

## Impact of Tort Costs and Potential Economic Benefits of Tort Reform in Sacramento and California

Tort law is an orderly process of resolving disputes and discouraging objectionable behavior. It is a vehicle to provide relief to injured parties and a crucial part of our civil justice system. However, when misused, it has serious consequences not only to individuals, but society as a whole.

Unfortunately, an overly aggressive tort system can have an undesirable effect. Frivolous tort cases or those that result in excessive damages and rewards can have negative consequences on the economy. These excessive tort costs are destructive to American businesses and harmful to consumers, wiping out billions of dollars of economic activity on an annual basis. Tort reform is essential for creating a safer and more productive environment where economic activity can flourish.

John Dunham & Associates conducted analysis to examine the negative impact of tort costs and the potential economic benefits of tort reform in all 50 states to determine the effect on state and Census city economies.

The analysis concluded that through tort reform, cities like **Sacramento** and its home state of **California** can reap the benefits of a more efficient judicial system while growing the economy.

Excessive Tort Costs in Sacramento result in the loss of:

**2,840** jobs

**\$208.17 million** in wages

**\$562.08 million** in economic activity

Excessive Tort Costs in the State of California result in the loss of:

**206,474** jobs

**\$16.32 billion** in wages

**\$46.07 billion** in economic activity

**Methodology:** JDA constructed a model using an industry by industry, state by state matrix of legal costs based on data from the 2018 IMPLAN Inc. input output model. IMPLAN Inc 's 544 separate industries were used to outline the percent of production costs that are accounted for by legal services. If the assumption that various forms of tort reform help to lower litigation costs is true, the input variable for a given industry in a state with a lot of reforms should be lower than one in a state with no reforms, controlling of course for other factors. Five factors (median income, median age, percent of the population that is black, the percent of the population that is college educated, and the percent of the population that does not have health insurance) were determined to be significant controls. Aggregated legal cost variables for 14 subsets of the 544 different industries based on the weighted average of legal costs as a share of economic output for each subset in logarithmic form were used estimate the correlation between legal costs and the 10 reform variables used in the analysis. The resulting dollar value is multiplied by the legal share of costs in the state to provide an estimate of the value of reforms by industry by state. These are aggregated and reported as the current benefits of tort reform in each state. A separate calculation is performed with all of the reform dummy variables set to one, indicating that the state has passed all of the reforms. The aggregated value across industries is reported as the potential benefits of tort reform in each state. The difference between the two figures is defined as the tort tax.