. These data suggest a bifurcated bar. The most talented would-be lawyers (those with the highest opportunity costs) pass the bar-exam equivalent on one of their first tries or abandon the effort. If they pass, they then opt for careers in Tokyo that involve complex litigation and business transactions. The work places a premium on their talent, and from it they earn appropriately high incomes. The less talented face lower opportunity costs, and willingly spend many years studying for the exam. If they eventually pass, they tend to forego the many amenities available to professional families in Tokyo and disproportionately opt for careers in the under-lawyered provinces. There, they earn monopoly rents not available in the far more competitive Tokyo market.

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The Industrial Organization of the Japanese Bar:
Levels and Determinants of Attorney Incomes

For over five decades now, Japan has made do with few attorneys. As of 2004, it had about 21,000. With roughly 40 percent the U.S. population and 40 percent the GDP, it had but 1/50th as many lawyers.

The dearth has not been for want of applicants for the job. Instead, it has followed from deliberate policy. For over half a century, the government has required all would-be lawyers to study at its Legal Research & Training Institute (LRTI). Only by attending the LRTI could one become a lawyer, but only by passing a fiercesomely hard entrance exam could one attend it. From 1968 to 1992, the government kept the pass rate on this exam below 3 percent. Even as recently as 2004, only 2.97 percent passed.

With so few lawyers and with so many applicants vying for so few slots, basic logic suggests industry incumbents should earn substantial monopoly rents. Curiously, however, they seem not to earn stratospheric incomes. Instead, they earn incomes that track those of well-paid white-collar workers more generally. Why they apparently earn so little thus presents one puzzle. Why so many still try so hard to join the bar presents a second. And which lawyers earn more than the mass of their rivals presents a third.

To explore these questions, we use data from attorney tax records. Through 2004, the Japanese government disclosed the tax liabilities of everyone who paid more than 10 million yen (about $100 thousand) in taxes. About 400 lawyers met this criterium. We take the tax liabilities of these lawyers, collect information about their personal and professional backgrounds, and add analogous information on a random sample of another 1100 lawyers. Through the resulting dataset, we study the determinants of professional success within the Japanese bar.

These tax records describe a somewhat bifurcated market. As the locus for the most complex business transactions and litigation, Tokyo generates the highest returns to legal talent. Disproportionately, the brightest lawyers locate there and join the large firms that specialize in the problems that exploit their unusual abilities. Facing high opportunity costs to a legal career, they expect, demand, and earn appropriately high levels of compensation.

The vast majority of would-be attorneys are men and women of a different sort. Lacking the intellectual ability that better-paying corporate employers would demand, they incur fewer opportunity costs to try to join the bar (of course, they face lower odds of passing the exam as well). Even after repeatedly failing the LRTI exam, they keep trying. Eventually, a few of these low-opportunity-cost applicants pass.

If these less talented men and women finally do join the bar, disproportionately they forego the many amenities available to professional families in Tokyo, and locate in the provinces instead. With half of all Japanese lawyers, Tokyo presents a highly competitive market. By choosing to practice instead in a small provincial city, these less able lawyers can earn monopoly rents not available in Tokyo. Hence the contrast: the

brighter lawyers tend to choose Tokyo for the premium on ability; the slower tend to choose the provinces for the monopoly returns.

We begin by explaining the structure of the legal services industry in Japan (Section I). We describe our data on attorney tax liabilities (Sec. II). And we then use that data to estimate the levels and determinants of attorney success (Sec. III).

I. The Japanese Legal Services Industry

A. The Puzzle:

Something is wrong with this picture: subject to a draconian entry barrier the Japanese bar seems miniscule, yet its members earn only modestly high incomes. If they number so few, why do they not earn stratospheric returns? If they make so much less, why do they try so hard to become lawyers?

Lawyers are indeed few in Japan. As of 2004, they numbered 21,174. Given the general population, that gave Japan 1 lawyer for every 6,305 people. By contrast, the U.S. had 1 lawyer for every 286. The U.K. had 1 per 547, Germany had 1 per 651, and even France had 1 for every 1,488 people.[1]

Lawyers are few because most would-be lawyers flunk the bar-exam equivalent. Law is an undergraduate major in Japan (and now the subject of post-graduate "law schools" as well), but those who would practice law must attend the one LRTI. The Ministry of Justice (MOJ; together with the Supreme Court and bar leaders) controls entry to the Institute, and for most of the post-war period flunked most of the people who took the entrance examination.[2]

Lawyers also seem able. After all, they did pass an exam that 97-99 percent of the applicants failed. The MOJ hires law professors to write and score the exams, and these professors grade the exams blind.[3] At the very least, the process ought to guarantee extraordinarily high cognitive skills.

But Japanese lawyers seem not to earn anything close to the draws of even the AmLaw 100 partners. From time to time, the Japanese bar association surveys its members about their income. In 1990 they reported a median income of 11 million yen and a mean of 15 million. Come 2000, they still reported a 15 million average (about $146 thousand; on the general distribution of income in Japan, see Sec. B., below).[4]

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[1] Nihon bengoshi rengo kai, Bengoshi hakusho [Lawyer White Paper] 77, 81 (Tokyo: Nihon bengoshi rengo kai, 2005).

[2] For an insightful analysis, see Tom Ginsburg & Glen Hoetker, The Unreluctant Litigant: An Empirical Analysis of Japan's Turn to Litigation, 35 J. Legal Stud. 31, 37-38 (2006). Japan recently increased the number of people it passed -- but that simply led to an increase in the number of people taking the exam. For historical pass rates, see J. Mark Ramseyer & Minoru Nakazato, Japanese Law: An Economic Approach 7 tab. 1.1 (Chicago: University of Chicago Press, 1999); http://www.moj.go.jp/PRESS/051007-1/17syutu-gou2.html

[3] For an excellent description of the exam, see Curtis J. Milhaupt & Mark D. West, Economic Organizations and Corporate Governance in Japan: The Impact of Formal and Informal Rules 211 (Oxford: Oxford University Press, 2004).

[4] Milhaupt & West, supra note, at 219; see also Arthur J. Alexander & Hong W. Tan, Barriers to U.S. Service Trade in Japan 18 (Santa Monica: Rand Corp. 1984) (R-3175) (using the high-income taxpayer database in the early 1980s).

Attorneys in Japan earn incomes that just barely exceed good white-collar incomes. Corporate branch managers in the 1990s (with a mean age of 50) earned about 12 million yen, while a lawyer (by the 1990 survey) in his 40s made 14 million yen and one in his 50s made 20 million. Physicians, however, the attorneys badly underperformed. A doctor running a private clinic earned a mean 32 million, and even a salaried physician (mean age of 37) made 13 million.[5]

Compared to American lawyers, these represent respectable incomes -- but not stratospheric. According to John Heinz and Edward Laumann's classic study of Chicago lawyers, the median U.S. attorney made about double the national median, and the top 12 percent made double that lawyerly median.[6] On the one hand, 15 million yen does top double the national median. On the other, it falls far below the AmLaw 100.

Where U.S. bar examiners pass the majority of those who apply, the Japanese examiners pass nearly no one. With such a brutal entry barrier, why do incumbents earn such modest amounts?

B. Legal Services Industry:

By the late 1980s at least part of the answer to this first puzzle was relatively clear, and involved two dynamics. First, although contemporary Japan and the U.S. present roughly the same levels of median income, that income is far more compressed in Japan.[7] This compression involves not just aggregate income, but executive compensation patterns as well.[8] To the extent that most college graduates who opt for legal careers could have selected business careers instead, the compression in Japanese executive compensation should dampen legal incomes.

Second, Japanese lawyers face a large number of unlicensed competitors.[9] The largest group staffs the legal departments of Japanese firms. Some 45,000 students major in law as undergraduates at the 93 university law departments.[10] Upon graduation, most take jobs at private firms. There, many of them draft contracts, manage regulatory

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[5] Bengoshi gyomu no keizaiteki kiban ni kansuru jittai hokoku [Empirical Report on the Economic Foundation of Lawyers' Work], 42 Jiyu to seigi 1 (1991). Discussed in Ramseyer & Nakazato with comparative numbers, supra note, at 14.

[6] John P. Heinz & Edward O. Laumann, Chicago Lawyers: The Social Structure of the Bar, rev. ed. 8-11 (Evanston: Russell Sage, 1994), 8-11.

[7] Thomas Piketty & Emmanuel Saez, The Evolution of Top Incomes: A Historical and International Perspective, 96 Am. Econ. Rev. 200 (Papers & Proceedings, 2006). See also Sec. II.A.1., infra.

[8] Minoru Nakazato, J. Mark Ramseyer & Eric B. Rasmusen, Executive Compensation in Japan: Estimating Levels and Determinants from Tax Records (Harvard Law School John M. Olin Center for Law, Economics & Business Working Paper No. xx, 2006).

[9] J. Mark Ramseyer, Lawyers, Foreign Lawyers, and Lawyer-Substitutes: The Market for Regulation in Japan, 27 Harv. Int'l L.J. 499 (l986); Masanobu Kato, The Role of Law and Lawyers in Japan and the United States, 1987 B.Y.U. L. Rev. 627; Michael K. Young & Constance Hamilton, The Legal Profession of Japan, in Mitsuo Matsushita, ed., Japanese Business Law Guide Para. 7-260 though 7-900 (Sydney: CCH Australia, Ltd. 1988); Richard S. Miller, Apples v. Persimmons: The Legal Profession in Japan and the United States, 39 J. Legal Educ. 27 (1989).

[10] Shihou seido kaikaku shingikai, Shihou seido kaikaku shingikai Ikensho: 21 seiki no Nihon wo sasaeru shiho seido [Position of the Committee on Legal System Reform: A Legal System to Support the 21st Century Japan] (June 12, 2001).

filings, and negotiate disputes. At the insurance companies, they handle claims over traffic and other accidents. For much of the work that U.S. firms assign to lawyers, Japanese firms hire university-trained but unlicensed legal specialists.[11]

Other competitors operate from various licensed sub-sectors. "Judicial scrivenors" (shiho shoshi; as of 2006, 18,000) draft contracts, and handle the paper work for regulatory matters and real estate transactions. "Administrative scriveners" (gyosei shoshi; 39,000) similarly handle government paperwork. "Tax agents" (zeirishi; 69,000) file individual and corporate returns, sell tax planning advice, and negotiate audits. "Patent agents" (benrishi; 6,200) handle filings and disputes over intellectual property. And "notary publics" (koshonin; 540) draft wills and corporate charters.[12]

Largely because of this competition, most Japanese attorneys specialize in the one activity over which courts enforce the unauthorized practice ban: litigation.[13] Traditionally, they operated out of small offices, and most worked in cities with court houses. As of 2005, nearly 40 percent of Japanese lawyers still practiced alone, and about an equal number practiced in firms of two-five lawyers.[14] Only in Tokyo and Osaka did anyone work in a firm with more than 20 lawyers. Exclude metropolitan Kobe, Kyoto, Nagoya, and Fukuoka, and no one worked in a firm with more than 10.[15]

Traditionally, few lawyers other than those at the Tokyo international firms did much besides litigate. The largest of these international firms (e.g., Nishimura Tokiwa) now exceed 200 lawyers, and offer the full panoply of corporate services that their clientelle demand. Some Americans who obtained special licenses during the post-war occupation once dominated this international market. No more. Those men are gone now (though four remained on the rolls in 2004),[16] and only a few of the current firms (principally Anderson Mori Tomotsune) trace their lineage directly to them. Instead, most western lawyers in Tokyo work for the large U.S. (e.g., Morrison & Forester) and U.K. law firms (e.g., Clifford Chance). Several of these now include many Japanese lawyers as well.[17]

II. Empirical Resources

A. The Data:

1. Tax data coverage. -- If Japanese lawyers make only modestly high incomes, why do so many people try to desperately to become one? Among Japanese attorneys, what determines who makes the better money? To begin to explore these last two

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[11] For an analysis and description of these departments, see Toshimitsu Kitagawa & Luke Nottage, Globalization of Japanese Corporations and the Development of Corporate Legal Departments: Problems and Prospects, Raising the Bar: The Emerging Legal Profession in East Asia (William P. Alford, ed., Cambridge: Harvard University Press, Forthcoming).

[12] Numbers from web sites.

[13] Bengoshi ho [Attorneys Act], Law No. 205, of 1949, Sec. 72; see Ramseyer, supra note.

[14] Nihon bengoshi, supra note, at 93.

[15] Nihon bengoshi, supra note, at 93.

[16] Nihon bengoshi, supra note, at 70.

[17] For a directory to this corporte legal services market, see Nikkei Business Publications, ed., Bijinesu bengoshi taizen 2006 [An Encyclopedia of Business Lawyers, 2006] (Tokyo: Nikkei BP, 2005).

questions, we estimate 2004 incomes from the amount of taxes attorneys paid. We obtained this information because of a now-discontinued Japanese government policy. Through the 2004 taxable year, the tax office published the names, addresses, and tax liabilities of those taxpayers who reported the highest incomes. The amount of liability that triggered this public disclosure varied over the years, but in 2004 stood at 10 million yen (at the end-of-2004 exchange rate of 102.68 yen/$, about $97,000).

Starting with the 2005 taxable year, these taxpayer data are no longer available. Under the newly passed Personal Information Protection Act, the government may not release a variety of private information.[18] Because tax liabilities fall within the scope of the ban, the government will not release the taxpayer lists. Our 2004 data thus represent the last available set of this information.

For all lawyers on this high-income taxpayer (HIT) list, we enter the actual taxes they paid in 2004. For all lawyers not on the list, we know only that they paid less than 10 million yen. Because our data are thus censored below at 10 million, we use tobit regressions in most specifications.

In 2004, some 73,000 Japanese paid 10 million yen or more in taxes. As discussed earlier, compared to the U.S. this is few. Japan has about half the population of the U.S., and roughly the same median household income. Yet in 2003, U.S. taxpayers filed 536,000 returns with adjusted gross incomes of over $500,000. They filed nearly 181,000 returns with over $1,000,000 (www.irs.gov).

We take our tax data from the Japanese affiliate of D&B, Tokyo shoko risaachi (TSR).[19] Naturally, TSR uses the data for credit investigations. In some cases, it has added the professional affiliation of the taxpayers. Where it did, we generally follow that identification. We obtain our information on attorney backgrounds from the 2005 directory of the Japan Federation of Bar Associations (JFBA).[20]

To maximize the number of observations with tax data, we use stratified sampling. The JFBA directory records the backgrounds on all 21,000 active attorneys. From this list, we first enter the information on 1120 randomly selected lawyers. Of these attorneys, 23 were on the HIT list. Because the TSR database includes 381 other HIT lawyers, we enter the tax and background data for those attorneys as well. This procedure leaves us with a dataset of 1,501 lawyers, of whom 404 paid taxes of over 10 million yen. Because of lingering differences reflecting the differing regulatory regime under the U.S. occupation before 1972, we exclude Okinawa.

Japanese taxpayers pay a tax of 37 percent on ordinary income beyond 18 million yen.[21] For a crude approximation of income from tax liability, readers thus can simply divide the liability by .37. To illustrate a more nuanced approach, in Table 1 we use

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[18] Kojin joho no hogo ni kansuru horitsu [Act Relating to the Protection of Personal Information], Law No. 57 of 2003.

[19] Tokyo shoko risaachi, ed., Zenkoku kogaku nozeisha meibo [National Registry of High-Income Taxpayers] (Tokyo: Tokyo shoko risaachi, 2004) (CD-ROM version).

[20] Horitsu shimbunsha, ed., Zenkoku bengoshi taikan [National Survey of Lawyers] (Tokyo: Horitsu shimbun sha, 2005).

[21] Shotoku zei ho [Income Tax Act], Law No. 33 of 1965, Sec. 89, as amended by Shotokuzeito futan keigen sochi ho [Act for Measures to Reduce the Burden of the Income and Other Taxes], Law No. 8 of 1999.

standard deductions and the full rate schedule to calculate the actual income that would generate the taxes given. By this approach, to owe 10 million yen in taxes, an attorney would need to make 39.9 million yen ($390 thousand).

[Insert Table 1 about here.]

On Table 2 we detail the tax liabilities of several high-income lawyers. Highest-ranking Shin Ushijima paid 227 million yen in taxes, suggesting income of perhaps $6 million. Among all Japanese, he ranked 185th. Although Ushijima advertises himself as an international lawyer, he does not work at one of the prominent international firms. The fact that he never appeared on the HIT list before suggests he received a windfall.

From that 227 million, tax liabilities fall quickly. Fifth-ranked Nobuo Takai paid less than half as much, and even he (born in 1937, and nearing the end of his career) had made the HIT list only four other times. For some more modestly (if still highly) paid lawyers, however, the high incomes come often. The 20th ranked lawyer earned about $1.7 million, and the 50th and 100th ranked (both partners at a major international firm) earned $1.1 million to $750 thousand. Perhaps 58 years old, number 20 had appeared on the HIT list 17 times before. By age 44, number 50 had been on it seven times already.

2. Limitations. -- As a source of information, tax records inherently present several limitations. Most obviously, taxpayers have an incentive to underreport. With a top marginal bracket of 37 percent, the incentive is strong. Although the Japanese tax and prosecutors' offices punish cheaters severely, our data will still include some lawyers who hide income.

Second, the amount of underreporting will increase as firm size falls. If a lawyer in solo practice takes his fee in cash, he need never enter it on his books. If he practices with 50 partners, he will need to keep an accurate set of books in order to split income and expenses. If he hopes to cheat the government, he will then have to keep two parallel sets of books -- a process that obviously increases the risk that auditors will catch him.[22]

Third, to the extent attorneys have income from other sources, their taxable income will overstate their returns from legal practice. Because the attorneys with the highest such returns will accumulate the greatest wealth, over time they will also tend to earn the most investment income. As a result, the fraction of taxable income from legal practice should fall both with age and with taxable income.

Last, the tax office no longer discloses this information, but even before 2005 some wealthy Japanese resented its publication (though at least anecdotally some are said to have been proud of making the list). To skirt disclosure, they could do one of two things. First, they could pay a penalty and submit their return late. The tax office included on its list only those high-income taxpayers who filed within 2 weeks of the March 15 return deadline. By filing after April 1, they avoided publication.

Second, wealthy attorneys could file an initial return that included only income below the amount that triggered disclosure, and then submit an amended return with the remaining income. Because the tax office compiled its list from the initial returns, they again avoided publication. Unfortunately, we do not know how many taxpayers used either strategy.

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[22] On one the consequences for this, see [this note + 8], infra.

As a check on the reliability of our data, however, we compared a lawyer's 2004 tax liability with the average land price of the neighborhood in which he lived.[23] To maintain comparability, we limited our sample to attorneys in the greater Tokyo area. The correlation coefficient between a lawyer's 2004 tax liability (with 10 million entered for those not on the HIT list) and the land values in his residential neighborhood is 0.19 -- statistically significant at greater than the 0.1 percent level: lawyers reporting higher incomes do live in more expensive areas.

Parenthetically, note the following: in Japan, couples may not file joint returns; taxpayers with rising incomes may not use "income averaging" across years; gains from the sale or exchange of real estate are taxed at 15 percent if held over 5 years and at 30 percent if held for 5 years or less; and pension payments are taxed at lower rates than salaries. For complex reasons detailed elsewhere, our data exclude most taxes on dividends from exchange-listed firms, but do include some (though not all) taxes on capital gains from securities transactions.[24]

3. Other sources. -- To our tax data, we add a variety of other information. We take the information on the attorneys themselves from the bar association directory.[25] For most prefecture-level data on economic welfare we use standard Japanese statistics. We obtain our prefectural information on lawyers and law firms from the bar association, and define international firms as those that advertise in Martindale-Hubbell.[26]

C. Variables:

We define the following variables, and include selected summary statistics in Table 3:

[Insert Table 3 about here.]

1. Tax variables. --

Ln Tax Liability: The log of a lawyer's 2004 (or 2003) tax liability (in 1000 yen), conditional on appearing on the HIT list; the log of 10,000, otherwise.

No. Appearances: The number of times a lawyer has appeared on the HIT list (conditional on appearing in 2004).

HIT: 1 if lawyer appeared on the 2004 HIT list; 0 otherwise.

2. Lawyer variables. --

Flunks: The estimated number of times a lawyer failed the LRTI entrance exam. In general, an attorney first would have taken the exam at age 21. Accordingly, we

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[23] Obtained from the Toyo keizai shimposha, ed., Toshi deeta banku [Metropolitan Data Bank] (Tokyo: Toyo keizai shimpo sha, 2005).

[24] See the discussion in Nakzato, Ramseyer, & Rasmusen, supra note. Both dividends and securities capital gains were subject to a national tax of 7 percent.

[25] Horitsu shimbun sha, ed., Zenkoku bengoshi taikan [National Lawyer Directory] (Tokyo: Horitsu shimbun sha, 10th ed., 2005).

[26] Ken Toba, Nihon jin no heikin chi [Japanese Averages] (Tokyo: Seikatsu joho sentaa, 2005); Nihon bengoshi rengo kai, Bengoshi hakusho [Attorney White Paper] (Tokyo: Nihon bengoshi rengo kai, 2005); Martindale-Hubbell Law Directory (New York: Martindale-Hubbell Law Directory, 2005).

calculate **Flunks** using the attorney's birth year and the year he passed the exam where available; where unavailable, we use university and LRTI graduation years.

University dummies: The university from which a lawyer obtained his undergraduate degree.

Other Tokyo U: 1 if an attorney graduated from a Tokyo-area university other than the University of Tokyo, 0 otherwise.

Experience: Years from LRTI graduation to 2004.

Sex: 1 if a lawyer is male; 0 if female.

International: 1 if a lawyer works at a firm advertised in Martindale-Hubbell; 0 otherwise.

Prefectural dummies: the prefecture in which an attorney is registered to practice. To instrument attorney location in our instrumental variable regressions (Tables 4, 8), we also identify the prefecture in which the lawyer was born; where unavailable, we use the lawyer's registry address (honseki).

Metropolitan: 1 if a lawyer is registered to work in one of the relatively urban prefectures of Kanagawa, Chiba, Saitama, Hyogo, Aichi, Hiroshima, Fukuoka, Hokkaido, or Miyagi; 0 otherwise.

Provincial: 1 if a lawyer is registered to work in any prefecture other than Tokyo, Osaka, or one of the **Metropolitan** prefectures; 0 otherwise.

3. Prefectural variables. --

Attorneys: Total number of attorneys, 2004.

New Attorneys: Total number of new attorneys, 1995-2004.

Income PC: Per capita income, 2001.

Bankr'y PC: Number of judicial declarations of bankruptcy per 1000 population, 2003.

Hospitals PC: Hospitals per 100,000 population, 2003.

Traf Death PC: Traffic deaths per 100,000 population, 2003

Crimes PC: Criminal Code crimes per 1000 population, 2003.

Pro Bono PC: Number of free consultations with a lawyer, per 1000 population, 2003.

Corp Inc PC: Corporate income declared to tax office (x 1 billion), per 1000 population, 2002.

New Business %: New business formation rate, in percentage, 2001.

Museums: Total museums in prefecture (including zoos, acquariums, etc.), 2002.

Concerts: Percent of population (10 years old or older) who attend music concerts (excluding classical), 2001.

School Internet: Percent of public schools with high-speed internet access, 2003.

College Grads: Percent of population who graduated from a university, 2000.

III. Talent and Income

A. The Talent Premium:

Bright lawyers earn more than the dull. The common-sense point emerges clearly even in the summary statistics. Where our randomly sampled lawyers failed the LRTI entrance exam a mean 6.57 times (**Flunks**), the high-income lawyers failed it only 4.97

times.[27] Where 74 percent of the randomly sampled lawyers failed it 4 or more times, only 55 percent of the high-income lawyers did (Table 3 Panels A, B). Where only 16 percent of our randomly sampled lawyers attended the perennially first-ranked University of Tokyo, 31 percent of the high-income lawyers went there (Tab. 3 Pan. A).

Regression results confirm this premium on talent. In Table 4 Columns (1) and (3) (Col. (3) includes prefectural dummies), we regress (through tobit) an attorney's logged tax liability on four variables: **Flunks**, **U Tokyo**, **Experience**, and **Sex**. According to the results, lawyers with low **Flunks** and University of Tokyo degrees do earn more than others. Note also that men earn more than women, but more experienced lawyers do not earn more than their younger competitors.

[Insert Table 4 about here.]

In Table 5, we explore the effect of university backgrounds in more detail. Again, we regress (through tobit) logged tax liabilities on the standard Table 4 variables and a dummy variable for each university with more than 7 lawyers in the dataset. The omitted variable is Doshisha University -- the school with the fewest lawyers on the HIT list. The coefficient on the University of Tokyo again emerges as strongly significant. Traditionally second-ranked Univeristy of Kyoto does not fare as well, but still outpaces Doshisha, and elite Hokkaido and Kobe universities both earn their graduates high incomes to boot.

[Insert Table 5 about here.]

B. The Tokyo Penalty:

In choosing to work in Tokyo, the average lawyer pays a price. Tokyo offers the widest array of urban amenities in Japan, and for that reason remains a perennial favorite among professionals. Because so many lawyers locate there, however, they apparently dissipate the monopoly rents.[28] Japan may have only 21,000 lawyers, but half (10,300) work in Tokyo. Although Japan has 6,030 people per lawyer, Tokyo has only 1,206. That puts the city behind Germany with 651 per lawyer, but ahead of France with its 1,488.[29]

The resulting competition creates a penalty for lawyers with average abilities who choose to practice in Tokyo. Return to the Table 3 summary statistics. Tokyo lawyers are more talented than the provincial lawyers: 25 percent of them attended the University of Tokyo compared to 12 percent in the provinces, and they flunked the LRTI exam 6.3 times compared to 7.5 for the provincial lawyers. Yet Tokyo lawyers are poorer: only 1.8 percent (181) of the 10,263 Tokyo lawyers appeared on the HIT list compared to 3.4

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[27] According to another study, the median successful applicant in 1994 was passing the exam 4 years after his initial attempt. 18.4 percent were passing it 9 or more years after their initial attempt. See Setsuo Miyazawa, Shiho shiken ni okeru tomen no kadai [Urgent Issues Regarding the LRTI Entrance Exam], 481 Hogaku seminaa 76, 77 (1995); see Ramseyer & Nakazato, supra note, at 9. The median **Flunks** among our randomly sampled lawyers is 6. The difference between that figure and Miyazawa's 1994 figure probably reflects in part the difference between the 3.3 percent pass rate in 1994 and the sub-2 percent pass rate during the late 1970s and early 1980s. See Ramseyer & Nakazato, supra note, at 7.

[28] The higher incomes need not represent monopoly rents; they could simply reflect the higher prices necessary to induce more attorneys to take jobs in areas with fewer of the amenities prized by professionals.

[29] Nihon bengoshi, supra note, at 77, 81.

percent (119) of the 3,460 outside of Tokyo, Osaka, and the **Metropolitan** prefectures (of the randomly sampled lawyers, 1 and 5 percent respectively; see Table 3).

To explore the Tokyo penalty in more detail, in Column (2) of Table 4 we add three geographical variables (Tokyo is the omitted variable). As with the summary statistics, lawyers in the provinces earn higher incomes than those in Tokyo. Those in the second-largest city of Osaka earn less than those in Tokyo, but lawyers in the other metropolitan centers earn about as much.

Because lawyers will choose where to practice with an eye on their expected incomes, location is endogenous. Accordingly, in Column (5) we use instrumental variables tobit to instrument the geographical variables with a lawyer's hometown. The Tokyo penalty now emerges more clearly still: Osaka lawyers no longer significantly under-perform those in Tokyo, and both other metropolitan and provincial lawyers earn more than Tokyo lawyers.[30]

C. The Differential Premium on Talent:

1. The talent premium in Tokyo. -- Talented lawyers choose Tokyo despite the general penalty because the complex practice places a premium on their abilities. In Columns (4) and (6) of Table 4, we interact **Flunks** and **U Tokyo** with Tokyo as the place of practice. Both interacted variables now emerge as strongly significant: a low **Flunk** score matters more for high incomes in Tokyo than elsewhere, and so does a University of Tokyo degree. Attorneys who attend an elite university and pass the bar-exam equivalent on their first or second try earn a return on their talent in Tokyo that they would not find elsewhere.

2. The international firms. -- Many of the talented lawyers earn this return by affiliating themselves with one of the large international firms in Tokyo. Those who choose these firms (and who are hired by them) are indeed able. Where University of Tokyo graduates constituted 16 percent of our random sample and 25 percent of our Tokyo random sample, they were 57 percent of the randomly sampled international firms. Where the randomly sampled lawyers flunked the LRTI exam 6.57 times, the randomly sampled international lawyers flunked it only 4.31 times.

At the international firms, these talented lawyers earn high incomes. The international lawyers constitute 5 percent of the random sample, but 22 percent of the HIT list. They are 11 percent of the Tokyo random sample, but 49 percent of the Tokyo HIT list. The decision to work at such a firm is obviously endogenous to expected income, but were we to include **International** in our Column (1) Table 4 regression (unreported), the coefficient would be positive and significant at more than the 0.1 percent level.

Over the past several decades, the international firms grew steadily (and exponentially), and as they did the tendency for talented lawyers to join them increased as well. Among all randomly sampled University of Tokyo graduates who passed the LRTI exam on one of their first 4 tries, 23 percent work at one of the Tokyo international

[30] The differential patterns to tax evasion suggest that this Tokyo penalty may be even larger than we observe. The rich Tokyo lawyers work at large firms, where systematic tax evasion is hard. The rich provincial lawyers mostly work in one-lawyer firms where cash receipts need never be entered on the books.

firms. Among those with 20 years or less experience, 54 percent work there. But among those who joined the bar in the last decade, 63 percent do. Of the most talented young lawyers, in short, nearly two-thirds join an international firm.

D. The Dynamics of Locational Choice:

1. Elite and non-elite lawyers. -- Because of the differential returns to talent in Tokyo and the provinces, the brightest young lawyers opt for careers in the capital, while many of the slower lawyers avoid it. To explore this phenomenon, we first partition lawyers by the opportunity costs they face. Consider Figure 1, a plot of the percentage of lawyers from different schools against the number of times they failed the LRTI exam. University of Tokyo students receive the best job offers, and disproportionately they pass the exam on one of their first four tries.

[Insert Figure 1 about here.]

Tokyo graduates do not pass in four times because all (or most) of the graduates who hope for a legal career pass by then. Even Tokyo graduates pass at only an 8.2 percent rate.[31] Instead, they pass in four times because those who do not pass by then jettison the effort and take well-paying corporate jobs. Crucially, a student can safely take the test four times and still retain access to the university placement machinery: once (or perhaps twice) during his first four years in college, a second time by delaying graduation a year, and a third or fourth time by enrolling in a master's program.

Beyond those four years, students increasingly find it hard to obtain job offers from corporate employers. Accordingly, those with job prospects at the best firms tend to drop out of the LRTI exam pool after four years. Disproportionately, only those who do poorly on the job market anyway continue to take the exam. They obviously face lower odds of ever passing, but while continuing their studies they make do as best they can by living at home or taking assorted odd jobs.

Hence the reason so many people try so hard to become lawyers despite the income: for them, the modestly high income is not modest. Instead, it far exceeds what they could earn elsewhere. The bulk of the people taking the exam are not the University of Tokyo elite who choose between the bar and a position at NEC. Elite students attack the exam 3 or 4 times and if unsuccessful take the NEC job. Instead, most of the people taking the exam are men and women without access to such high-paying jobs. For them, a job as an attorney offers very good prospects indeed.

2. The locational choice. -- Table 6 starkly presents the locational choice that lawyers with differing abilities face. We define an "elite" lawyer as a University of Tokyo graduate who passes the LRTI exam on one of his first four tries (**Flunks** $\leq$ 3). According to Column (1), elite lawyers earn significantly higher incomes in Tokyo (often at one of the international firms) than elsewhere. According to Column (2), everyone else earns more if they stay out of the city.

[Insert Table 6 about here.]

In Table 6 Column (3), we regress (through probit) the locational choice each lawyer makes (**Tokyo** = 1) on his background. Those with low **Flunk** scores and University of Tokyo degrees opt for Tokyo careers. Although graduates of other Tokyo

[31] Ramseyer & Nakazato, supra note, at 8.

schools also tend to stay in Tokyo, the lower marginal effect suggests they less often stay than those from the University of Tokyo. Among University of Tokyo graduates, 72 percent choose to work in the city. Among those from other Tokyo universities, only 62 percent do. And among those from all other universities, only 42 percent do.

The resulting lesson is straightforward. The most talented lawyers earn more in Tokyo than the provinces, and tend to opt for Tokyo jobs. The less talented earn more in the provinces, and tend to opt for provincial jobs.

E. The Determinants of Provincial Income:

Among the half of all lawyers who choose not to work in Tokyo, who succeeds? To explore the question, in Table 7 we regress an attorney's logged tax liability on his personal variables and a series of characteristics about the prefecture. We take as our dataset all lawyers not in Tokyo. Consistently, those who failed the LRTI exam fewer times do earn more than those who failed it more often. The University of Tokyo, however, earns a lawyer no advantage. As in prior regressions, more experienced lawyers do not earn more than younger lawyers, and men make more than women.

[Insert Table 7 about here.]

Because prices depend on competition, we include in Table 7 the number of attorneys per prefecture. To be sure, most provincial attorneys do simply work where they were born. Among our randomly sampled lawyers outside of Tokyo, Osaka, and the **Metropolitan** areas, 79 percent work where they were born. Yet only 64 percent of those **Metropolitan** lawyers were born where they work, and only 37 percent of the Osaka lawyers and only 38 percent of the Tokyo lawyers were born there. A LRTI graduate from rural Miyazaki will not open a practice in rural Niigata, apparently, but he may well decide to stay in Tokyo.

When deciding whether to stay in the city or to return home, a rural-born young lawyer will choose in part on the basis of the income he can expect to earn in the two areas. To eliminate this endogeneity in Table 7, we instrument the number of attorneys in each prefecture with proxies for the level of amenities available there: **Museums**, **Concerts**, **School Internet**, and **College Grads**. As one would expect, so instrumented an increase in the number of attorneys generally lowers attorney incomes (Cols. (1), (3); though not in all specifications). The number of new attorneys (Col. (2)) seems to have much the same effect.[32]

Turn to the other prefecture-specific variables. First, higher general per capita incomes lead to higher attorney incomes (Col. (3)). People in richer prefectures apparently buy legal services poorer people do without. Second, bankruptcies are positively associated with attorney incomes (Col. (3)). When a firm fails it and its creditors take a variety of strategies that may rely on an attorney's services (the correlation between bankruptcies per capita and litigation per capita is .94). Per capita income held constant, attorneys in prefectures with more bankruptcies earn higher incomes.

[32] On prefecture-level changes in the number of attorneys, see Ginsburg & Hoetker, supra note, at 38-39.

Third, hospitals and perhaps serious traffic accidents are also associated positively with attorney incomes (Col. (4)). Given the dearth of malpractice claims,[33] the coefficient on hospitals would not directly reflect disputes over the medical care itself. Instead, perhaps it captures the claims arising out of the injuries that brought the patients to the hospital in the first place (though the correlation between traffic deaths per capita and hospitals per capita is modestly negative). Fourth, serious crimes are not associated with high attorney incomes in Japan (Col. (5)). Criminal defense work rarely makes lawyers rich in the U.S., and it seems not to do so in Japan.

Fifth, higher levels of pro bono services are associated with lower attorney incomes (Col. (5)). Hypothetically, the amount of the pro bono work could reflect either (i) general prefectural income levels (attorneys offer free services most readily to poor people) or (ii) the amount of unbilled time attorneys have (attorneys provide pro bono work when short of billable projects; this would make the variable endogenous, of course). In fact, it reflects (ii): if we regress **Pro Bono PC** on **Income PC** and **Ln Tax Liabilities**, we obtain coefficients and t-statistics of .0008 (2.87) and -1.193 (3.46).[34] Attorneys do not offer pro bono services when they live in poorer communities. They offer them when they need to advertise their services and generate demand.

Last, higher general levels of business activity are not associated with higher attorney incomes (Col. (6)). Although business activity entails transactional work, apparently moderate-sized regional firms tend not to hire lawyers for such work. Instead, only the exchange-listed Tokyo firms do, and they hire their lawyers on the Tokyo market.

In Column (7), we include all these prefecture-specific variables. Only the **Bankruptcy PC** and **Pro Bono PC** are strongly significant.

F. Robustness Checks:

We close by exploring whether our principal findings are robust to alternative specifications. Toward that end, in Panel A of Table 8 we experiment with other regression techniques. Our tobit results largely track the three alternatives. In all four regressions the coefficients on **Flunks** are significantly negative, and those on **U Tokyo** significantly positive. Whether we use the tobit regressions discussed earlier (Column (1)), whether we limit ourselves to taxpayers on the HIT list (Column (2)), whether we use as our dependent variable a HIT-list dummy (Column (3)), or whether we use as that dependent variable the number of times a lawyer appeared on the HIT list (Column (4)) -- regardless of the specification we use, we obtain consistent results.

In Panel B, we repeat our principal regressions on logged 2003 tax liability. Because we have 2003 tax data only on those lawyers who also appeared on the 2004 list, the exercise is obviously imperfect. Again, however, we obtain results consistent with those discussed above. In our basic Column (1) regression, the marginal effects on **Flunks** and **U Tokyo** are significant in the predicted directions. In Columns (2) and (4), the regressions indicate that lawyers in the provinces and lesser cities report higher incomes than attorneys in Tokyo. And in Columns (3) and (5), they indicate that the

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[33] See, e.g., Robert B. Leflar & Futoshi Iwata, Medical Error as Reportable Event, as Tort, as Crime: A Transpacific Comparison (Jan. 22, 2006; unpublished).

[34] We use OLS with robust standard errors. We include all attorneys outside Tokyo; n = 802.

University of Tokyo graduates and low-**Flunk** attorneys earn the largest premium in Tokyo (though the latter effect is not significant in the instrumental variables regression).

IV. Conclusion

The Japanese legal services industry presents a bifurcated market. As the locus for complex transactions and litigation, Tokyo attracts the most talented lawyers. Disproportionately, they choose to practice there, and earn incomes commensurate with their ability. Because Tokyo (due to the many amenities available) attracts so many lawyers, however, those who work there earn lower monopoly rents than they would earn in the provinces.

With far fewer lawyers, the provinces do offer monopoly rents. Disproportionately, many of the less talented lawyers opt for careers there. Facing lower opportunity costs to a legal career, they willingly spend many years studying to pass the bar-exam equivalent. Once they pass, they return to their home prefecture, and earn what are -- for them -- handsome returns.

Table 1: Calculating Income from Tax Liability

The amount of income that would generate a tax liability of 10 million yen is about 39.9 million yen. To reach this conclusion, we make the following calculations:

A. The Principles:

1. Assume the taxpayer has only salary income. If so, he will have the standard salary income deduction of 5 percent plus 1,700,000 yen. See Shotoku zei ho [Income Tax Act], Law No. 33 of 1965, Sec. 28.

2. Assume further that this taxpayer has no children, no life insurance, no charitable donations, no medical expenses, etc.. If so, he will have only the three basic personal deductions: his own deduction, his spouse' deduction, and a social security deduction. Assume the last equals 1 million yen (in fact, it varies by salary level). See Shotoku zei ho, Secs. 74, 83, 86.

* Basic personal deduction	380,000 yen
* Sousal deduction	380,000
* Social security deduction	1,000,000

3. A taxpayer with an income in this range will face the full maximum marginal rate: 37 percent. The actual amount of the tax is given as 37 percent of his income, less a deduction of 2.49 million yen.

4. This taxpayer will also have the currently standard lump-sum tax credit of 250,000 yen. Shotokuzei to futan keigen sochi ho [Act to Reduce the Burden of the Income Tax], Law. 8 of 1999, Sec. 6.

B. Tax calculation:

Gross income:	39,900,000
Salary income:	
39,900,000 x .95 - 1,700,000 =	36,205,000
Taxable income:	
36,205,000	
380,000	
380,000	
- 1,000,000	
34,445,000	34,445,000
Income Tax:	
34,445,000 x .37 - 2,490,000 =	10,254,650
Less lump-sum tax credit:	
10,254,650 - 250,000 =	10,004,650

Table 2: Selected High-Income Lawyers

Rank (att)*	Rank (all)**	Name	Firm	Pref.	YOB	Bar pass	University	2004 Taxes	No. Appear.
1	185	Shin Ushijima	Ushijima sogo	Tokyo	1949	1974	U Tokyo	227,161	1
5	770	Nobuo Takai	Takai law	Tokyo	1937	1960	U Tokyo	106,749	5
10	1,315	Mutuo Tahara	Habataki	Osaka	1943	1966	Kyoto U	80,344	12
20	2,061	Yuichi Suzuki	Tokyo keizai	Tokyo	1946	1972	Keio U	64,171	18
50	4,566	Shin Kikuchi	Mori Hamada	Tokyo	1960	1981	U Tokyo	43,013	7
100	10,449	T. Shinagawa	Mori Hamada	Tokyo	1958	1982	U Tokyo	28,653	1
200	30,273	Sentaro Arai	Arai law	Tokyo	1938	1961	Meiji U	16,966	9

Notes: * Rank among attorneys. ** Rank among all taxpayers. Taxes are in x1000 yen. "No. Appear." gives the number of times the lawyer has appeared on the HIT list.

Sources: Horitsu shimbunsha, ed., Zenkoku bengoshi taikan [National Survey of Lawyers] (Tokyo: Horitsu shimbun sha, 2005); Tokyo shoko risaachi, ed., Zenkoku kogaku nozeisha meibo [National Registry of High-Income Taxpayers] (Tokyo: Tokyo shoko risaachi, 2004) (CD-ROM version).

Table 3: Summary Statistics

A. Introduction:

	Random Sample					HIT				
	n	min	median	mean	max	n	min	median	mean	max
HIT	1120			.02						
Tax Liability						404	10,010	16,872	24,756	227,161
Flunks	904	0	6	6.57	20	377	0	4	4.97	18
U Tokyo	1120	0		.16	1	404	0		.31	1
Tokyo	1120	0		.47	1	404	0		.45	1
Osaka	1120	0		.13	1	404	0		.03	1
Other Metropolitan	1120	0		.24	1	404	0		.23	1
Provinces	1120	0		.16	1	404	0		.29	1

B. Income Levels and Lawyer Characteristics:

	High Income	Random
Mean Flunks	4.97	6.57
% Flunks > 3	55.2	74.2
% International	22.3	5.7
% U Tokyo	31.4	15.9
% Chuo U	17.8	19.3
% Tokyo	44.8	46.7
n	404	1120

C. Geography and Lawyer Characteristics:

1. Random Sample

	Tokyo	Osaka	Other Metro	Provinc'l
% U Tokyo	24.7	5.4	7.1	12.3
% Chuo U	24.9	6.0	16.0	19.0
% High Income	1.0	0	3.3	5.0
Mean Flunks	6.32	6.31	6.65	7.50
% Flunks > 3	70.5	69.8	77.7	85.6
n	523	149	184	179

2. High Income Taxpayers

% U Tokyo	59.7	0	5.4	11.8
% Chuo U	12.7	0	20.4	25.2
Mean Flunks	3.38	4.00	6.20	6.79
% Flunks > 3	37.6	54.5	72.8	71.0
n	181	11	93	107

Notes: Panels B and C give the relevant figure for the population of lawyers in each column. In Panel B, among the high-income lawyers, the mean Flunks score was 4.97. In Panel C, among the randomly sampled Tokyo lawyers, 24.7 percent came from the University of Tokyo.

Sources: See Table 2.

Table 4: Determinants of Attorney Income

	(1)	(2)	(3)	(4)	(5)	(6) .
	Tobit	Tobit	Tobit	Tobit	IV Tobit	IV Tobit
Flunks	-.019	-.020	-.020	-.009	-.078	-.030
	(5.67)	(6.00)	(6.05)	(1.81)	(7.12)	(0.89)
U Tokyo	.194	.187	.204	-.057	.601	-.197
	(5.30)	(5.33)	(5.64)	(0.93)	(5.78)	(0.98)
Experience	.000	-.000	.000	.001	-.002	.001
	(0.09)	(0.02)	(0.31)	(0.45)	(0.54)	(0.45)
Sex	.125	.105	.099	.191	.487	.573
	(5.32)	(4.22)	(4.07)	(4.03)	(2.71)	(3.22)
Osaka		-.122			-.457	
		(4.57)			(1.34)	
Metropolitan		.042			.399	
		(1.36)			(2.60)	
Provinces		.122			.543	
		(3.45)			(4.06)	
Tokyo * Flunks				-.047		-.093
				(3.33)		(1.44)
Tokyo * U Tokyo				.514		.985
				(3.63)		(2.79)
Tokyo				.110		.136
				(1.81)		(0.22)
Prefectural dummies	No	No	Yes	No	No	No
n	1261	1261	1261	1261	1235	1235

Notes: In each case, the dependent variable is **Ln Tax Liability.**

Columns (1) through (4) are tobit. For continuous variables, these tobit regressions give the marginal effect of the independent variable, calculated at the median; for dummy variables, they give the marginal effect of a discrete change from 0 to 1. On the line below the marginal effect, the table gives the absolute value of the corresponding z statistic.

Columns (5) and (6) are instrumental variable tobit with Newey's two-step estimator. In Column (5) we instrument the regional variables with the hometown of the lawyer, and in Column (6) we do the same for **Tokyo**. These iv tobit regressions give the regression coefficients themselves (not the marginal effects).

In Columns (2), (3) and (5), the omitted prefecture is Tokyo. Prefectural results are calculated in Column (3) but not reported.

In all cases, a constant term is calculated but not reported.

Sources: See Table 2.

Table 5: The Effect of University Background

	Random Sample				All	Regression Results		
	Total n	Tokyo n	HIT n	Mean Flunks	HIT n	A Coeff.	B S.E.	C Marg. Eff.
Public, Tokyo								
U Tokyo	178	129	7	5.25	127	1.584**	(.553)	.322***
Hitotsub'i	27	16	1	6.15	10	1.024*	(.590)	.131**
Public, Other								
U Kyoto	76	10	2	5.24	23	.876	(.562)	.098**
Tohoku U	25	11	0	6.67	9	.917	(.595)	.107*
Kansai U	25	0	1	8.75	4	.727	(.623)	.071
Osaka U	17	1	0	5.59	5	.943	(.615)	.112
Osaka City	12	0	0	8.17	2	.811	(.677)	.085
Hokkaido U	11	2	1	7.09	9	1.471**	(.610)	.274**
Nagoya U	11	3	1	7.54	5	1.166*	(.638)	.169*
Kyushu U	10	2	0	6.67	4	1.160*	(.652)	.168
Kobe U	7	0	1	7.71	7	1.614**	(.633)	.335*
Private, Tokyo								
Chuo U	216	130	4	7.00	72	.990*	(.553)	.123***
Waseda U	105	60	1	7.14	39	1.195**	(.558)	.178***
Keio U	51	40	0	6.04	18	1.092*	(.570)	.149***
Meiji U	39	24	0	6.29	7	.608	(.593)	.053
Nihon U	21	16	0	9.10	8	1.144*	(.606)	.163**
Private, Other								
Doshisha U	14	4	0	6.07	1			
Ritsumeikan	7	0	0	6.43	3	1.085	(.681)	.147
Other Univ	74	35	2	7.69	22	.969*	(.566)	.118**
No Univ	195	41	2	7.78	29	1.130*	(.656)	.159

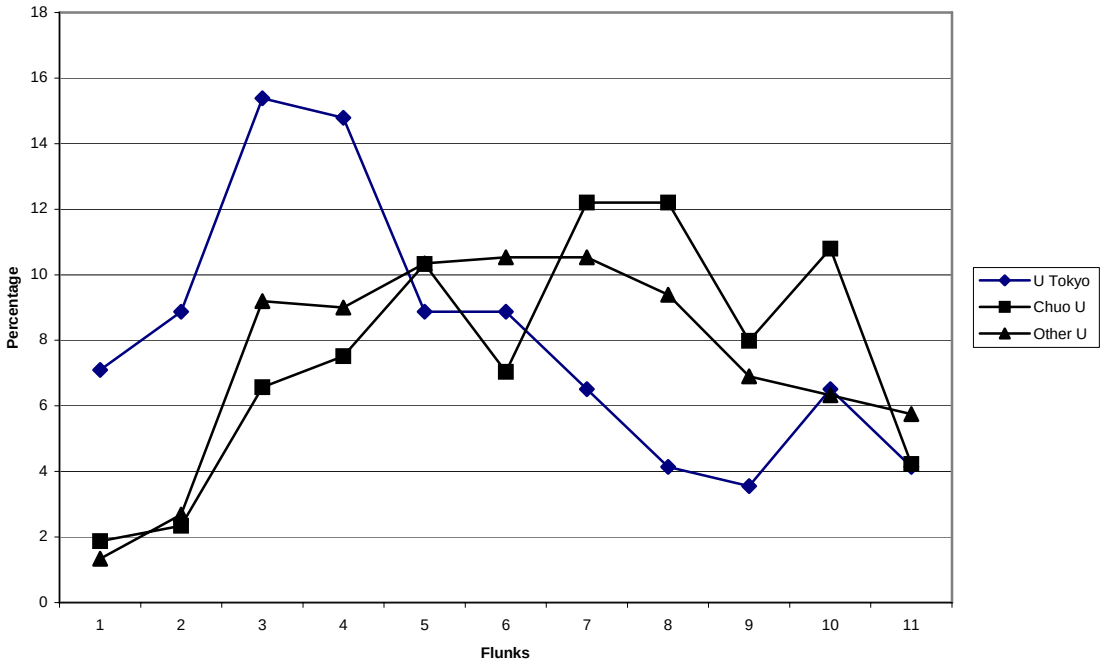
Notes: In other words, there were 178 University of Tokyo graduates in the random sample, and 129 of those 178 worked in Tokyo. Seven of the 178 were on the HIT list, and on that HIT there were a total of 127 U Tokyo graduates. The 178 random-sample U Tokyo graduates had a mean Flunks score of 5.25.

The last three columns give the results of a tobit regression of **Ln Tax Liability** on dummy variables for each of the universities, **Tokyo**, **Flunks**, **Experience**, and a constant term. As the omitted term, we take the university with the fewest graduates on the HIT list: Doshisha U. Col. A. gives the coefficient, Col. B gives the standard errors, and Col. C. gives the marginal effect of a discrete change from 0 to 1, which here is a semi-elasticity: the % change in an attorney's tax liability as result of that discrete change.

*** Significantly different from 0 at more than the 1 percent level; ** 5 percent level; * 10 percent level.

Sources: See Table 2.

Figure 1: Dropping Out of the Lawyer Market



Notes: In the figure, we give the percentage of lawyers with a given Flunks score for the University of Tokyo, Chuo University, and all other universities. [First horizontal point is 0 not 1.]

Sources: See Table 2.

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Table 6: The Dynamics of Locational Selection

	(1)* Tobit	(2)* Tobit	(3)** Probit
Experience	-.008 (1.85)	.003 (4.36)	
Tokyo	.412 (3.62)	-.037 (2.20)	
Flunks			-.008 (2.72)
U Tokyo			.547 (16.32)
Other Tokyo Univ			.350 (11.71)
n	167 Elite	1267 Non-Elite	1261 All

Notes:
* The dependent variable is **Ln Tax Liability.**
** The dependent variable is **Tokyo.**
For the continuous variables, the regressions give the marginal effect of the independent variable, calculated at the median; for dummy variables, they give the marginal effect of a discrete change from 0 to 1. The corresponding z-statistic follows in parentheses. All regressions include a constant term. **Elite** is as defined in text.

Sources: See Table 2.

Table 7: Determinants of Attorney Income in the Provinces

	(1)	(2)	(3)	(4)	(5)	(6)	(7) .
Flunks	-.025	-.025	-.026	-.022	-.023	-.024	-.025
	(2.73)	(2.75)	(2.81)	(2.41)	(2.43)	(2.65)	(2.68)
U Tokyo	-.193	-.192	-.161	-.179	-.203	-.178	-.183
	(1.61)	(1.59)	(1.33)	(1.51)	(1.66)	(1.50)	(1.52)
Experience	-.001	-.001	-.002	.001	.000	-.001	.000
	(0.22)	(0.23)	(0.45)	(0.20)	(0.00)	(0.16)	(0.12)
Sex	.810	.806	.814	.900	.938	.838	.988
	(2.32)	(2.30)	(2.26)	(2.56)	(2.65)	(2.33)	(2.70)
Attorneys	-.0002		-.0005	-.000	.0004	-.0003	.000
	(5.56)		(5.44)	(0.84)	(2.07)	(3.11)	(1.40)
New Attys		-.001					
		(5.56)					
Income PC			.001				-.000
			(3.24)				(0.22)
Bankr'y PC			.455				.298
			(3.90)				(2.98)
Hospitals PC				.030			.005
				(2.11)			(0.26)
Traf Death PC				.059			.025
				(1.47)			(0.71)
Crimes PC					-.040		-.003
					(2.94)		(0.28)
Pro Bono PC					-.154		-.150
					(3.48)		(3.48)
Corp Inc PC						-.001	.001
						(1.20)	(0.81)
New Business %						.015	-.265
						(0.17)	(1.88)

Notes: n = 621. In all regressions, we use only those lawyers located outside of Tokyo. PC = per capita.

In each case, the dependent variable is **Ln Tax Liability.** The regressions are instrumental variable tobit with Newey's two-step estimator. In these estimations, we instrument **Attorneys** (or **New Attys**) with variables proxying for the amenities available in the prefecture: **Museums, Concerts, School Internet**, and **College Grads**. These regressions give the regression coefficients themselves (not the marginal effects), followed by the absolute value of the t statistic on the line below. In all cases, a constant term is calculated but not reported.

Sources: See Table 2.

Table 8: Determinants of Attorney Income: Robustness Checks

A. Alternative Regression Forms:

	(1) Tobit	(2)* OLS	(3) Probit	(4) Poisson
Flunks	-.065 (6.40)	-.034 (4.22)	-.053 (5.23)	.014 (2.26)
U Tokyo	.511 (5.93)	.317 (4.70)	.376 (4.16)	.282 (6.04)
Experience	.000 (0.09)	-.002 (0.68)	.001 (0.36)	.039 (20.59)
Sex	.637 (3.68)	-.173 (1.06)	.730 (4.12)	.477 (2.98)
n	1261	377	1261	377
Dep. Var.:	Ln Tax Liability	Ln Tax Liability	HIT	Num. Appearances.

Notes: * Those attorneys who paid at least 10 million yen in 2004 taxes only. The table gives the regression coefficient (for Column (1), not the marginal effects as in other tables), followed by the absolute value of the corresponding t- (or z-) statistic in parentheses. All regressions include a constant term.

B. Using 2003 Tax Liability:

	(1) Tobit	(2) Tobit	(3) Tobit	(4) IV Tobit	(5) IV Tobit
Flunks	-.015 (4.90)	-.015 (5.14)	-.009 (2.22)	-.082 (6.21)	-.028 (0.71)
U Tokyo	.135 (4.17)	.134 (4.45)	-.023 (0.43)	.590 (4.87)	-.098 (0.42)
Experience	.001 (1.44)	.001 (1.12)	.002 (1.45)	.003 (0.71)	.006 (1.56)
Sex	.114 (6.44)	.091 (5.02)	.163 (3.97)	.735 (3.11)	.846 (3.53)
Osaka		-.063 (2.71)		-.252 (0.67)	
Metropolitan		.057 (2.01)		.495 (2.79)	
Provinces		.104 (3.27)		.574 (3.69)	
Tokyo * Flunks			-.033 (2.56)		-.112 (1.43)
Tokyo * U Tokyo			.348 (2.75)		.812 (1.93)
Tokyo			.048 (0.90)		.222 (0.30)
n	1261	1261	1261	1235	1235

Notes: The dependent variable is **Ln Tax Liability** for the 2003 tax year (x 1000) if an attorney was on the 2004 HIT list; logged 10,000 otherwise.

Columns (1) through (3) are tobit. For continuous variables, these tobit regressions give the marginal effect of the independent variable, calculated at the median; for dummy variables, they give the marginal effect of a discrete change from 0 to 1. After the marginal effect, the table gives the absolute value of the corresponding z statistic.

Columns (4) and (5) are instrumental variable tobit with Newey's two-step estimator. In column (5) we instrument the regional varibles with the hometown of the lawyer, and in column (6) we do the same for **Tokyo.** These iv tobit regressions give the regression coefficients themselves (not the marginal effects).

In all cases, a constant term is calculated but not reported.

Sources: See Table 2.