Nepotism vs specific skills : the effect of professional liberalization on returns to parental back grounds of italian lawyers

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ABSTRACT

We study the mechanisms of intergenerational inequality among Italian lawyers over the period 1994-2014 using a longitudinal dataset that combines administrative and survey data. We first estimate a 17.5% earnings premium for a law family background within the group of lawyers, so conditional on entering the profession. We then exploit the 2003-2006 liberalization process, which asymmetrically affected the two main transmission mechanisms: skill transfer and nepotism. We find that liberalization squeezed the law background return by at least 3/5, thus revealing a high incidence of nepotism. The bulk of the reduction occurred for the youngest lawyers and the top earners.

KEY WORDS

Intergenerational inequality, social mobility, nepotism, specific skills, regulation, top occupations

JEL

J24, J31, J44, I24

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1. Introduction

The observed high level of intergenerational income inequality is a matter of lively debate in several developed countries. Is it the unavoidable consequence of the transmission of skills and abilities? Or is it mostly the result of an unfair society that prevents the efficient allocation of talent? The particular strength of intergenerational transmission in top occupations, such as lawyers or doctors, has been cited in previous research as the pivotal case study through which to test these competing explanations (Laband and Lentz, 1983, 1992). While the standard approach in the literature is to explain intergenerational inequality based on the transfer of human capital (e.g., Becker and Tomes, 1979, 1986; Cunha and Heckman, 2007; Mogstad, 2017), recent empirical studies have revealed the substantial importance of nepotism and family networks (e.g., Magruder, 2010; Kramarz and Nordström Skans, 2014; Raitano and Vona, 2015 and 2018; Gagliarducci and Manacorda, 2016). However, it is extremely difficult to empirically disentangle the effect of nepotism — which creates monopolistic rents and establishes barriers to entry for the most talented children without a good family background — from that of human capital transfer — which is eased by following a parent's footsteps into occupations such as the law that intensively use tacit and social skills.

This paper offers a novel empirical contribution to the assessment of the key mechanisms that generate intergenerational inequality in a top occupation, notably Italian lawyers, over two decades (1994-2014). To study the relative incidence of nepotism vs. occupation-specific skill transfer, we exploit the process of liberalization in lawyers' labour market that started in 2003 with a reform to the bar exam procedure that was closely followed by the removal of price and advertisement restrictions in 2006. The main idea behind our identification strategy is that market liberalization asymmetrically affects these two channels of inequality transmission by reducing the monopolistic rents linked to nepotism (Mocetti, 2016; Mocetti et al., 2018) while magnifying skill premia (Guadalupe, 2007). Accordingly, a negative effect of

liberalization on the returns obtained by lawyers with a parent or a close relative working as a lawyer (henceforth, with a "law background") should be interpreted as evidence of the incidence of nepotism. In turn, a positive effect should be interpreted as evidence of compressed returns to skills in previously regulated sectors.

Our primary advantage compared to closely related research (Laband and Lentz, 1983, 1992; Pellizzari and Pica, 2011; Mocetti, 2016; Aina and Nicoletti, 2018; Mocetti et al., 2018) resides in the extremely high quality of our data. Specifically, we merged longitudinal data on lawyers' earnings provided by the administrative archives of *Cassa Forense* (the mandatory social security fund for lawyers in Italy) with a survey of approximately 1,300 lawyers through which, among other things, information on parents' or close relatives' characteristics is recorded. This rich dataset allows us to examine novel issues on which previous studies remained silent due to data limitations. First, we can accurately measure a background-related earnings premium within the highly homogeneous sample of lawyers, complementing previous research that focuses on the incidence of family background on the probability of entering a liberal profession (e.g., Laband and Lentz, 1983, 1992; Mocetti, 2016; Aina and Nicoletti, 2018). Using the rich set of information from the survey, we are also able to distinguish the possible earnings effects of an occupation-specific family background from those of a general family background captured by parents' education. Our focus on earnings is important to assess whether ensuring equal access to a liberal profession is a sufficient condition for social mobility in top occupations.

Second, the longitudinal dimension of our data allows us to assess the possible effect of occupational liberalization on earnings while controlling for lawyers' experience and for unobserved heterogeneity across individuals and thus sharpening the identification of nepotism vs. skill transmission. This feature of our data allows us to complement existing studies that exploit a richer cross-sectional variation of the data to evaluate the effect of changes in competition on social mobility (e.g., Mocetti, 2016).

Third, our work is connected to the active strand of research studying the role of occupational regulation and licensing on labour market outcomes (e.g., Kleiner, 2000; Kleiner and Krueger, 2013). More specifically, to the best of our knowledge, we are the first to study the effect of occupation-specific regulation on intergenerational earnings inequality within a licensed occupation.

In Italy, as in several other countries (Pagliero and Timmons, 2013), the legal profession is regulated to ensure minimum standards of quality through entry requirements (an accreditation is required to practice) and various regulations (e.g., on prices and rights to advertise). However, two interventions at the beginning of the 2000s changed the regulatory environment quite radically (see Section 3 for details). First, the rules of the entry examination to access the profession were changed in 2003 to promote the centralization of the examination process. The aim of this reform was to reduce the discretionary power of local professional associations that helped well-connected candidates pass the exam. Second, to comply with EU guidelines on market competition, a liberalization reform that abolished price floors and lifted the ban on price bundling, contingent pricing and commercial advertising was introduced in 2006.

Advantages uncorrelated with children's talents and skills were likely to be magnified in the particular regulatory framework that prevailed in Italy before these reforms. To provide a concrete example that is extensively discussed in Pellizzari and Pica (2011), an important advantage for lawyers' children, uncorrelated with their talent but correlated with their law background, is the inheritance of a well-established portfolio of clients in the early and most uncertain phase of a lawyer's career. With restrictions on prices and advertising, newcomers face exceedingly great difficulties in attracting clients, magnifying the advantage for lawyers' children. Finally, the reform enabled law firms to offer services in several domains (e.g., administrative law, taxation and accounting). Arguably, the possibility to exploit economies of scope should have increased the incentives to enter the market for large consulting companies, thus reducing the importance of family firms.

Although all these aspects of the liberalization process are likely to have reduced the rents for incumbents and thus the incidence of nepotism, the intergenerational transfer of occupation-specific skills makes lawyers' children more productive on average than non-lawyers' children. Because an increase in competition increases the returns to observable and unobservable skills (e.g., Guadalupe, 2007; Macis and Schivardi, 2016), the reform can either magnify or mitigate the returns to a law background. However, the evaluation of the effect of the reform allows us to reveal the relative incidence of nepotism vs. specific skill transfer. In particular, observing a decrease in the returns obtained by those with a law background would highlight the existence of strong nepotism that prevented the efficient allocation of talent before the reform. In contrast,

observing an increase in the returns to an occupation-specific parental background would imply that competition increased the returns to skills, as it did in the context of international trade shocks for general human capital (Guadalupe, 2007; Raitano and Vona, 2017).

Our main findings are as follows. First, conditional on standard covariates in wage equations, we estimate a positive, significant and large (17.5% before the liberalization, 11.0% over the entire period) premium to a law family background within lawyers, controlling for parents' education. Second, the liberalization squeezed this premium by between 3/5 (controlling for individual fixed effects) and 3/4 (not controlling for individual fixed effects). This finding reveals that a large share of the premium for a law background was due to nepotism and that by limiting the monopolistic rents of incumbents, the liberalization strongly reduced the incidence of nepotism in lawyers' labour market. Third, we corroborate this interpretation by showing that the bulk of the effect occurs for younger lawyers and at the top of the earnings distribution, thus allowing talented lawyers without family connections to break the glass ceiling.

The remainder of the paper is organized as follows. Section 2 briefly reviews the related literature. Section 3 presents the institutional background of the liberalization reforms. Section 4 describes the data and provides initial evidence on the importance of family background within lawyers. Section 5 presents the empirical strategy, and Section 6 presents the main results. Section 7 concludes by summarizing the main findings and their policy implications.

2. Related literature

Evidence on social immobility in top professions is growing rapidly, especially in the three developed countries characterized by high levels of intergenerational income inequality (Corak, 2013): Italy, the US and the UK. For the US, seminal papers by Lentz and Laband (1989, 1992) examined social mobility among doctors and lawyers, respectively. More recent papers focused on other professions, including the self-employed (Dunn and Holtz-Eakin, 2000), inventors (Bell et al., 2017) and politicians (Dal Bó et al., 2009). For the UK, two recent papers studied the association between parental networks and children's attainment of managerial and professional jobs (Macmillan et al., 2015; Gutierrez et al., 2014). Finally, numerous works have examined

high-skilled professions in Italy, where nepotism and family ties are known to be particularly strong (Schizzerotto and Bison, 1996). In particular, Pellizzari and Pica (2011) and Basso and Labartino (2010) focused on lawyers, Mocetti (2016) on pharmacists, Aina and Nicoletti (2018) and Mocetti et al. (2018) on liberal professionals in general, Abramo et al. (2014) and Durante et al. (2011) on university professors and Gagliarducci and Manacorda (2016) on politicians.

The main finding of these studies is that parental background plays a crucial role in accessing top professions, especially when the child remains in the same profession as her parents.[1]

Due to data limitations, only a few studies have sought to directly examine the incidence of family networks vs. skill transfer using ad hoc survey questions or observable proxies intended to approximate the two transmission channels (Lentz and Laband, 1989; Laband and Lentz, 1992; Aina and Nicoletti, 2018; Macmillan et al., 2015; Gutierrez et al., 2014). The problem with such an approach is that it is virtually impossible to find two observable and orthogonal counterparts that precisely reflect these two mechanisms.

More closely related to our work, Pellizzari and Pica (2011), Mocetti (2016) and Mocetti et al. (2018) used a competition shock to examine the social immobility of top professions in Italy. Pellizzari and Pica (2011) analysed the impact of the liberalization reform that we evaluate here by focusing on the outflows of lawyers with different family backgrounds measured using the frequency of surnames in provinces (Güell et al., 2015). The main finding was that, although before the reform, high-ability lawyers without the "right surname" were more likely to leave the profession, the opposite occurred afterwar.[2] Mocetti (2016) exploited exogenous discontinuities in the number of pharmacies per resident in Italian cities to estimate the probability that a pharmacist's child will opt for a pharmaceutical university program. He found that an increase in the pharmacy-to-population ratio, a proxy of an increase in competition, reduces the propensity of pharmacists' children to follow in their parents' footsteps. Mocetti et al. (2018) exploited reforms in the regulation of professional services that have occurred in

[1] Two studies on Canada (Corak and Piraino, 2011) and Canada and Denmark (Bingley et al., 2011) documented a strong intergenerational transmission of employers (i.e., measured as the company for which someone works).

[2] Using a similar approach, Basso and Pellizzari (2010) found a negative correlation between the age at which people become lawyers and the frequency of their family name in the local register.

Italy since the 2000s to examine the impact on intergenerational persistence in the liberal professions. They found that the liberalization of professional services led to a substantial decrease in the propensity of career following, especially for less able individuals. This finding suggests that, at least in Italy, low social mobility in regulated occupations depends to a great extent on monopolistic rents – associated with a lack of competition – that advantage the children of liberal professionals rather than on the transfer of occupation-specific skills.[3]

Overall, these three papers indicate a strong linkage between monopolistic rents and the lack of social mobility in liberal professions, but they do not investigate background-related earnings premia within certain occupations and the sources of these premia. Our paper fills this gap in the literature by documenting the size and the sources of these premia within the highly homogeneous group of lawyers.

3. Institutional background of the lawyer sector in Italy

The legal profession in Italy is heavily regulated. Lawyers work in a licensed sector, and occupational licensing creates a natural barrier to entry. To obtain a license as a lawyer – i.e., to be formally qualified to represent clients in any type of legal trial – law graduates[4] must spend a compulsory two-year period (but often longer) in legal practice with a lawyer appointed as a mentor and then pass the bar exam. Only after passing this exam can a law graduate work as a lawyer and enrol in one of the 166 local lawyers' professional associations. Lawyers are also obliged to pay fees to *Cassa Forense*, the social security fund for lawyers, which is privately managed.

While the bar exam is prepared by a commission appointed by the Minister of Justice, the 26 appeals courts are actively involved in the organization of the examination process, which generally takes place at the end of each calendar year. Until 2003, local lawyers and judges composed local commissions in charge of grading the examination. This feature of the examination process gave local professional associations remarkable discretionary power to favour unskilled but well-connected candidates (Buonanno and Pagliero, 2018). This power led to enormous differences in the bar exam pass rates

[3] Mocetti et al. (2018) found that the liberalization reform process reduced the propensity of career following in liberal professions by approximately one-third of the sample mean, and the effect is greater in liberal professions that are less math intensive (e.g., lawyers and accountants rather than engineers).
[4] In Italy, law degree has a 4-year duration.

across the various appeals courts. In particular, the pass rates were usually significantly higher in the southern than in the northern regions of Italy (Pellizzari and Pica, 2011; Buonanno and Pagliero, 2018). To avoid such discretionary behaviours, the exam procedures were changed at the end of 2003: since that date, local courts of appeal have been randomly paired with one another, and one grades the written papers of the other. As argued by Pellizzari and Pica (2011), this intervention has had a substantial effect on reducing the regional variation in pass rates.[5]

The professional associations also impose rules and restrictions on pricing, advertising and the business structure of law firms and are equipped with the power to guarantee enforcement of these rules (Mocetti et al. 2018). The local lawyers' association can sanction the illegal, incorrect or unethical behaviours of its members according to the code of conduct of the profession, which is set at the national level. Until July 2006, this code established price floors for each legal service and a ban on advertising. Following a recommendation by the European Commission aimed at fostering competition in licensed sectors, in 2006, the government intervened through the so-called Bersani reform (decree n. 223, 4th July 2006) to liberalize the legal sector by abolishing price floors and lifting the ban on price bundling, contingent pricing, commercial advertising and the ability of the same firm to offer different legal services.

Therefore, the legal sector in Italy has been characterized by two main reforms in the first decade of the twenty-first century, i.e., the 2003 reform on the rules of the bar exam and the 2006 liberalization. In particular, the 2006 reform can be regarded as a sudden and unexpected change in Italian legislation, since it was approved via an emergency decree not long after a new government took office and thus can be confidently considered exogenous with respect to the behaviours of incumbents in the lawyers' labour market (Mocetti et al. 2018). In spite of the strong opposition by professional associations that led to slow implementation of the reform (Pagliero, 2015), the 2006 decree clearly signalled the shape of the regulatory framework for years to come.

The liberalization process of the lawyer sector in Italy is evident in the sharp decrease in the OECD indicator that measures the regulatory environment for legal services, the

[5] Buonanno and Pagliero (2018) also evaluated the effect of the change in the bar exam on labour market outcomes but focused on the inefficiencies in labour mobility created by the old examination rules.

value of which decreased from 3.92 in 1998 to 2.40 in 2013.[6] Although the liberalization process started in 2003, Figure 1 shows that the number of active lawyers (i.e., not retired) enrolled in *Cassa Forense* steadily increased after the mid-1990s and again before the liberalization process began. Further information provided by *Cassa Forense* shows that the total number of individuals qualified as lawyers – including pensioners and those whose activity is suspended (e.g., enrolment in the lawyers' association is frozen when a lawyer works as an employee for a company) – rose from approximately 87,000 in 1996 to approximately 234,000 in 2014, and the share of lawyers per 1,000 inhabitants increased from 1.5 to 3.9 during the same period. This trend implies that the deregulation process was not the only driver of the increase in a proxy of market competition, namely, the number of lawyers per inhabitant.

4. Data and descriptive evidence

4.1 Data

We use a panel dataset built by merging two different data sources on Italian lawyers using the personal identification codes of members of *Cassa Forense* as the matching key:[7]

i) Longitudinal administrative records collected yearly by *Cassa Forense* based on annual tax documents filed by lawyers when they pay their fees. In these files, the demographic characteristics of each member (year of birth, gender, local professional association in which the lawyer is enrolled and year of enrolment in *Cassa Forense*), annual gross earnings and gross turnover are recorded.[8]

ii) An occasional survey conducted by *Cassa Forense* in 2010 on a stratified sample of 4,000 lawyers representative of the population of members of the social security

[6] The OECD index of product market regulation in a sector or in a profession captures various aspects of competition. For liberal professions, it includes conduct requirements (e.g., price floors), educational and membership requirements and entry regulations. The index ranges from 6 (heavily regulated professions) to 0 (completely unregulated professions).

[7] The matching keys have been anonymized for privacy reasons by the statistical office of *Cassa Forense*.

[8] Annual earnings and turnover are deflated using the consumer price index. Moreover, earnings and turnover have been top-coded (in real terms) at 1 million euros per year. However, only 18 income values pass this threshold, and thus are top-coded, in our primary sample.

fund. The response rate (32.7%) was similar to that of comparable surveys.[9] The final sample is composed of 1,306 lawyers. Importantly, the sample of respondents has the same characteristics as the universe in terms of stratification variables (gender, age class and geographic area of work); thus, nonresponses appear to be randomly distributed across different strata (see Table A1.1 in Appendix 1).

The survey includes a wide range of questions that are useful to the aim of our study. In particular, the questionnaire collects information on sociodemographic characteristics, educational achievement (e.g., graduation mark, year of graduation), characteristics of respondents' career and current job (e.g., the course of legal practice after graduation and the main sector of activity) and a rich set of information on parental background. Indeed, the survey allows us to obtain information on parents' education, parents (own or partner's) or close relatives working as lawyers and inheritance of law firms by lawyers' children. To measure law-specific family background in our main analyses, we use information on whether the parent or a close relative was a lawyer. We do not use information on the inheritance of the law firm because this question was asked only to lawyers' children (i.e., a subset of those with a law background). Appendix 2 presents the questionnaire and explains in detail the subset of questions used in the empirical analyses.

Starting with the 1,306 respondents to the survey, our primary sample is composed of those who enrolled in *Cassa Forense* no later than 2003 so that we can focus on those already working as a lawyer at the moment of both the change in the bar exam procedure and the Bersani reform. We select the time span 1994-2014 to be symmetric in the number of years before and after the start of the reform process.[10] Our primary estimation subsample is then reduced to 872 individuals and 14,305 longitudinal observations with positive annual earnings.[11]

With respect to the main variables of interest, 14.2% of the primary sample have at least one lawyer parent, and 28.2% have at least a parent or a close relative working as

[9] The survey on household income and wealth (SHIW) carried out every two years by the Bank of Italy – on which most analyses of inequality in Italy are based – has an approximately 35% response rate within non-panel households (Banca d'Italia, 2016).

[10] Our findings do not change if we modify the time windows pre- and postreform.

[11] We drop observations (103) with annual earnings below the bottom 0.5 percentile of the distribution. We exclude annual observations when the lawyer is aged over 65.

a lawyer. Clearly, these shares are significantly higher than the proportion of lawyers in the Italian population (0.4%) and highlight the strong effect of family background on the probability of entering a law occupation. Statistics on the sample composition are reported in Table 1.

Our dataset has several advantages for performing an analysis of the causes of intergenerational inequality among lawyers. First, it is a highly homogeneous sample composed of ex ante similar individuals, i.e., those already working as lawyers before the liberalization process began. Within this homogeneous sample, the rich set of information on parental background allows us to distinguish between a "law-specific" and a "general" parental background (proxied by parents' education). Second, the sample size (872 individuals) is relatively large for a specific analysis of workers in a certain profession (for instance, Laband and Lentz, 1992, and Azmat and Ferrer, 2017, focused on US lawyers with a sample of 342 and approximately 1000 individuals, respectively). Third, the dataset merges detailed survey information on lawyers' self-reported characteristics in the year of the interview with administrative – and thus accurately measured – data on their gross earnings and turnover from their entry into activity as a lawyer until the end of 2014. The longitudinal dimension of the sample is, therefore, extremely long: considering the time span of 1994-2014, the median number of annual observations per individual is 17, and 93.6% of the sampled individuals have at least 10 earnings records. Finally, the dataset allows us to estimate wage equations for lawyers while controlling for key time-invariant (e.g., parental education, parents or close relatives working as a lawyer) and time-variant characteristics (age and experience as a lawyer).

The main disadvantage of our dataset is that it includes only lawyers (i.e., those who perform activities of a lawyer as a liberal professional); therefore, we cannot estimate the effect of the reforms on the probability that those who attain a law degree then become a lawyer. This implies that we cannot exploit this reform to assess its effect on the probability of non-lawyers' children becoming a lawyer and on the changing composition of the lawyer workforce. Instead, we can assess the overall effect (including those of unobserved compositional changes) of the liberalization on the returns of those

who were already lawyers before the reform process started.[12] Finally, even if our primary sample is rather large compared to similar studies, detailed analyses of subsamples thereof (e.g., by gender or cohort of birth) should be viewed with caution.

4.2 Preliminary evidence on lawyers' education and career path

Being a child or a close relative of a lawyer can represent an essential advantage, especially at the beginning of one's career. This section provides preliminary evidence on the early career steps of our primary estimation sample of lawyers enrolled in *Cassa Forense* before 2004. In doing so, we separately estimate the relationship between four proxies of early career steps (time spent to obtain a law degree, time spent to become a lawyer upon graduation, graduation mark and firm ownership) and a measure of law-specific family background conditional on a set of standard controls.[13] Given the long training period and the significant failure rates on the bar exam, the school-to-job transition can be particularly long for lawyers (5.3 years on average in our sample; see also Pagliero, 2015). Our primary measure of law-specific family background is an indicator variable that equals 1 if at least one parent or a close relative is a lawyer and 0 otherwise.

Figure 2 clearly shows that a law background is associated with a (statistically significant) shorter period both to attain the degree (shorter by approximately 5 months) and to enrol in the lawyers' association after graduation (shorter by approximately 9 months). Moreover, we use an ordered probit model to estimate the conditional predicted probabilities of attaining different graduation marks. Unsurprisingly, Figure 3 shows that the share of those attaining a high mark (at least 110) is significantly higher among children with a law background. Finally, Figure 4 highlights the interesting fact that those with a law background have a significantly lower conditional probability of starting their activity as a lawyer in a company owned by them, which is consistent with the fact that they often start working for a company owned by parents or relatives.

[12] However, using the occupational choices of three cohorts graduating between 1999 and 2013, Pagliero (2015) failed to detect significant compositional effects of the reform. For instance, he found no effect of the reform on the probability of working as a lawyer rather than in the business sector.

[13] The controls include gender, birth cohort dummies and geographic dummies for the region of tertiary graduation when we focus on time to obtain the degree, graduation mark and time from graduation to the job, and the region of work plus dummies for those enrolled in the three largest associations – namely, Rome, Naples and Milan – when we focus on law firm ownership.

These preliminary estimates show that on average, those with a law background are relatively advantaged along many dimensions: in particular, they graduate earlier, attain better marks (a possible indication of better skills) and become a lawyer earlier (which may depend on both skills and nepotism). Shorter graduation and accreditation times influence the accumulation of experience as a lawyer, which is a proxy of law-specific skills and is positively associated with earnings. In Table 2, we summarize the findings from this section by estimating the correlation between law background and experience (measured in years) while controlling for an even richer set of covariates.[14] We find that a law background is associated with one additional year of law-specific experience and thus higher lifelong earnings. However, the estimated coefficient decreases and becomes statistically nonsignificant when we control for parents' education (Col. 2).[15]

4.3 Preliminary evidence on lawyers' earnings

The main novel contribution of this paper consists in estimating the possible effect on earnings of being born in a family with at least one lawyer, conditional on being a lawyer. As a first step, it is thus important to determine the magnitude and the statistical significance of this effect, regardless of its possible sources (i.e., nepotism or better skills).

To this aim, we utilize a pooled OLS model to estimate the relationship between children's annual gross income (in log) and the characteristics of their family background while controlling for the same covariates used in Table 2, plus a dummy for having interrupted the lawyer activity for at least 6 months. We run two models including and not including dummies for parents' education. We provide context for the analysis of the effect of the liberalization process by estimating the relationship for the entire period from 1994-2014 and for the 10-year period before the reforms (1994-2003). Table 3 shows that a law background is associated with a significant increase in annual earnings, although, as expected, the estimated coefficient is reduced by the inclusion of

[14] We control for gender, year dummies, the interaction between gender and year dummies, age and age squared, region of work and dummies for the three largest local associations. We also add dummies on marital status and the presence of at least one child. The interaction between the female dummy and years flexibly captures changes in the participation rate and labour market attachment of women over the years of our analysis.

[15] Parents' education is a categorical variable with three modalities: at most lower secondary (the omitted category in all estimates), upper secondary, or tertiary.

parents' education. Importantly, even conditional on accessing the law profession (the outcome variable examined in related research, e.g., Mocetti et al., 2018) and on parents' education (a proxy of the general advantages related to parental background), we find that a law background ensures a return of 11.0% over the entire sample period and 17.5% in the decade before the reform.

The finding of a positive and significant earnings premium advantaging those with a law family background is the first main result of our paper, given the homogeneity of our sample and the fact that we control for a rich set of covariates.

Furthermore, our preliminary estimates clearly suggest that the relationship between law background and earnings might have changed after the reforms. This trend can be visually appreciated by plotting the mean annual earnings of those with and without a law background (Figure 5). The earnings gap steadily decreases from 2004 until it vanishes in 2010. The remainder of the paper substantiates this conjecture by formally evaluating the effect of the reform and thus the relative incidence of nepotism and skill transfer on earnings returns to a law background.

5. Research design

This section illustrates the quasi-experimental research design used to study the mechanisms of intergenerational inequality among Italian lawyers. First, we present the baseline estimation equation that allows us to retrieve the causal effect of the liberalization process that occurred between 2003 and 2006 (Section 5.1). Second, we discuss how exploiting the liberalization shock allows us to disentangle the role of nepotism and occupation-specific skill transfer (Section 5.2). Third, we illustrate the robustness exercises used to test the reliability of our research design (Section 5.3).

5.1 Baseline estimation equations

We estimate variants of the following difference-in-difference specification:

$$\ln(w_{it}) = \vartheta + \alpha Law\ Back_i + \beta \cdot post_{2004} \times Law\ Back_i + X_{it}\gamma + \varepsilon_{it}, \text{ (eq. 1)}$$

where w_{it} is the annual gross income or the annual turnover of lawyer i in year t, and ε_{it} is a standard error term.

Our main variable of interest is the law background dummy defined above ($Law\ Back_i$), where those with a parent or a close relative working as a lawyer are the "treatment group". The coefficient of the interaction term between $Law\ Back_i$ and the post-2004 dummy captures the causal effect of the liberalization on the returns to parental background of Italian lawyers, or the average treatment effect on the treated (ATET). Because we found that the influence of $Law\ Back_i$ on offspring's earnings is strong and significantly different from zero, β thus captures the extent to which the reform amplifies or mitigates the wage premium for lawyers who follow in their parents' footsteps.

In the favourite specification, the vector X_{it} contains a set of standard covariates in wage equations,[16] while the augmented specifications also include the time to attain the degree, the graduation mark and labour market experience. Importantly, in all the specifications, we include two variables that help to identify the causal effect of the reform. First, we add parental education to separately identify the returns to occupation-specific parental background and those of more educated, and thus presumably wealthier and better-connected, parents. Second, because the number of lawyers per resident, a proxy of market competition, began to increase before 2004, as shown in Section 3, our econometric models account for this pre-trend. Specifically, we include the growth rate in the number of lawyers in local lawyers' associations over the period from 1994-2003, also interacted with the year dummies. This variable allows us to capture changes in competition that occurred before the 2004 shock that may have had a persistent influence after the shock. As a result, the estimated ATET should not be confounded by pre-existing changes in the degree of competition in the local labour market for lawyers.

Exploiting the longitudinal dimension of our data, we also run fixed effects estimates to control for unobservable lawyers' characteristics μ_i that may be systematically related to $Law\ Back_i$:

$$\ln(w_{it}) = \vartheta + \beta \cdot post_{2004} \times Law\ Back_i + X_{it}\gamma + \mu_i + \varepsilon_{it}. \text{ (eq. 2)}$$

While the inclusion of individual fixed effects improves the reliability of the estimated ATET, it has the drawback of not estimating the pre-reform premium for a law family

[16] We consider the set of covariates used in Subsection 4.3 (Table 3) plus the two variables described in the text: parental education and a proxy for the pre-trend in competition.

background. To overcome this drawback, we always present the results obtained from both the FE (eq. 2) and the OLS (eq. 1) specifications.

Recall that we evaluate the effect of the reform on those lawyers who enrolled in *Cassa Forense* no later than 2003, which is equivalent to performing a "cohort-style" analysis that singles out the price effect of the reform from the induced compositional changes. The reason for this choice is that we cannot fully observe the counterfactual group of law graduates who did not work as lawyers, as our sample allows us to estimate the price effect of the reforms only on incumbents. Such a price effect is, in turn, a result of both the direct change on the choices of incumbents and the indirect general equilibrium effects triggered by new entrants who were favoured by the reform (i.e., the effect of new entrants on incumbents' rents).

5.2 Interpretation of the ATET: disentangling nepotism vs. skill transmission

As discussed in Section 1, nepotism and specific skill transfer are concomitant causes of the observed positive association between law background and earnings: nepotism generates quasi-monopolistic rents for incumbents, while specific skill transfer makes them more productive in the same profession as their parents or relatives. The family influence can occur through nepotism because, for a given level of skills, children with a law background have easier access to the profession and career development due to their parents' or relatives' connections, which, among other advantages, help them pass the bar exam and build a portfolio of clients. At the same time, tacit knowledge is particularly important in professions, such as that of lawyer, that require discretion, persuasion and eloquence since these skills are obtained mostly through face-to-face interactions and are thus more easily acquired by children who have a lawyer in the family.

In the absence of an exogenous shock that asymmetrically affected these two channels of intergenerational inequality, it is extremely difficult to disentangle their incidence. The idea behind our identification strategy is that an increase in competition has opposite effects on these channels. On the one hand, it reduces the rents of incumbents; on the other hand, it increases the returns to skills. While the former effect is well established from basic textbooks, the latter can be derived under quite general theoretical assumptions as a consequence of the widening of the performance gap

between low- and high-productivity firms following a competition shock (Boone, 2000).[17] It has indeed been shown that an increase in market competition has a positive effect on the returns to general (Guadalupe, 2007; Raitano and Vona, 2017) and specific skills (Macis and Schivardi, 2016). Therefore, depending on the incidence of nepotism or skill transmission before the reform, the effect can either dampen or magnify the returns of a law background.

Case 1: If the estimated ATET is negative, $\hat{\beta} < 0$, we can deduce that before the reform, the lack of competition ensured rents to those with a law family background. Such rents were present because incumbent families restrained the entry of high-quality newcomers and transferred their client portfolios to the next generation. The 2004-2006 liberalization process unquestionably reduced these two sources of rents by removing price floors and the ban on lawyers' advertisements as well as the discretional barriers to entry set by the examination rules.[18] In sum, estimating a decrease in returns to a law background is a symptom of nepotism rather than of skill transmission, thus proving that (at least a portion of) the earnings premium for those with a law background was related to nepotism and social connections. In this case, the effect of the reform would be unquestionably good in terms of both efficiency and equality of opportunity.

Case 2: If the estimated ATET is positive, $\hat{\beta} > 0$, we can deduce that before the reform, the talent of those with a law parental background was not exploited to its full potential. Because competition increases returns to skills, a positive ATET would reveal that the transfer of specific human capital within lawyers' dynasties was so strong as to be the primary channel of intergenerational inequality. In sum, an increase in the returns to a law background would be a symptom of the strength of skill transmission rather than of nepotism. In this case, the effect of the reform would be positive in terms of efficiency, i.e., lower prices for consumers and a better quality of legal services, but negative in terms of effective equality of opportunity among those who enter the lawyer profession.

[17] To illustrate the generality of this result, the positive effect of competition on returns to skills also occurs in models à la Melitz (2003). Indeed, competition increases the market size of highly productive firms and the wage premia of the workers employed by them (e.g., Helpman, Itskhoki, & Redding, 2010; Yeaple, 2005).

[18] Recall that even when holding fixed the cohort of lawyers before the reform, a change in the entry rules affected incumbents through changes in the number and the composition of competitors.

5.3 Validity of our research design

While the previous discussions examined the use of a competition shock to disentangle skills vs. nepotism in the intergenerational transmission process, the validity of our experimental research design rests on a number of assumptions that are difficult to test formally and thus must be corroborated by further analyses. Two are particularly important: i) the similarity of the control and the treated groups in terms of observable and unobservable characteristics and ii) the absence of pre-trends in the returns to a law background.

First, recall that the treated and control groups are very similar in terms of both observable and unobservable characteristics because we work with a selected sample of law graduates who have then chosen to become lawyers. However, the treated and control groups contain individuals who are heterogeneous in terms of other dimensions of parental background (education in our case) and ability (roughly proxied by the graduation mark). Imbalances in these characteristics may lead to biased ATET estimates. For instance, the share of children of tertiary-educated parents is 65.7% among those with a law background (our treated group) and only 24.7% among those without it (our control group). Adding these variables to our estimated equations helps to account for these differences between the treated and control groups, but it imposes restrictions on the functional form through which they interact with annual earnings and with the law background dummy. To increase the similarity between the control and the treated groups, we also estimate equations 1 and 2 for extremely homogeneous subsamples: children of parents holding a university degree and high- and low-ability lawyers (according to graduation marks), with males and females estimated separately. Moreover, as discussed above, the effect of liberalization on the returns to a law background can reflect pre-existing trends in competition, which are included in our main specification using as a proxy the past growth rates in the number of lawyers in the local association. However, the presence of pre-trends does not ensure that a structural break in returns to a law background occurred exactly at the beginning of the reform process. We address this issue through an event study analysis that allows returns to a law background to change yearly in an unconstrained way, that is, by replacing the term $post_{2004} \times Law\ Back_i$ in equations 1 and 2 with the full set of

interactions between the year dummies and a law background, that is, $\sum_{t=1994}^{2014} \beta_t \times Law\ Back_i$.

6. Estimation results

This section contains the main findings of the paper. The first subsection reports the main results, while the second subsection presents a series of extensions and robustness tests.

6.1 Main results

Table 4 presents the main findings of this article. The OLS baseline estimate (Column 1) confirms in a difference-in-difference setting that the liberalization of the lawyers' labour market succeeded in mitigating the influence of a law family background on children's annual earnings. Our point estimate of the ATET (i.e., $\hat{\beta}$) indicates that after the introduction of the reform (i.e., from 2004 to 2014), the premium to a law-specific background declined by approximately 3/4. More specifically, controlling for parents' education, children following in their relatives' footsteps earned 19.8% more than children without a law background before the reform. After the reform, this premium was squeezed to a modest and statistically nonsignificant 4.8%. According to our discussion in Section 5.2, a negative estimated $\hat{\beta}$ reveals a strong incidence of nepotism among Italian lawyers before the reform process. This finding resonates with the widespread view of Italy as a country where family connections play a key role in finding a good job, both in top and in bottom positions (e.g., Pellizzari, 2010; Pellizzari and Pica, 2011; Raitano and Vona, 2015; Mocetti, 2016; Mocetti et al., 2018 Gagliarducci and Manacorda, 2016).

Such a large effect of the liberalization process may be ascribed to the presence of unobservable (cognitive and noncognitive) skills positively correlated with both family background and earnings. Column 2 adds the two observable proxies of such skills in our dataset, i.e., dummies for graduation mark and the time to attain the degree. However, the returns to an occupation-specific family background and the effect of the reform remain similar when these variables are added. Clearly, a plausible explanation for this result is that these variables are not accurate proxies of ability. For instance, graduation marks are usually higher in lower-quality universities. Column 3 reports

the results of the FE estimator of equation 2, which, by construction, fully switches off the influence of time-invariant individual characteristics, including unobservable abilities. Not surprisingly, the absolute value of the ATET declines by approximately 1/5 compared to the OLS coefficient. However, the estimated effect remains very large and statistically significant compared to the pre-reform returns estimated through an OLS model. Indeed, the FE estimator indicates that the returns to a law family background are more than halved after the liberalization process. Overall, the OLS and FE estimators complement each other and represent natural bounds for the size of the ATET.

Our findings do not change if we proxy family background with the dummy of having at least one parent working as a lawyer instead of our preferred proxy (parents or relatives as a lawyer; Table A.3.1 in Appendix 3). Furthermore, we focus on the effect of the reform on annual gross income reported to *Cassa Forense* since the effects on annual turnover are qualitatively identical, although slightly smaller in size (Table A3.2 in Appendix 3).

6.2 Validation and extensions

We start this subsection by presenting a series of exercises that illustrate the robustness of our results. First, an element of concern is that our sample is relatively small, and our results may be sensitive to small changes in our estimation sample. Table 5 replicates our baseline specifications of equations 1 and 2 for two different samples: i) lawyers observed for at least 3 years before and after the reform and enrolled in *Cassa Forense* before 2004 (Col. 1 and 2) and ii) all lawyers enrolled in *Cassa Forense* at any time (Col. 3 and 4). Reassuringly, these alterations of the estimation sample have no effect on our main results.

Second, we perform robustness checks to validate our research design. Figures 6 and 7 plot the time-varying $\hat{\beta}_t$ estimated through the event-history analysis described above in the OLS and FE specifications. While the annualized ATET is not estimated precisely in some years before 2004 due to small sample sizes,[19] what visually emerges from the figures is that 2004 represented a structural break. Before 2004, the annualized ATETs are generally significant, positive and large; after 2004, they decrease and become

[19] The sample sizes decrease as the distance from the survey year (2010) increases.

statistically nonsignificant. A formal statistical test of the joint significance of the annualized ATETs in both the OLS and FE models before and after the reform confirms this result. Returns to a law background are significantly greater than zero before the reform but not after.

In Table 6, we run our baseline specification on extremely homogeneous subsamples according to parental education or the graduation mark attained by lawyers. These estimates reveal that the reform was effective within the subpopulations of lawyers with tertiary-educated parents (Col. 1-2) and lawyers with a medium-high graduation mark (at least 100; Col. 3-4) but not on the population of lawyers with a graduation mark below 100 (Col. 5-6). Columns 7-8 also show that our results are robust by allowing the reform to affect the returns to abilities (captured by the interaction between the dummy for the graduation mark and the post-2003 dummy). These findings provide further insights into the channels through which the decline in the returns to a law background occurred. Rather than being widespread for both low- and high-ability lawyers, a major effect of the reform thus emerged through a break in the glass ceiling at the top.

Table 7 presents the results for the sample divided by gender. We find that the reform squeezed the returns to a law background only for men, while for women, the estimated coefficient is negative but statistically nonsignificant at conventional levels. Note, however, that the pre-reform return to a law background is also statistically significant only for men. This finding is not surprising since the barriers to becoming a lawyer are higher for women irrespective of family background; thus, conditional on entry, the subsample of women should be more homogeneous than that of men in terms of unobservable characteristics. This result is also consistent with the idea that mostly men benefit from socially embedded economic relationships, including nepotism (Granovetter, 2005). This important issue deserves further investigation in a separate paper.

Table 8 explores the extent to which the estimated effect of the reform on the law background premium is mediated by labour market experience (Col. 1-2), as suggested by our analysis in Section 4.2. In doing so, we add a third-order polynomial of effective experience to equations 1 and 2. First, compared to Column 1 of Table 4, experience accounts for a modest portion of the annual premium of those with a law background. This finding resonates with the findings shown in Table 2, where the influence of a law background on experience fades when controlling for parents' education. Second, we

observe only a 10% decrease in the effect of the liberalization in both the OLS and the FE specifications. In other words, changes in accumulated experience induced by the reform are responsible for only a tiny fraction of the law background premium.

To understand the underlying mechanisms, we differentiate the effect of the reform across birth cohorts. We expect the reform to have a stronger effect on younger lawyers than on older lawyers, as ex post career choice adjustments (i.e., working as an employee) are easier for the former group than the latter group. To address this issue, we evaluate a variant of equations 1 and 2 in which we add a full set of interactions among the post-2003 dummy, the law background dummy and a dummy that equals one for lawyers born since 1970 (15.5% of our sample). Columns 3 and 4 of Table 8 show that the effect of the reform falls mostly on the younger cohort, for whom the returns to a law background are further largely reduced after the reforms compared to the reduction experienced by those born before 1970. Because nepotism mostly affects entry conditions through, for instance, transfers of portfolios of clients, this evidence corroborates our main findings that the reform significantly reduced the incidence of nepotism among Italian lawyers.

Finally, Table 9 and Figure 8 further examine the issue of the heterogeneous effects of the reform by analysing the effects along the distribution using recentered influence function (RIF) regressions (Firpo et al., 2009), which are suitable for retrieving unconditional effects along the earnings distribution (they are then named unconditional quantile regressions (UQR)). The estimates show that the returns to a law family background increase along the earnings distribution and are not significantly different from zero in the two bottom deciles. In addition, the effect of the liberalization process is remarkably stronger in the top two deciles. Overall, these findings support our claim that the main mechanism induced by the reform has been a break in the glass ceiling that advantages those with a law family background.

7. Concluding remarks

This study has provided new evidence of the importance of family background in top professions using a new longitudinal dataset on a representative sample of Italian lawyers. The liberalization of the lawyers' labour market has been used as a quasi-experiment to assess the incidence of the two mechanisms of intergenerational income

inequality: nepotism vs. occupation-specific skills transfer. The key idea behind our identification strategy is that reforms promoting market liberalization affect these two mechanisms in opposite directions. On the one hand, liberalization reduces the monopolistic rents linked to nepotism and thus the returns to a law family background. On the other hand, an increase in competition magnifies skill premia, including those for skills acquired within the family.

Three findings from our analysis clearly stand out. First, we find a large "within lawyers" earnings premium of 17.5% for those with a law background before the reform. Second, the liberalization of the lawyers' labour market has significantly reduced such premia, which became statistically indistinguishable from zero after the reform. Third, the effects of the reform are disproportionately concentrated among top earners and, to a lesser extent, younger lawyers.

Compared with previous results, the large return to a law background within the homogeneous group of lawyers suggests that ensuring equal access to a certain profession is not a sufficient condition for equality of opportunities. Previous studies that consider only the conditional probability of entering a top occupation seriously underestimate the total influence of family background on children's outcomes. Moreover, our findings reveal that the way in which nepotism undermines market efficiency is more persistent and radical than was previously thought.

Our results are also policy-relevant to propose ways to reduce such a large (and largely unacceptable) influence of families on children's outcomes. In particular, we complement an active strand of literature that evaluates the effect of liberalizations on social mobility by focusing on the earnings effect conditional on entry. While increasing competition may appear to be a win-win strategy according to this literature, further research is required to evaluate the multidimensional effects of liberalizations on measures of efficiency, such as effective price reductions and quality standards. As nepotism is a source of de facto discrimination, another interesting route for future research is to understand the extent to which market liberalization reduces other well-known types of discrimination in the labour market, e.g., the gender wage premium. The new dataset presented in this paper can be fruitfully used to address this and other research questions.

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Tables and Figures

Table 1: Sample composition (percentage values)

	Full sample	Primary sample
Gender		
Males	57.6%	64.1%
Females	42.4%	35.9%
Year of birth		
Before 1955	13.4%	19.7%
1955-1964	24.3%	34.7%
1965-1974	44.3%	42.9%
After 1974	18.1%	2.6%
Area of work		
North	37.7%	35.9%
Center	22.7%	22.6%
South	39.5%	41.5%
Mark at graduation		
66-84	2.5%	2.3%
85-99	37.7%	34.8%
100-109	42.4%	42.5%
110	6.4%	7.4%
110 cum laude	11.0%	13.0%
Time to get the degree		
4 years	10.1%	10.9%
5-6 years	35.7%	39.0%
More than 6 years	54.2%	50.1%
Time from graduation to enrolment as a lawyer		
2 years	18.8%	22.9%
3-4 years	28.4%	27.0%
More than 4 years	52.8%	50.1%
Own the law firm after the practice		
No	65.2%	61.7%
Yes	34.8%	38.3%
Parents' highest education		
At most lower secondary	32.7%	33.3%
Upper secondary	30.9%	27.6%
Tertiary	36.4%	39.1%
Parents working as a lawyer		
No	89.0%	85.8%
Yes	11.0%	14.2%
Parents or close relatives working as a lawyer		
No	75.9%	71.8%
Yes	24.1%	28.2%
Obs.	1306	872

[a] The primary sample is composed by lawyers enrolled to Cassa Forense before 2004. Source: elaborations on Cassa Forense data

Table 2: OLS estimates of the association between parents' and relatives' characteristics and years of experience as a lawyer [a]

	Not controlling for parents' education	Controlling for parents' education
Law background	0.994	0.362
	[0.287]	[0.320]
Parents upper secondary educ.		0.604
		[0.344]
Parents tertiary educ.		1.564
		[0.338]
Obs.	14305	14305
Number of individuals	872	872
R^2	0.790	0.795

[a] Regressions run for the period 1994-2014; experience before 1994 is considered to compute the dependent variable. Additional covariates: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples). Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Table 3: OLS estimates of the association between parents' and relatives' characteristics and annual log earnings, whole period vs. pre-reform period

	1994-2014		1994-2003	
Law background	0.171	0.110	0.257	0.175
	[0.058]	[0.065]	[0.069]	[0.077]
Parents upper secondary educ.		0.139		0.200
		[0.069]		[0.082]
Parents tertiary educ.		0.172		0.228
		[0.068]		[0.076]
Obs.	14305	14305	5652	5652
Number of individuals	872	872	872	872
R^2	0.261	0.265	0.272	0.278

Additional covariates: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples). Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Table 4: Effect of the liberalizations on earnings premia for lawyers with a parent or a close relative working as a lawyer. OLS and FE models

	OLS		FE
	Baseline	Ability[a]	Baseline
Law background	0.198	0.224	.
	[0.075]	[0.069]	.
LawbackPost 2003	-0.150	-0.165	-0.118
	[0.053]	[0.051]	[0.049]
Par. upp. sec.	0.140	0.096	.
	[0.069]	[0.066]	.
Par. tertiary	0.173	0.005	.
	[0.068]	[0.065]	.
Obs.	14305	14305	14305
Number of individuals	872	872	872
R^2	0.266	0.323	0.274

Additional covariates in all models: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. [a] Dummies on graduation mark and the number of years spent to attain the degree are added to the covariates in the "Ability" model. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Table 5: Effect of the liberalizations on earnings premia for lawyers with a parent or a close relative working as a lawyer. Robustness checks.

	Lawyers with at least 3 obs. before and after the shock		Including lawyers Enrolled after 2003	
	OLS	FE	OLS	FE
Law background	0.248	.	0.192	.
	[0.080]	.	[0.073]	.
LawbackPost 2003	-0.197	-0.135	-0.133	-0.114
	[0.051]	[0.050]	[0.056]	[0.049]
Par. upp. sec.	0.161	.	0.124	.
	[0.078]	.	[0.057]	.
Par. tertiary	0.168	.	0.175	.
	[0.076]	.	[0.058]	.
Obs.	12293	12293	17670	17670
Number of individuals	679	679	1306	1306
R^2	0.255	0.285	0.276	0.257

Additional covariates in all models: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Table 6: Effect of the liberalizations on earnings premia for lawyers with a parent or a close relative working as a lawyer. Baseline model by lawyers' subgroups

	Children of tertiary graduates		Lawyers graduated with a medium-high mark [a]		Lawyers graduated with a low mark [b]		Controlling for trends in the premium for ability[c]	
	OLS	FE	OLS	FE	OLS	FE	OLS	FE
Law background	0.173	.	0.142	.	0.272	.	0.224	.
	[0.094]	.	[0.103]	.	[0.110]	.	[0.069]	.
LawbackPost 2003	-0.169	-0.132	-0.186	-0.122	-0.093	-0.107	-0.165	-0.118
	[0.074]	[0.067]	[0.075]	[0.068]	[0.075]	[0.071]	[0.052]	[0.049]
Medium/high markPost 2003							-0.015	0.007
							[0.047]	[0.043]
Par. upp. sec.	.	.	0.091	.	0.164	.	0.096	.
	.	.	[0.091]	.	[0.106]	.	[0.066]	.
Par. tertiary	.	.	0.266	.	0.03	.	0.005	.
	.	.	[0.088]	.	[0.103]	.	[0.065]	.
Obs.	5622	5622	8228	8228	6077	6077	14305	14305
Number of individuals	341	341	501	501	371	371	872	872
R^2	0.246	0.277	0.277	0.276	0.287	0.278	0.323	0.274

[a] Lawyers with a graduation mark equal or higher than 100 are considered. [b] Lawyers with a graduation mark lower than 100 are considered. [c] Dummies on graduation mark and the number of years spent to attain the degree are added to the covariates plus the interaction between the post 2003 dummy and a dummy equal 1 for those with at least 100 as the graduation mark. Additional covariates in all models: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Table 7: Effect of the liberalizations on earnings premia for lawyers with a parent or a close relative working as a lawyer. Baseline model by gender

	Males		Females	
	OLS	FE	OLS	FE
Law background	0.218	.	0.094	.
	[0.091]	.	[0.128]	.
LawbackPost 2003	-0.168	-0.129	-0.086	-0.094
	[0.060]	[0.055]	[0.107]	[0.100]
Par. upp. sec.	0.206	.	0.074	.
	[0.091]	.	[0.100]	.
Par. tertiary	0.146	.	0.296	.
	[0.086]	.	[0.103]	.
Obs.	9427	9427	4878	4878
Number of individuals	559	559	313	313
R^2	0.259	0.299	0.194	0.226

Additional covariates in all models: year dummies; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Table 8: Effect of the liberalizations on earnings premia for lawyers with a parent or a close relative working as a lawyer, controlling for experience and for lawyers' birth cohort

	Controlling for experience as a lawyer [a]		Distinguishing lawyers born before and since 1970	
	OLS	FE	OLS	FE
Law background	0.173	.	0.192	.
	[0.064]	.	[0.078]	.
Law backSince 1970	.	.	0.094	.
	.	.	[0.226]	.
LawbackPost 2003	-0.136	-0.107	-0.096	-0.092
	[0.050]	[0.047]	[0.053]	[0.050]
Law back Post 2003 Since 1970	.	.	-0.343	-0.345
	.	.	[0.203]	[0.193]
Par. upp. sec.	0.065	.	0.131	.
	[0.062]	.	[0.070]	.
Par. tertiary	-0.040	.	0.166	.
	[0.060]	.	[0.068]	.
Obs.	14305	14305	14305	14305
Number of individuals	872	872	872	872
R^2	0.386	0.291	0.268	0.277

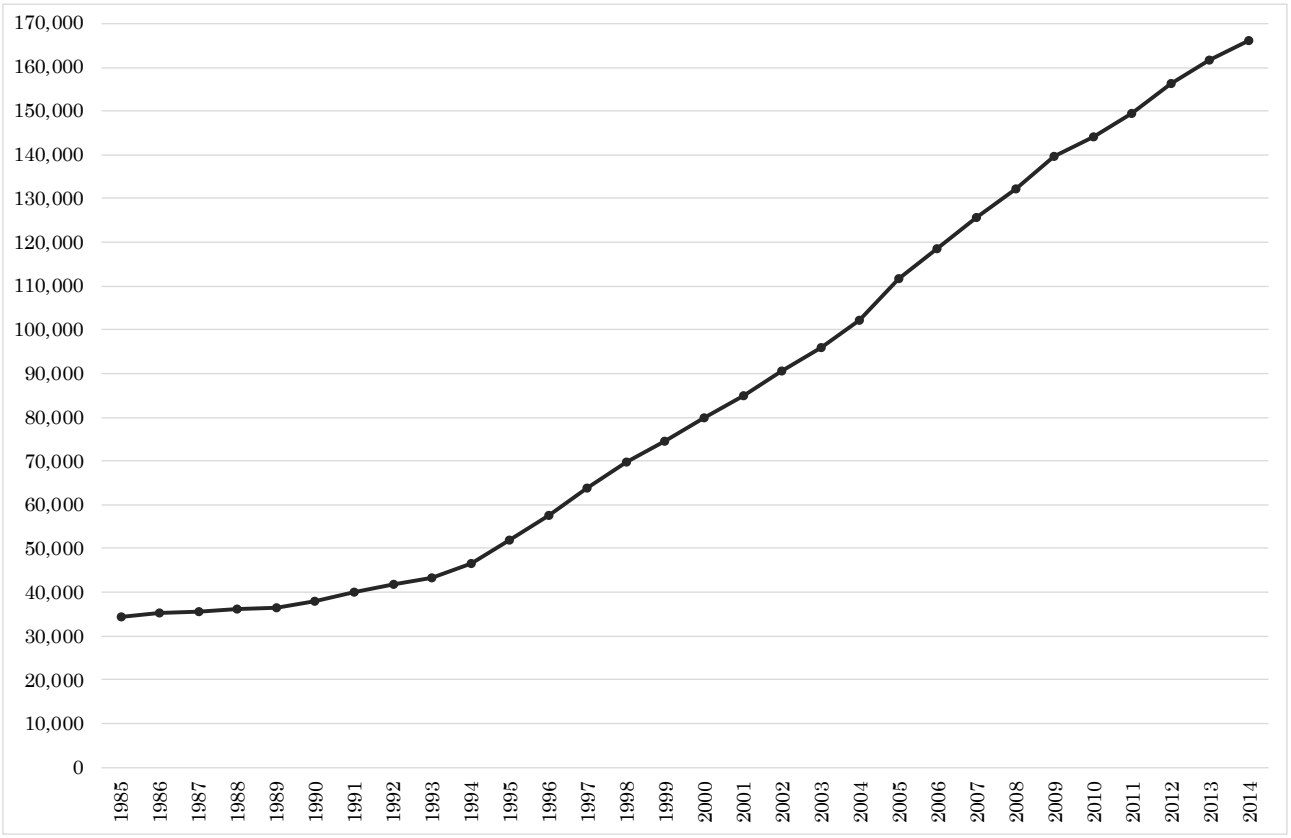
[a] A third order polynomial on experience is added to the covariates of the "Ability model" (Table 4 column 3). Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Table 9: Effect of the liberalizations on earnings premia for lawyers with parents or a close relative working as a lawyer along the earnings distribution. Unconditional quantile regressions (RIF)

	10	20	30	40	50	60	70	80	90
Law background	0.076	0.054	0.136	0.108	0.106	0.112	0.100	0.231	0.359
	[0.077]	[0.048]	[0.045]	[0.033]	[0.034]	[0.034]	[0.037]	[0.046]	[0.065]
LawbackPost 2003	0.070	-0.014	-0.118	-0.110	-0.123	-0.139	-0.116	-0.269	-0.416
	[0.080]	[0.062]	[0.058]	[0.042]	[0.040]	[0.046]	[0.043]	[0.065]	[0.080]
Par. upp. sec.	0.096	0.059	0.050	0.077	0.116	0.117	0.162	0.231	0.246
	[0.051]	[0.032]	[0.030]	[0.026]	[0.028]	[0.024]	[0.030]	[0.035]	[0.038]
Par. tertiary	0.177	0.198	0.173	0.172	0.194	0.222	0.243	0.261	0.157
	[0.046]	[0.033]	[0.031]	[0.027]	[0.024]	[0.023]	[0.028]	[0.032]	[0.044]
Obs.	14305	14305	14305	14305	14305	14305	14305	14305	14305
Number of individuals	872	872	872	872	872	872	872	872	872

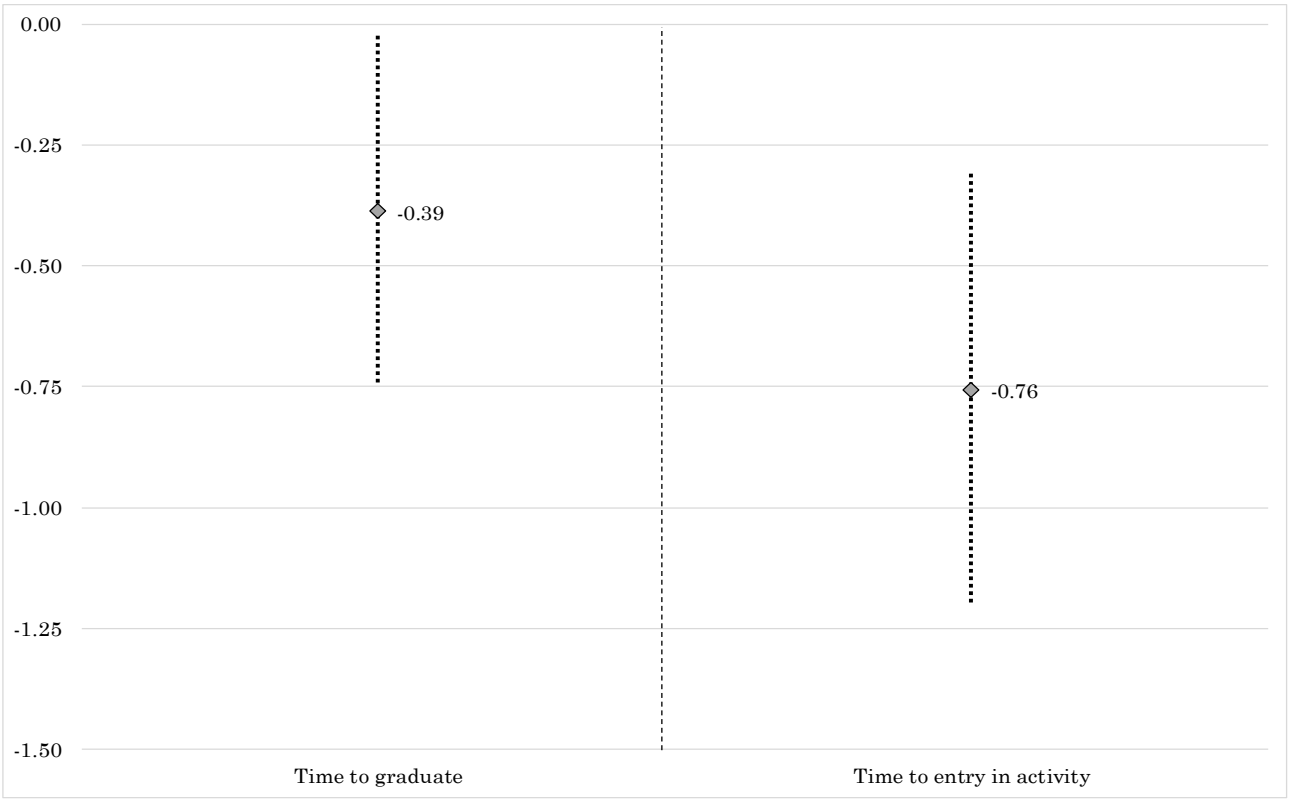
Additional covariates: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Figure 1: Number of active lawyers enrolled to Cassa Forense



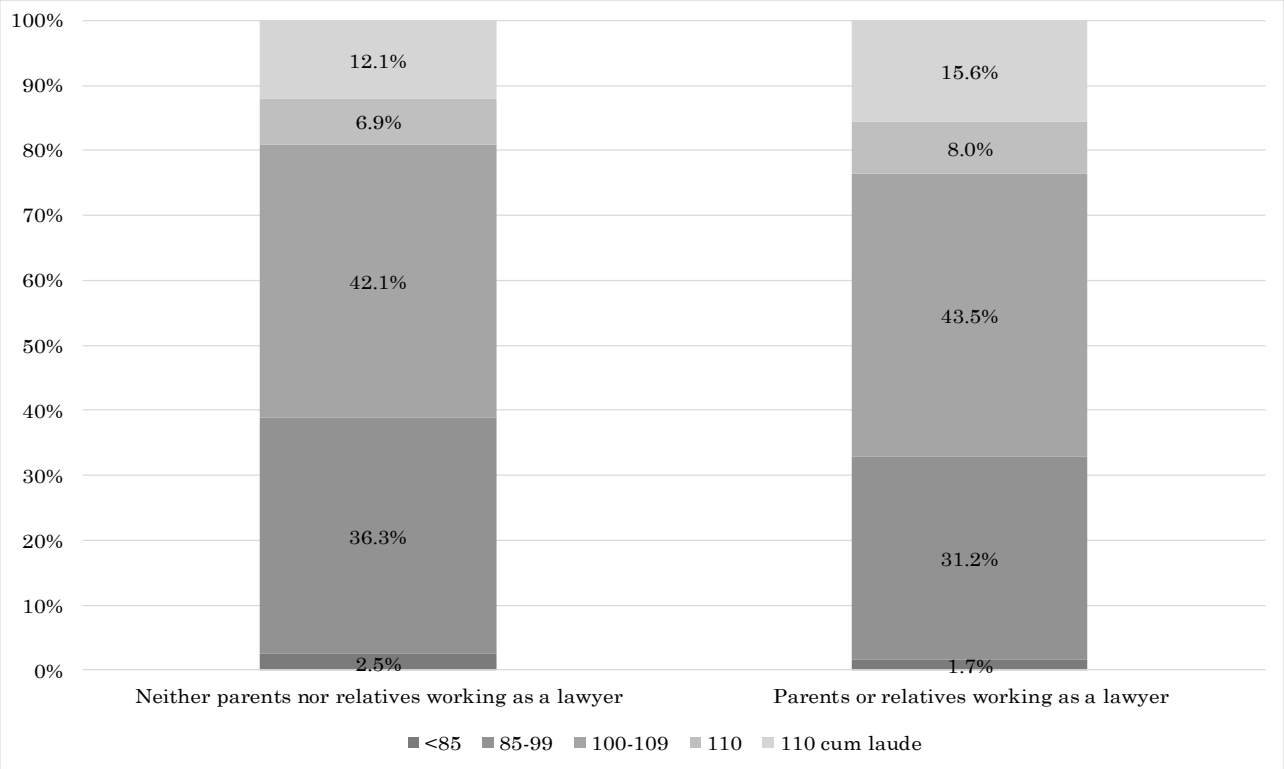
Source: elaborations on Cassa Forense data

Figure 2: OLS estimated gaps in the time to graduate and to enrol to the professional association once graduated



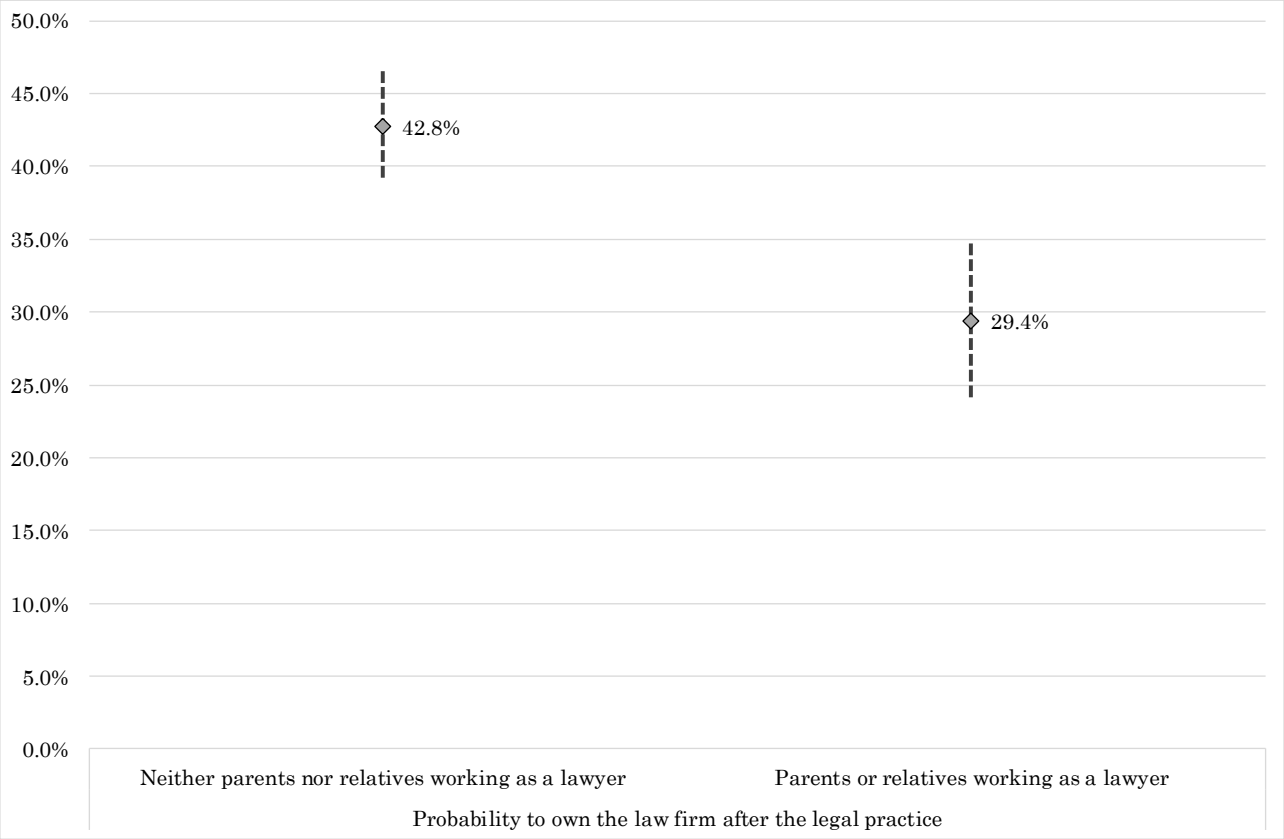
"Neither parents nor relatives working as a lawyer" is the reference category. Additional covariates: gender, dummies year of birth, year of graduation and region of graduation. Standard errors clustered at the individual level. 90% confidence intervals are shown. Source: elaborations on Cassa Forense data

Figure 3: Predicted distribution of the mark at graduation according to background



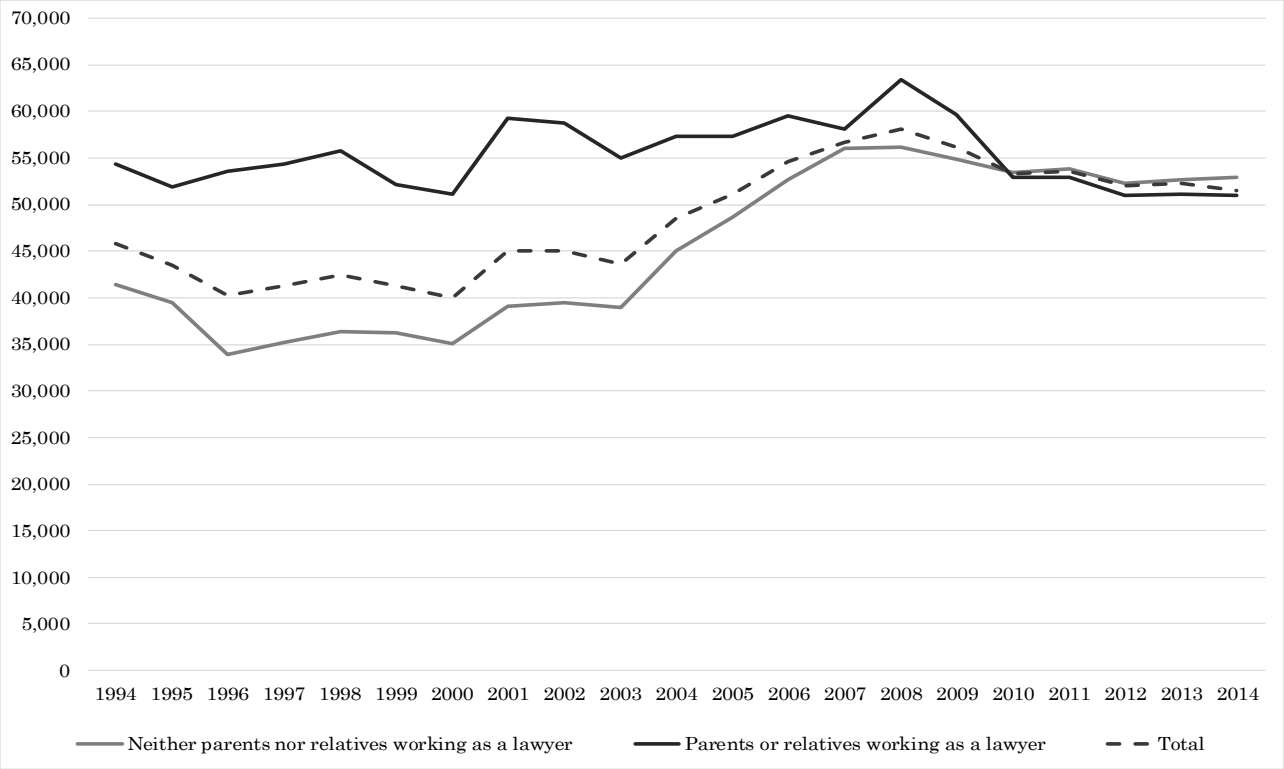
Average marginal effects obtained by an ordered probit model. Additional covariates: gender, dummies year of birth, year of graduation and region of graduation. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data

Figure 4: Predicted probability to own the law firm after the practice



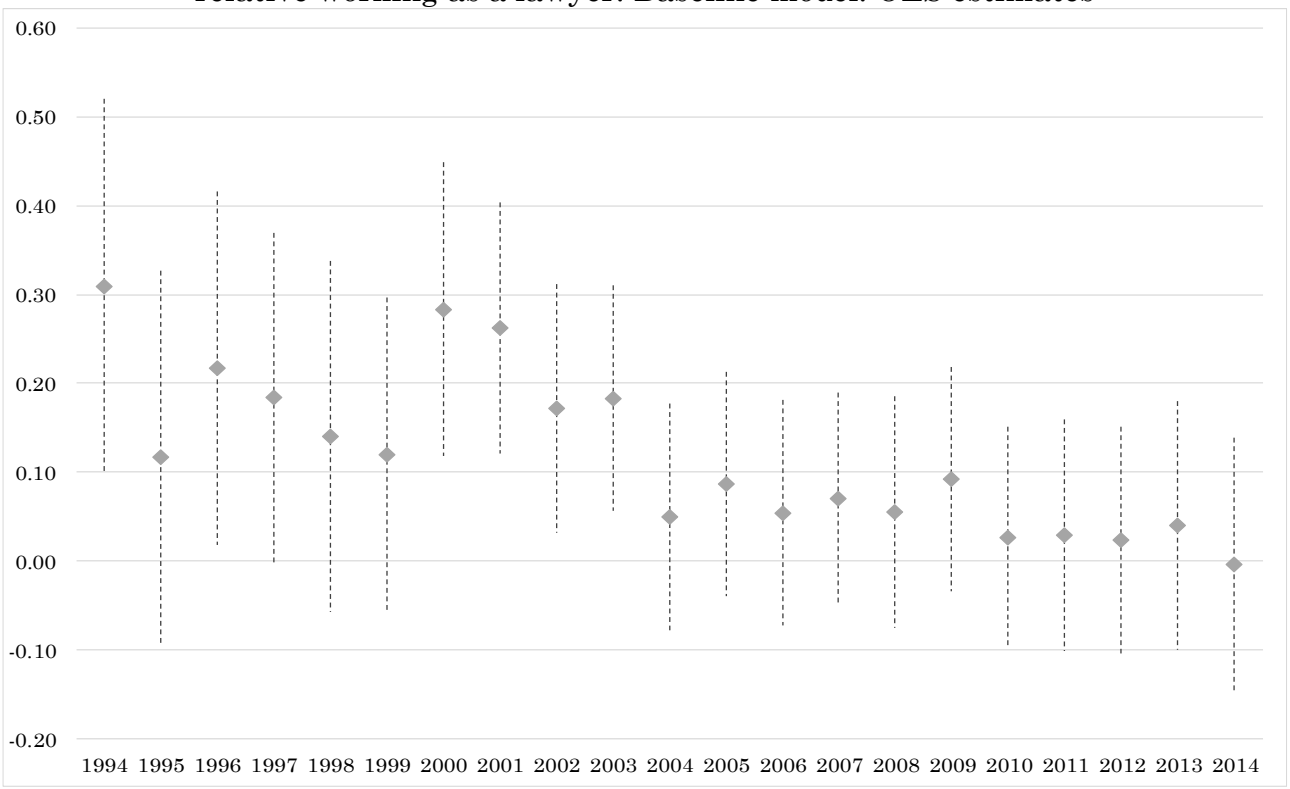
Average marginal effects obtained by probit models. Additional covariates: gender, dummies year of birth, year of graduation and region of work and for the three largest local associations. Standard errors clustered at the individual level. 90% confidence intervals are shown. Source: elaborations on Cassa Forense data

Figure 5: Mean annual gross earnings of lawyers in our primary sample



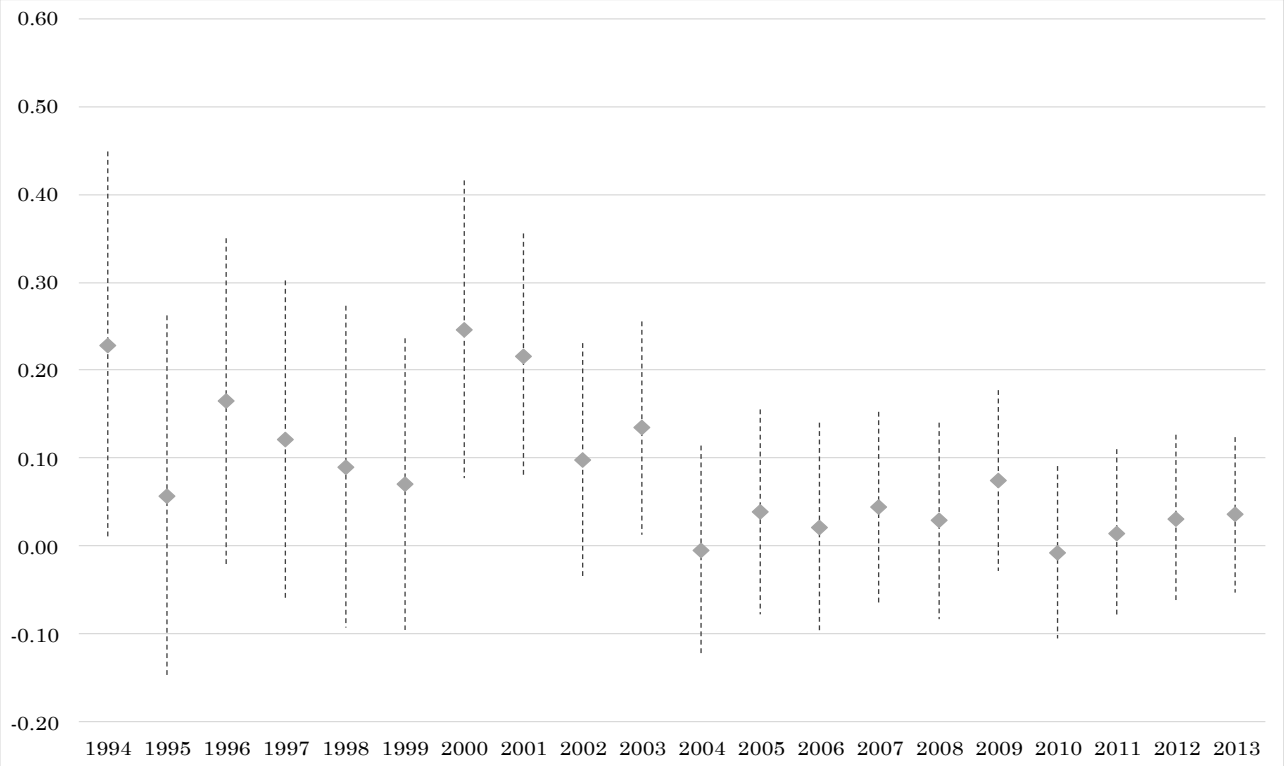
Source: elaborations on Cassa Forense data

Figure 6: Estimated annual earnings premia for lawyers with a parent or a close relative working as a lawyer. Baseline model. OLS estimates



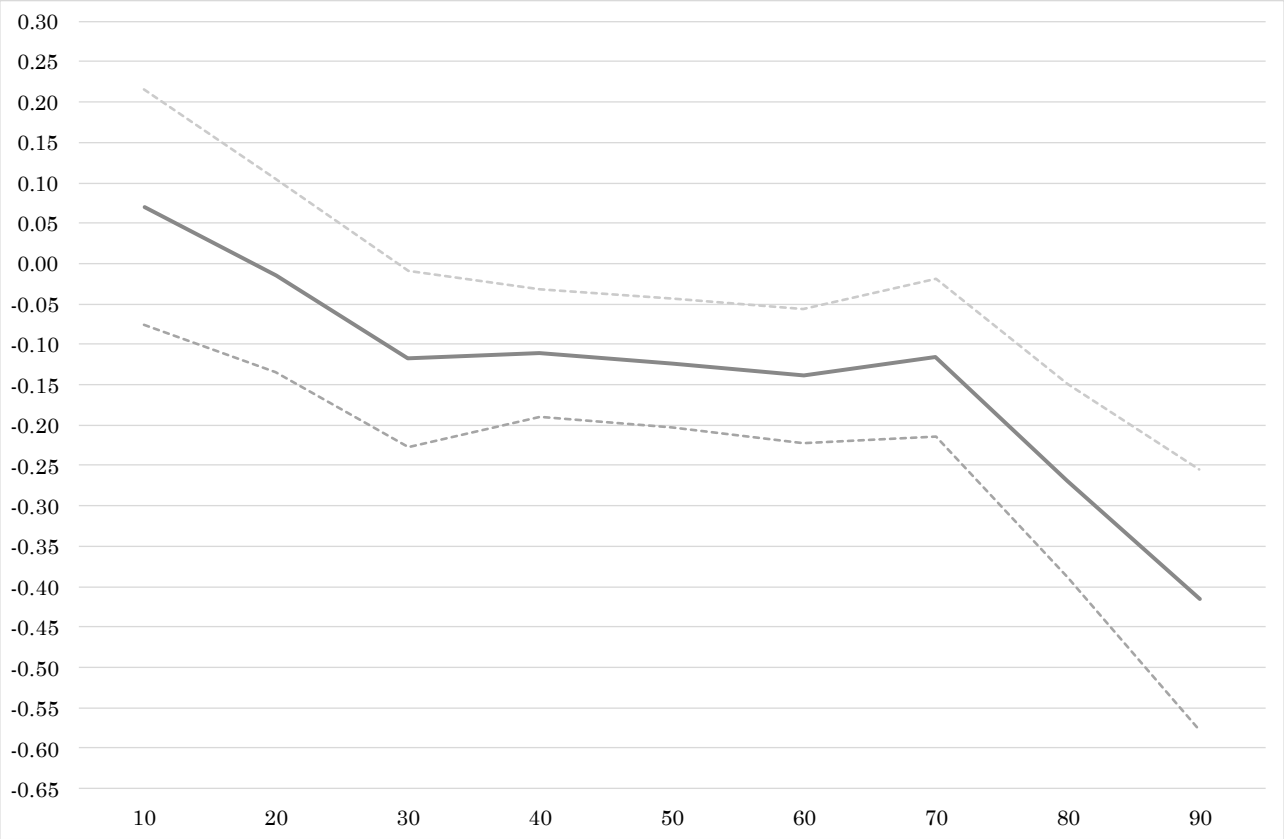
Additional covariates: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. Standard errors clustered at the individual level. 90% confidence intervals are shown. Source: elaborations on Cassa Forense data.

Figure 7: Estimated annual earnings premia for lawyers with a parent or a close relative working as a lawyer. Baseline model. FE estimates



Additional covariates: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. Standard errors clustered at the individual level. 90% confidence intervals are shown. Source: elaborations on Cassa Forense data.

Fig. 8: Unconditional quantile regressions estimated coefficients of the effect of the liberalizations on earnings premia for lawyers with parents working as a lawyer



Additional covariates: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. Standard errors clustered at the individual level. 95% confidence intervals are shown through dashed lines. Source: elaborations on Cassa Forense data.

"For Online Publication"

Appendix 1: Survey representativeness

Table A1.1 shows the composition by the strata variables of our sample (extracted at the end of 2010) and the universe of lawyers in 2010. The universe (and then the sample) only refers to active "not-retired" lawyers (i.e. to those not receiving an old age pension; 1230 individuals in our sample). Note that the share of retired-still-working lawyers is 5.8% in the sample, 7.6% in the universe of Members of Cassa Forense.

Table A1.1: Composition by main features of the sample and the population of active lawyers in 2010 (percentage values)[1]

	Sample	Population
Gender		
Males	55.7	56.3
Females	44.3	43.7
Area of work		
North	37.7	39.3
Center	22.6	23.5
South	39.7	37.2
Year of birth		
Before 1955	8.1	9.2
1955-1964	25.7	25.1
1965-1974	47.0	49.4
After 1974	19.2	16.3
Obs.	1,230	132,297

Source: elaborations on *Cassa Forense* data

Appendix 2: The survey's questionnaire

Information on annual gross earnings and turnover, the local association in which the lawyer is enrolled, the distinction between active and retired (but still working) lawyers and the year of enrolment in *Cassa Forense* are taken from the social security archive managed by *Cassa Forense*. Gender and year of birth are recorded both in the survey and in the administrative archives (no discrepancies between values emerged).
Linkages between the survey and administrative data were performed by the statistical office of *Cassa Forense* by means of the personal identification number of each member. The linkage keys were then anonymized and blanked for privacy reasons.
The survey questionnaire has no missing values since lawyers had to answer all questions before closing the questionnaire. Note, however, that some questions were answered or not answered depending on the values of previous answers (e.g., Q50 was asked only of those who answered that they had a parent working as a lawyer in Q48, and Q52-Q56 were not asked of unmarried lawyers).
Questions Q8 to Q22 are not reported below since they are qualitative questions about knowledge of the rules and assessments of reform proposals about social security for lawyers that are not relevant to the aim of this article. Detailed information can be provided by the authors upon request.
The detailed content of the questionnaire is reported below, while Table A2 summarizes the use of the survey questions in the empirical analyses of this paper.

I. Personal Data

Q1. What is your gender?

Q2. What is your year of birth?

Q3. What is your marital status?
1. Married
2. Single
3. Separated
4. Divorced
5. Widow, widower

Q4. Whom do you live with if you are not married?
1. Alone
2. With a partner
3. Alone with at least one child
4. With a partner and at least one child
5. Only with one or both of my parents
6. Other

Q5. Do you have children?

Q6. What is the age of the youngest child?

Q7. Do you provide assistance to elderly or sick relatives?
a. No
b. Yes, they live with me
c. No, they do not live with me

II. Education

Q23. What type of high school diploma did you attain?
a. Liceo classico
b. Liceo scientifico
c. Other type of liceo
d. Technical high school
e. Vocational high school

Q24. In what year did you obtain the law degree?

Q25. What was your graduation mark?
a. Less than 85/110
b. 85-95
c. 96-100
d. 101-105
e. 106-109
f. 110
g. 110 cum laude

Q26. In what type of university did you obtain your degree?
a. Public
b. Private

Q27. In what region is the university of your tertiary degree located?

III. Characteristics of Past Work Experience

Q28. How did you get in touch with the law firm where you did your compulsory legal practice?
a. Law firm of relatives
b. Law firm of friends
c. Other law firms with the help of relatives or friends
d. Thesis advisor
e. Other university professors
f. Sending CV to law firms with which you had no previous contact
g. Pregraduation stage
h. Other channels

Q29. During the compulsory legal practice, were you paid?
a. Yes
b. No, only reimbursement of expenses
c. No, not even reimbursement of expenses

Q30. After you obtained the qualification, you started working
a. In the law firm where I did the training
b. I opened my own law firm
c. In another law firm

Q31. During your professional activity, except that of the legal practice, in how many law firms did you work?
a. Always in the law firm where I did the training
b. One, other than that of the legal training
c. Two, other than that of the legal training
d. Three or more, other than that of the legal training

Q32. In the past years, did you interrupt your professional activity for at least 6 months?
a. Yes, to take care of children or relatives
b. Yes, sick leave
c. Yes, maternity or paternity leave
d. Yes, other reasons
e. No

IV. Characteristics of the Current Job

Q33. In what sector do you carry out your main activity?
a. Penal law
b. Civil law
c. Administrative law
d. Taxation

Q34. During your career, did you change the main sector of activity?
a. Yes
b. No
Not used in the econometric analysis

Q35. How many hours do you work per week?
a. <30
b. 30-40
c. 40-50
d. 50-60
e. >60

Q36. Are you enrolled in the list of attorney offices?
a. Yes
b. No

Q37. Are you enrolled in the list of those entitled to practice under state patronage?
a. Yes
b. No

Q38. Do you work alone or with others?
a. Alone
b. With other colleagues
c. With other professionals

Q39. With the persons with whom you share the office, you are
a. Associate
b. Collaborator
c. I simply share the expenses

Q40. With respect to your partner, you are
a. Owner
b. Associate

Q41. Do you have at least one apprentice?
a. Yes
b. No

Q42. Do you have at least one secretary?
a. Yes
b. No

Q43. Is your spouse or partner among the persons with whom you share the office?
a. Yes
b. No

Q44. Is one of your parents among the persons with whom you share the office?
a. Yes
b. No

Q45. Is one of your children among the persons with whom you share the office?
a. Yes
b. No

Q46. Is another close relative among the persons with whom you share the office?
a. Yes
b. No

V. Family Background Information

Q47. What is the highest educational attainment of your parents (father or mother)?
a. Lower secondary or less
b. Upper secondary
c. University
d.

Q.48 Is/was one of your parents a lawyer?
a. Yes, both
b. Yes, my father
c. Yes, my mother
d. No

Q.49 Besides your parents, is/was one of your close relatives a lawyer?
a. Yes
b. No

Q.50 Did you inherit the law firm from your parents?
a. Yes
b. No

Q.51 Did you inherit the law firm from a close relative (other than your parents)?
a. Yes
b. No

Q.52 What is the highest educational attainment of your spouse or partner?
a. Lower secondary or less
b. Upper secondary
c. University

Q.53 Is your spouse or partner employed?
a. Yes
b. No

Q.54 Is your spouse or partner a lawyer?
a. Yes
b. No

Q.55 Is one of the parents of your spouse or partner a lawyer?
a. Yes
b. No

Q.56 Did your spouse or partner inherit the law firm from a close relative?
a. Yes
b. No

Table A2.1: Summary of questionnaire's variables used in the empirical analyses

Main variables of interest	Q48, Q49 used to build the dummy "law background"
Used in the vector of covariates X or to build variables and dummies for covariates and descriptive analyses	Q1, Q2, Q3, Q5, Q24, Q25, Q31, Q32, Q47
Used in the descriptive analyses but not in econometric analyses since unreported results show that the inclusion of this variable has no effect on our results	Q27, Q30, Q31
Not used in the econometric analyses since unreported results show that the inclusion of this variable has no effect on our results	Q23, Q26, Q28, Q33, Q44,Q46
Not used in the econometric analyses since: the variable's content is irrelevant to our aims or questions were only made to a subsample of lawyers[a]	Q4, Q6, Q7, Q29, Q34, Q35, Q36, Q37, Q38, Q39, Q40, Q41, Q42, Q43, Q45, Q50, Q51, Q52, Q53, Q54, Q55, Q56

[a] Q55 has not been used since only 12 individuals have the spouse or partner with a parent lawyer and the dummy "Law_background" equal to 0 (results are not affected by a different consideration of these individuals).

Appendix 3: Robustness Checks

Tab. A3.1: Effect of the liberalizations on earnings premia for lawyers with parents working as a lawyer. OLS and FE models

	OLS		FE
	Baseline	Ability[a]	Baseline
Par. upp. sec.	0.150	0.108	.
	[0.069]	[0.066]	.
Par. tertiary	0.168	0.008	.
	[0.068]	[0.065]	.
Par. lawyer	0.225	0.244	.
	[0.091]	[0.085]	.
Par. LawyerPost 2003	-0.134	-0.168	-0.145
	[0.064]	[0.061]	[0.060]
Obs.	14305	14305	14305
R^2	0.266	0.322	0.274

Additional covariates in all models: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. [a] Dummies on graduation mark and the number of years spent to attain the degree are added to the covariates in the "Ability" model. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data.

Tab. A3.2: Effect of the liberalizations on premia for lawyers with a parent or a close relative working as a lawyer. OLS and FE models. Dependent variable: log annual gross turnover

	OLS		FE
	Baseline	Ability[a]	Baseline
Par. upp. sec.	0.137	0.094	.
	[0.069]	[0.067]	.
Par. tertiary	0.205	0.044	.
	[0.067]	[0.065]	.
Law background	0.172	0.194	.
	[0.073]	[0.067]	.
LawbackPost 2003	-0.127	-0.139	-0.087
	[0.052]	[0.050]	[0.047]
Obs.	14234	14234	14234
R^2	0.305	0.357	0.311

Additional covariates in all models: gender, year dummies and their interactions; age and age squared; dummies on marital status and having children; a dummy for having interrupted your activity for at least 6 months; dummies on the region of work and for the three largest local associations (Rome, Milan and Naples) plus the % change in the number of lawyers in the local area in the period 1990-2003 interacted with year dummies. [a] Dummies on graduation mark and the number of years spent to attain the degree are added to the covariates in the "Ability" model. Standard errors clustered at the individual level. Source: elaborations on Cassa Forense data.

ABOUT OFCE

The Paris-based Observatoire français des conjonctures économiques (OFCE), or French Economic Observatory is an independent and publicly-funded centre whose activities focus on economic research, forecasting and the evaluation of public policy.

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Its research community includes over two hundred twenty members and three hundred fifty PhD candidates. Recognized internationally, their work covers a wide range of topics including education, democracies, urban development, globalization and public health.
One of Sciences Po's key objectives is to make a significant contribution to methodological, epistemological and theoretical advances in the humanities and social sciences. Sciences Po's mission is also to share the results of its research with the international research community, students, and more broadly, society as a whole.

PARTNERSHIP