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Citations:

Bluebook 21st ed.

W. Kip Viscusi, *The Fatal Failure of the Regulatory State*, 60 WM. & MARY L. REV. 589 (2018).

ALWD 6th ed.

Viscusi, W. ., *The fatal failure of the regulatory state*, 60(2) Wm. & Mary L. Rev. 589 (2018).

APA 7th ed.

Viscusi, W. (2018). *The fatal failure of the regulatory state*. *William & Mary Law Review*, 60(2), 589-654.

Chicago 17th ed.

W. Kip Viscusi, "The Fatal Failure of the Regulatory State," *William & Mary Law Review* 60, no. 2 (November 2018): 589-654

McGill Guide 9th ed.

W Kip Viscusi, "The Fatal Failure of the Regulatory State" (2018) 60:2 Wm & Mary L Rev 589.

AGLC 4th ed.

W Kip Viscusi, 'The Fatal Failure of the Regulatory State' (2018) 60(2) William & Mary Law Review 589.

MLA 8th ed.

Viscusi, W. Kip. "The Fatal Failure of the Regulatory State." *William & Mary Law Review*, vol. 60, no. 2, November 2018, p. 589-654. HeinOnline.

OSCOLA 4th ed.

W Kip Viscusi, 'The Fatal Failure of the Regulatory State' (2018) 60 Wm & Mary L Rev 589

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## THE FATAL FAILURE OF THE REGULATORY STATE

W. KIP VISCUSI\*

### ABSTRACT

*Although regulatory agencies place high values on the benefits associated with the reduction in mortality risks due to regulations, these same agencies substantially undervalue lives in their enforcement efforts. The disparity between the valuation of prospective risks and fatalities that have occurred is often by several orders of magnitude, diminishing whatever safety incentives the regulations might have generated. A review of the practices by the major federal agencies with responsibility for product safety and occupational safety finds that the value placed on fatalities in agencies' regulatory analyses can be a factor of 1000 times greater than the magnitude of the corresponding sanctions that the agency levies for regulatory violations that led to the fatalities. The source of the mismatch between the valuation of prospective risks and fatalities that have occurred can be traced to agencies' dated and restrictive legislative mandates. This Article proposes revisions in these statutes to create more appropriate, stronger safety incentives. Setting the pertinent price to deter excessive risks will also foster corporate risk analyses so long as companies are also provided with pertinent legal protections.*

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## INTRODUCTION

The impact of government policies depends on their design, implementation, and enforcement.<sup>1</sup> The administrative law literature focuses primarily on matters of regulatory structure.<sup>2</sup> Government agencies entrusted with protection of the environment and promotion of health and safety foster these objectives by designing and promulgating regulations that are sometimes quite stringent.<sup>3</sup> Whether these regulations will in fact generate their intended effects depends on whether they create sufficient economic incentives to discourage risky behavior.

In a noteworthy 2016 incident, the Occupational Safety and Health Administration proposed a fine of \$411,540 on the Cooperative Producers Inc. Hayland facility after an elevator supervisor suffocated when his lifeline became tangled in an unguarded, rotating augur.<sup>4</sup> The agency levied these penalty levels, which were higher than the typical job safety violation penalty, because the company was a repeat offender, having been cited six times for safety violations from 2011 to 2015.<sup>5</sup> In the 2016 post-fatality inspection, the agency found Cooperative Producers Inc. Hayland Facility guilty of three egregious willful violations and three serious violations.<sup>6</sup> Are fines of this magnitude appropriate for regulatory violations leading to fatalities and, more generally, what should be the regulatory function of financial sanctions when lives are at risk? This Article demonstrates a mismatch between the level of stringency of regulatory design and regulatory enforcement for federal risk and

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1. See W. KIP VISCUSI, JOSEPH E. HARRINGTON, JR. & DAVID E. M. SAPPINGTON, *ECONOMICS OF REGULATION AND ANTITRUST* 9 (5th ed. 2018) (describing the increasing role of courts in implementing and enforcing laws).

2. See, e.g., LISA HEINZERLING & MARK V. TUSHNET, *THE REGULATORY AND ADMINISTRATIVE STATE: MATERIALS, CASES, COMMENTS* (2006).

3. See, e.g., STEPHEN BREYER, *BREAKING THE VICIOUS CIRCLE: TOWARD EFFECTIVE RISK REGULATION* 24-27 tbl.5 (1993) (listing dozens of select health and safety regulations from the federal government's fiscal year 1992 budget).

4. Press Release, Occupational Safety & Health Admin., OSHA Cites Cooperative Producer's Hayland Facility After Investigation of Elevator Superintendent's Death in Soybean Bin (Sept. 12, 2016), <https://www.osha.gov/news/newsreleases/region7/09122016> [<https://perma.cc/UD3Z-JXLE>].

5. *Id.*

6. *Id.*

environmental regulatory agencies. The gaps that are identified do not involve subtle distinctions, as the stringency of regulatory standards often dwarfs that of enforcement efforts.

The economic benefits associated with the reduction of mortality risks constitute the largest component of all regulatory benefits for federal regulations.<sup>7</sup> The principal framework used in assessing the value of the reduction of mortality risk is based on the risk-money tradeoff for very small risks, or what has come to be known as the “value of a statistical life,” or the VSL.<sup>8</sup> The values currently used by many government agencies to value each expected fatality prevented are in the vicinity of \$9 million or more.<sup>9</sup> Although the VSL establishes a substantial price for expected fatalities resulting from different risks, this price pertains to the risks assessed prospectively by regulatory agencies.<sup>10</sup> In situations in which companies violate the regulations in a manner that leads to worker or consumer deaths, the price attached to lives is often quite low.<sup>11</sup> In this Article, the VSL serves as the appropriate deterrence-based estimate of the value that should be placed on fatalities in agency enforcement efforts.<sup>12</sup> This Article documents the mismatch in the valuations and proposes statutory changes to address the imbalance.

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7. See OFFICE OF MGMT. & BUDGET, OFFICE OF INFO. & REGULATORY AFFAIRS, 2015 REPORT TO CONGRESS ON THE BENEFITS AND COSTS OF FEDERAL REGULATIONS AND AGENCY COMPLIANCE WITH THE UNFUNDED MANDATES REFORM ACT 13 (2015), [https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/2015\\_cb/2015-cost-benefit-report.pdf](https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/2015_cb/2015-cost-benefit-report.pdf) [<https://perma.cc/A9KC-BNXU>].

8. See W. KIP VISCUSI, PRICING LIVES: GUIDEPOSTS FOR A SAFER SOCIETY 11-13 (2018); see also CASS R. SUNSTEIN, VALUING LIFE: HUMANIZING THE REGULATORY STATE 51 (2014).

9. See U.S. DEP'T OF HEALTH & HUMAN SERVS., GUIDELINES FOR REGULATORY IMPACT ANALYSIS 15 (2016), [https://aspe.hhs.gov/system/files/pdf/242926/HHS\\_RIAGuidance.pdf](https://aspe.hhs.gov/system/files/pdf/242926/HHS_RIAGuidance.pdf) [<https://perma.cc/6PR2-VBK4>]; U.S. DEP'T OF TRANSP., REVISED DEPARTMENTAL GUIDANCE 2016: TREATMENT OF THE VALUE OF PREVENTING FATALITIES AND INJURIES IN PREPARING ECONOMIC ANALYSES 1 (2016), <https://www.transportation.gov/sites/dot.gov/files/docs/2016%20Revised%20Value%20of%20a%20Statistical%20Life%20Guidance.pdf> [<https://perma.cc/G8DM-WG38>]; U.S. ENVTL. PROT. AGENCY, VALUING MORTALITY RISK REDUCTIONS FOR POLICY: A META-ANALYTIC APPROACH 2 (2016), [https://yosemite.epa.gov/sab/sabproduct.nsf/0/0CA9E925C9A702F285257F380050C842/\\$File/VSL%20white%20paper\\_final\\_020516.pdf](https://yosemite.epa.gov/sab/sabproduct.nsf/0/0CA9E925C9A702F285257F380050C842/$File/VSL%20white%20paper_final_020516.pdf) [<https://perma.cc/7NJX-B9ZU>]; W. Kip Viscusi, *The Value of Individual and Societal Risks to Life and Health*, in 1 HANDBOOK OF THE ECONOMICS OF RISK AND UNCERTAINTY 385, 436-41 tbls.7.2 & 7.3 (Mark J. Machina & W. Kip Viscusi eds., 2014), <https://www.sciencedirect.com/science/handbooks/22117547> [<https://perma.cc/Z94Y-RYBJ>].

10. See VISCUSI, *supra* note 8, at 11-13.

11. See *infra* Part I.

12. See *infra* note 221 and accompanying text.

The Article begins by documenting the low values currently placed on life in regulatory enforcement efforts. Part I presents examples involving job safety, food safety, motor-vehicle safety, and environmental quality, which demonstrate that the assignment of low values to fatalities is not an infrequent practice. Why such low values are problematic is the focus of Part II, which outlines the practices used in regulatory impact analyses for prospective regulations and the principles for optimal deterrence. To implement these principles requires changing the current statutory guidance, as the agencies currently are hamstrung by very low caps on allowable penalties.<sup>13</sup> Part III presents the proposed revisions of several representative statutes pertaining to health, safety, and the environment. Once firms begin to face meaningful enforcement sanctions, this enhanced penalty structure will alter their calculation of the costs and benefits of regulatory compliance. As Part IV indicates, establishing penalty levels consistent with law and economic theories of optimal deterrence also will influence the corporate risk analyses used in determining appropriate levels of safety. But realizing the full potential of such changes will require that companies be provided with legal protections for undertaking analyses that balance the competing economic concerns of costs and risks. The concluding discussion summarizes the rationale for rectifying the mismatch between regulatory design and regulatory enforcement.

### I. AGENCY PENALTIES FOR FATALITIES

To examine the disparity between the optimal deterrence amounts and the penalties levied for regulatory violations, this Part examines the determination of the penalty levels for four government agencies concerned with the promotion of worker safety, product safety, and environmental safety. Common themes exist in the analysis of the job safety violation penalties levied by the Occupational Safety and Health Administration (OSHA),<sup>14</sup> the food safety violation penalties levied by the Food and Drug Administration

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13. See *infra* Part I.

14. See *infra* Part I.A.

(FDA),<sup>15</sup> the motor-vehicle safety violation penalties levied by the Department of Transportation (DOT),<sup>16</sup> and the environmental violation penalties levied by the Environmental Protection Agency (EPA).<sup>17</sup> The statutory guidance for each of these agencies establishes the permissible penalty structures and, in particular, the upper limit on the penalties that are permitted.<sup>18</sup> As this review will indicate, the penalty amounts fall far short of what would be adequate from the standpoint of generating incentives for optimal levels of deterrence.<sup>19</sup>

#### *A. Occupational Safety and Health Administration: Worker Fatalities*

The very modest level of penalties that federal regulatory agencies assess for fatal regulatory violations is exemplified by the performance of OSHA. OSHA's regulatory approach is to set health and safety standards, to inspect firms to ascertain whether they are in violation of the standards, and to assess penalties for standards violations that are identified in these inspections.<sup>20</sup> Many of these standards pertain to traumatic injuries, which means there are no latency periods or problems in inferring the work-related causality as there would be for illnesses such as cancer.<sup>21</sup> As a result, OSHA serves as an excellent starting point for considering how and at what level penalties are assessed for regulatory violations involving deaths.<sup>22</sup> As this Article will demonstrate for other federal agencies as well,<sup>23</sup> the statutory structure of the penalties that OSHA is permitted to levy constrains the amount of fines that the agency can impose for regulatory violations, leading to inadequate incentives for safety.<sup>24</sup>

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15. See *infra* Part I.B.

16. See *infra* Part I.C.

17. See *infra* Part I.D.

18. See *infra* notes 27, 31, 33-35, 81, 104-05, 106-07, 135-41, and accompanying text.

19. See, e.g., *infra* Part I.A.

20. See W. KIP VISCUSI, *RISK BY CHOICE: REGULATING HEALTH AND SAFETY IN THE WORKPLACE* 16 (1983).

21. See VISCUSI, *supra* note 8, at 29.

22. See *id.*

23. See *infra* Parts I.B-D.

24. See *infra* notes 27-35.

OSHA has several classifications for the level of violations. Those violations that are most directly pertinent to the prevention of fatality risks are classified as “serious” violations.<sup>25</sup> “A serious violation exists when the workplace hazard could cause an accident or illness that would most likely result in death or serious physical harm, unless the employer did not know or could not have known of the violation.”<sup>26</sup>

The Occupational Safety and Health Act of 1970 established a cap of \$1000 for each such serious violation, which was later raised to \$7000.<sup>27</sup> There was no apparent underlying methodological basis for setting that level, such as reliance on an economic deterrence measure such as the VSL<sup>28</sup> or even the value of compensation in wrongful death cases, which addresses the financial losses after a fatality rather than the value of preventing the risk of death.<sup>29</sup> Each of these measures would have led to considerably greater penalty levels.<sup>30</sup> During the almost half a century after the establishment of the initial penalty levels, the upper limit on penalties has been updated somewhat for inflation but not otherwise revamped so that the maximum allowable penalty per serious violation has risen to \$12,934 per violation in 2018.<sup>31</sup> Even this inflation update is inadequate, as the consumer price index increased by a factor of more than six since the passage of the Occupational Safety and Health Act of 1970.<sup>32</sup> Therefore, a penalty level of at least \$42,000 per

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25. U.S. DEPT OF LABOR, OCCUPATIONAL SAFETY & HEALTH ADMIN., FEDERAL EMPLOYER RIGHTS AND RESPONSIBILITIES FOLLOWING AN OSHA INSPECTION—1996 (1996), <https://www.osha.gov/Publications/fedrites.html> [<https://perma.cc/LLR7-GBSK>] [hereinafter *Federal Employer Rights*].

26. *Id.*

27. Compare 29 U.S.C. § 666(b) (1970), with 29 U.S.C. § 666(b) (2012).

28. Cf. W. Kip Viscusi, *On Balance: Don't Undervalue Life*, SOC'Y FOR BENEFIT-COST ANALYSIS (Apr. 11, 2018), <https://benefitcostanalysis.org/balance-dont-undervalue-life> [<https://perma.cc/TBG5-UQQ2>].

29. See Eric A. Posner & Cass R. Sunstein, *Dollars and Death*, 72 U. CHI. L. REV. 537, 538-39 (2005).

30. Cf. *id.* at 537-39; Viscusi, *supra* note 28.

31. 29 C.F.R. § 1903.15(d)(3) (2018); *OSHA Penalties*, U.S. DEPT OF LABOR, OCCUPATIONAL SAFETY & HEALTH ADMIN., (2018), <https://www.osha.gov/penalties/> [<https://perma.cc/D5M3-Y2HP>] [hereinafter *OSHA Penalties*].

32. Based on the Bureau of Labor Statistics inflation calculator, the purchasing power of \$1 in December 1970 would require \$6.23 in January 2018 to have the same purchasing power. See *CPI Inflation Calculator*, BUREAU LAB. & STAT., [https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm) [<https://perma.cc/G6QF-U2DQ>] (type “1.00” in the search bar; then

serious violation would be warranted. Violations that are characterized as “[o]ther-than-seriou[s],” violations related to posting requirements for notices from OSHA, and violations associated with a failure to abate a violation, also are subject to the same maximum amounts per violation.<sup>33</sup> Violations that are willful or repeated and which reflect indifference to employee safety were subject to a statutory cap of \$70,000<sup>34</sup> that has since been updated to \$129,336 per violation as of January 3, 2018.<sup>35</sup>

OSHA enforcement efforts consist of inspecting workplaces, identifying violations of pertinent safety standards, and assessing penalties for these violations within statutory limits on financial sanctions.<sup>36</sup> The enforcement efforts vary, as in some cases the enforcement efforts are implemented through federal enforcement actions, whereas in other situations the states have undertaken the role of enforcing OSHA’s regulatory standards.<sup>37</sup> However, the penalty levels levied on firms for workplace fatalities are inadequate from a deterrence standpoint in each of these instances. The median penalty that was assessed in Fiscal Year 2016 for violations associated with the death of a worker was \$6500 for federally operated OSHA efforts and \$2500 for state plans.<sup>38</sup> Thus, even though the regulatory violation was associated with a workplace fatality, the median penalty amount is even below the quite modest statutory cap for a single serious violation.<sup>39</sup>

Consideration of the largest penalties ever levied in the history of the agency indicates a low penalty level associated with all regulatory violations that are identified at firms experiencing worker fatalities. Nine of the top ten penalties ever levied by OSHA were

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select “December,” “1970,” “January,” and “2018” respectively in the drop-down menus; then click “Calculate”).

33. See 29 U.S.C. § 666(c)-(d), (i) (2012); 29 C.F.R. § 1903.15(d)(4)-(6); see also *OSHA Penalties*, *supra* note 31.

34. See 29 U.S.C. § 666(a).

35. See 29 C.F.R. § 1903.15(d)(1); see also *OSHA Penalties*, *supra* note 31.

36. See U.S. DEPT OF LABOR, OCCUPATIONAL SAFETY & HEALTH ADMIN., OSHA AT-A-GLANCE, <https://www.osha.gov/Publications/3439at-a-glance.pdf> [<https://perma.cc/QF2W-TBZY>].

37. See *id.*

38. AFL-CIO, DEATH ON THE JOB, THE TOLL OF NEGLECT: A NATIONAL AND STATE-BY-STATE PROFILE OF WORKER SAFETY AND HEALTH IN THE UNITED STATES 141 (26th ed. 2017).

39. Compare *id.*, with 29 U.S.C. § 666(b), and 29 C.F.R. § 1903.15(d)(3).

for regulatory violations at firms where there had been a recent worker fatality.<sup>40</sup> These penalty amounts for the entire set of regulatory violations considered in each instance range from \$6.6 million to \$81.3 million.<sup>41</sup> However, the size of the penalty amount per worker death is fairly low even if one assumes that the entire penalty is for the fatality-related regulatory infractions, rather than possibly hundreds of other regulatory violations discovered as part of the OSHA inspection following the deaths.

The two largest penalties ever levied by OSHA were against the BP Texas City Refinery in 2005 and 2009.<sup>42</sup> These penalties were linked to a single workplace event and the company's subsequent failure to undertake abatement actions to address the risks.<sup>43</sup> The second largest penalty levied in OSHA's history was for the March 23, 2005, explosion and fire in the Isomerization Unit of the BP Texas Oil Refinery in Texas City, Texas.<sup>44</sup> This explosion led to the deaths of 15 contractor employees as well as injuries to at least 170 other BP employees and contractor employees.<sup>45</sup> Following the health and safety inspection, OSHA levied a penalty of \$21.4 million, which was the largest penalty that OSHA had issued up to that time and remains the second largest penalty in OSHA history.<sup>46</sup> Excluding any role of the penalties to address the valuations of worker injuries or regulatory violations other than those specifically related to the fatalities, the average penalty imposed per worker fatality was only \$1.4 million.<sup>47</sup> As part of the 2005 settlement agreement for this explosion, BP agreed to undertake a series of abatement actions and to implement by 2009 all feasible

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40. See *Top Enforcement Cases Based on Total Issued Penalty*, U.S. DEP'T OF LABOR, OCCUPATIONAL SAFETY & HEALTH ADMIN. (2018), [https://www.osha.gov/dep/enforcement/top\\_cases.html](https://www.osha.gov/dep/enforcement/top_cases.html) [<https://perma.cc/V8ZQ-B2E4>] [hereinafter *Top Enforcement Cases*]; *infra* notes 42-69 and accompanying text.

41. See *Top Enforcement Cases*, *supra* note 40.

42. See *id.*

43. See U.S. DEP'T OF LABOR, OCCUPATIONAL SAFETY & HEALTH ADMIN., FACT SHEET ON HISTORY OF 2012 AGREEMENT BETWEEN OSHA AND BP, <https://www.osha.gov/dep/bp/FactSheet-BP-2012-Agreement.html> [<https://perma.cc/YP4X-6PMD>] [hereinafter FACT SHEET].

44. See *BP Texas City Violations and Settlement Agreements*, U.S. DEP'T OF LABOR, OCCUPATIONAL SAFETY & HEALTH ADMIN., <https://www.osha.gov/dep/bp/bp.html> [<https://perma.cc/MGG2-WPWJ>] [hereinafter *BP Texas City Violations*]; *Top Enforcement Cases*, *supra* note 40.

45. See FACT SHEET, *supra* note 43.

46. See *id.*; *Top Enforcement Cases*, *supra* note 40.

47. See *generally* FACT SHEET, *supra* note 43.

recommendations that OSHA made as a consequence of the inspection.<sup>48</sup>

Subsequent to this incident, the workforce at this BP facility continued to be exposed to serious risks.<sup>49</sup> One contractor was killed in 2006 after being crushed between a scissor lift and a pipe rack; another employee of a contractor was electrocuted in 2007; and in 2008, a BP employee and a contractor were killed in separate incidents.<sup>50</sup> Whereas these fatalities were indicative of the continued lax safety at the BP facility, it was a related series of regulatory violations that triggered what remains the largest penalty ever levied by OSHA.<sup>51</sup> The 2009 OSHA inspection that followed one month after the deadline that BP had been given for completing its abatement efforts concluded that BP had failed to correct 270 instances of violations that it was supposed to abate as a result of the agreement reached after the 2005 incident, leading to a penalty of \$50.6 million.<sup>52</sup> In addition, OSHA levied a penalty of \$30.7 million for 439 additional willful violations, but this penalty amount was reduced to \$13 million based on a negotiated agreement between BP and OSHA.<sup>53</sup> The 2009 BP penalties are the largest penalties ever assessed by OSHA.<sup>54</sup>

If one combines the value of the penalties that BP paid for the 2005 and 2009 enforcement actions, which rank as the top two penalties levied in the history of the agency, and if one assumes that the pertinent VSL is about \$10 million,<sup>55</sup> then the total penalty amount of \$85 million is far less than the economically efficient deterrence amount, based on the magnitude of the adverse health risks and ignoring the role of penalties for the hundreds of willful and repeated violations. The appropriate deterrence amount for the fifteen initial deaths alone merits penalties that exceed the combined 2005 and 2009 penalty.<sup>56</sup> Additional penalties beyond those

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48. *See id.*

49. *See id.*

50. *See id.*

51. *See id.*; *BP Texas City Violations*, *supra* note 44.

52. *See* FACT SHEET, *supra* note 43.

53. *See id.*

54. *See BP Texas City Violations*, *supra* note 44.

55. *See* VISCUSI, *supra* note 8, at 28; *infra* text accompanying notes 228-29.

56. Assuming a VSL of \$10 million, the appropriate deterrence amount for fifteen deaths would be \$150 million.

pertaining to the fatalities are warranted for the continued injuries, hundreds of repeated violations, and hundreds of new regulatory violations.

The other seven most prominent penalty amounts that OSHA has levied follow similar orders of magnitude.<sup>57</sup> The fire and series of explosions at the IMC Fertilizer/Angus Chemical Plant in Sterlington, Louisiana, led to eight deaths and forty-two worker injuries,<sup>58</sup> and OSHA levied penalties of \$11.6 million on IMC Fertilizer/Angus Chemical.<sup>59</sup> The 2008 sugar refinery explosion in Georgia at Imperial Sugar occurred after knee-high combustible sugar dust exploded, killing fourteen workers and causing additional injuries.<sup>60</sup> The OSHA penalty amount of \$8.8 million, for infractions that OSHA mostly characterized as being willful violations, was ultimately settled for \$6 million, or a penalty of approximately \$429,000 per death.<sup>61</sup> The fifth and tenth largest penalties arose from a single incident: a construction-related explosion at the Kleen Energy Systems Natural Gas Power Plant.<sup>62</sup> The pressurized natural gas that was being used to blow debris out of pipes led to an explosion that killed six workers and injured fifty other workers.<sup>63</sup> OSHA determined that the two subcontractors and fourteen other companies were guilty of hundreds of safety violations.<sup>64</sup> The largest penalties were \$8.3 million for O&G Industries, Inc., and nearly \$6.7 million for Keystone Construction Maintenance.<sup>65</sup> For the three other top ten ranked OSHA penalties involving fatalities, OSHA levied \$8.3 million in penalties on Samsung Guam, Inc., for 118 violations

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57. See *Top Enforcement Cases*, *supra* note 40.

58. *OSHA's First \$10 Million Fine*, OCCUPATIONAL HAZARDS, Dec. 1991, at 13, 13-14.

59. See *Top Enforcement Cases*, *supra* note 40.

60. See Larry Peterson, *Imperial Sugar Settles for \$6 Million, Admits No Wrongdoing*, SAVANNAH MORNING NEWS (July 8, 2010, 12:18 AM), <http://savannahnow.com/news/2010-07-08/imperial-sugar-settles-6-million-admits-no-wrongdoing> [<https://perma.cc/JA3W-DWPW>].

61. See Julia Muller, *TIMELINE: Imperial Sugar Explosion from 2008 Until Today*, SAVANNAH MORNING NEWS (Feb. 10, 2013, 8:20 AM), <http://www.savannahnow.com/news/2013-02-10/timeline-imperial-sugar-explosion-2008-until-today> [<https://perma.cc/FVS6-DS98>].

62. See Dave Altimari & Matthew Kauffman, *5 Years After Kleen Energy Blast, 'Main Actor' Pays Fraction of \$6.7 Million Fine*, HARTFORD COURANT (Feb. 9, 2015, 9:56 AM), <http://www.courant.com/news/connecticut/hc-kleen-energy-fine-20150206-story.html> [<https://perma.cc/4S4A-9F2E>]; *Top Enforcement Cases*, *supra* note 40.

63. Altimari & Kauffman, *supra* note 62.

64. *Id.*

65. *Id.*

associated with one worker death;<sup>66</sup> \$8.2 million in penalties against CITGO Petroleum for violations that were settled for \$5.8 million for an explosion that killed six workers;<sup>67</sup> and \$7.5 million in penalties for Dayton Tire for approximately one hundred willful violations identified by an inspection after one worker death.<sup>68</sup> The penalty amounts for all other OSHA penalty situations rank below these values.<sup>69</sup>

Whether considering the median penalty amounts for violations related to killing a worker or the entire set of penalties arising in situations after a worker fatality, the financial incentives for safety fall short of what they should be to establish appropriate levels of deterrence.<sup>70</sup> In the case of OSHA, the statutory limits on the penalty levels are unrelated to the VSL or any other meaningful deterrence concept, leading to penalties after fatalities that fall short of the desirable level.<sup>71</sup> This shortfall in penalty levels is not unique to OSHA, as the subsequent consideration of other federal agencies indicates.<sup>72</sup>

### *B. Food and Drug Administration: Food Safety*

As was the case with OSHA, the FDA has caps on the penalties that can be levied.<sup>73</sup> The FDA has an enforcement strategy different than that of OSHA as it does not impose fatality-related penalties as a result of either workplace inspections or product inspections.<sup>74</sup> Rather, the fatality-related penalties arise from conduct that is in

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66. See *Inspection: 106196801—Samsung Guam Inc.*, U.S. OCCUPATIONAL SAFETY & HEALTH ADMIN., [http://www.osha.gov/pls/imis/establishment.inspection\\_detail?id=106196801](http://www.osha.gov/pls/imis/establishment.inspection_detail?id=106196801) [<https://perma.cc/3JPP-ABKM>].

67. See Karen Ball, *Citgo Petroleum to Pay \$5.8 Million for Deadly Louisiana Blast*, ASSOCIATED PRESS (Aug. 29, 1991), <https://www.apnews.com/c5d019f5fedfb640ee620df96641799bb> [<https://perma.cc/BM5R-Q6DR>].

68. See *Inspection: 109061648: Dayton Tire Company*, U.S. OCCUPATIONAL SAFETY & HEALTH ADMIN., [https://www.osha.gov/pls/imis/establishment.inspection\\_detail?id=109061648](https://www.osha.gov/pls/imis/establishment.inspection_detail?id=109061648) [<https://perma.cc/4GBD-QQ3Z>].

69. *Top Enforcement Cases*, *supra* note 40.

70. See, e.g., *supra* notes 55-56 and accompanying text.

71. See *supra* notes 27-30 and accompanying text.

72. See *infra* Parts I.B-D.

73. See *infra* note 81 and accompanying text.

74. Cf. *What We Do*, U.S. FOOD & DRUG ADMIN., <https://www.fda.gov/AboutFDA/WhatWeDo/default.htm> [<https://perma.cc/FWX3-38BA>].

violation of FDA regulations, including behavior that sometimes results in consumer deaths, which may also trigger FDA investigations of the causes of the death.<sup>75</sup> The caps on the allowable penalties vary by regulatory area because the agency has a wide range of responsibilities such as those pertaining to prescription drugs, medical devices, adulterated food, and standards for clinical trials.<sup>76</sup> Consequently, there are dozens of civil monetary penalty authorities that are administered by the FDA.<sup>77</sup> In some instances, it is difficult for an outside observer to ascertain any specific linkage of penalties to the product fatalities because the agency may have levied penalties for a broad series of regulatory violations. For example, in the case of the painkiller Vioxx, which created substantial heart risks, Merck paid the FDA \$950 million for illegally introducing a drug into interstate commerce and for promoting a drug for a use that had not yet been approved by the FDA.<sup>78</sup> Separately, Merck also settled 27,000 lawsuits by patients and their families.<sup>79</sup>

For concreteness, the examples below focus on enforcement efforts with respect to food safety as these case studies are associated with incidents that generated well-defined acute deaths from exposure to hazardous food. Thus, the relation between the penalties and the number of deaths will be more clear-cut than for products that pose more deferred risks, such as deaths from heart attacks, for which the extent of the risk increase and the number of deaths specifically attributable to the product may not be known.<sup>80</sup> As of 2017, the FDA provisions pertaining to adulterated food imposed a cap of \$76,352 for any individual introducing adulterated food into interstate commerce, with a limit of \$763,515 for all violations adjudicated in a single proceeding.<sup>81</sup>

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75. *Cf. id.*

76. *See id.*

77. See 21 C.F.R. § 17.1 (2018).

78. See Duff Wilson, *Merck to Pay \$950 Million Over Vioxx*, N.Y. TIMES (Nov. 22, 2011), <https://www.nytimes.com/2011/11/23/business/merck-agrees-to-pay-950-million-in-vioxx-case.html> [<https://perma.cc/D4SM-A53Q>]; see also Rick Valliere, *Merck Agrees to Pay \$950 Million to Resolve Vioxx Promotion Cases*, 39 BLOOMBERG L. PROD. SAFETY & LIAB. REP. 1309 (Dec. 5, 2011).

79. See Wilson, *supra* note 78.

80. *Cf. VISCUSI*, *supra* note 8, at 29; *supra* notes 21-22 and accompanying text.

81. See 21 C.F.R. § 17.2 (2018); 45 C.F.R. § 102.3 (2017).

A 2011 tainted food product incident involving a cantaloupe farm in Colorado led to at least 33 deaths, 147 hospitalizations, a miscarriage, and possibly 10 additional deaths.<sup>82</sup> The genesis of this food safety problem was that Eric Jensen and Ryan Jensen, who operated a cantaloupe farm in Granada, Colorado, allegedly changed their process that was used to clean the cantaloupe in order to prevent contamination by harmful bacteria.<sup>83</sup> The farm failed to use chlorine spray to reduce the bacterial risks and also kept the cantaloupe in unsanitary conditions, leading to contamination of the cantaloupes with *Listeria monocytogenes* and the aforementioned adverse health impacts.<sup>84</sup> After pleading guilty to misdemeanor counts of introducing adulterated food into interstate commerce, these two farmers were required to pay \$150,000 each in restitution, devote one hundred hours to community service, and serve six months of home detention and five years of probation.<sup>85</sup> The optimal deterrence amount based on the VSL for even a single fatality exceeded the monetary value of the regulatory sanctions that the FDA imposed.<sup>86</sup>

More severe sanctions resulted after the *E. coli* outbreak resulting from the contamination of Odwalla Inc. apple juice.<sup>87</sup> This incident led to the death of a sixteen-month-old baby and illnesses affecting at least sixty-six other people.<sup>88</sup> The U.S. Department of

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82. See Press Release, U.S. Dep't of Justice, Dist. of Colo., Eric and Ryan Jensen Plead Guilty to All Counts of Introducing Tainted Cantaloupe into Interstate Commerce (Oct. 22, 2013), <https://www.justice.gov/usao-co/pr/eric-and-ryan-jensen-plead-guilty-all-countys-introducing-tainted-tantaloupe-interstate> [<https://perma.cc/D9LX-CZ9V>] [hereinafter Colo. Press Release]; see also Mary Beth Marklein, *Cantaloupe Farmers Get No Prison Time in Disease Outbreak*, USA TODAY (Jan. 28, 2014, 2:22 PM), <https://www.usatoday.com/story/news/nation/2014/01/28/sentencing-of-colorado-cantaloupe-farmers/4958671/> [<https://perma.cc/G3CE-VMYT>].

83. See Colo. Press Release, *supra* note 82.

84. See *id.*

85. See Ray Sanchez, *At Sentencing, Cantaloupe Growers Apologize for Deadly Listeria Outbreak*, CNN (Feb. 4, 2014, 5:23 PM), <https://www.cnn.com/2014/01/28/justice/cantaloupe-listeria-deaths-sentencing/index.html> [<https://perma.cc/629A-JPRB>].

86. Assuming a VSL of \$10 million and also assuming that the VSL is the efficient deterrence amount, the combined monetary value of these sanctions likely would be below \$10 million for reasonable economic measures of the value of time and the inconvenience of detention and probation.

87. See *Odwalla Pleads Guilty*, CNN MONEY (July 23, 1998, 4:41 PM), <http://money.cnn.com/1998/07/23/companies/odwalla/> [<https://perma.cc/38WP-2P3J>].

88. See *Juice Maker Fined Record \$1.5 Million for Sales of Contaminated Apple Juice*, 26

Justice sought criminal sanctions on behalf of the FDA for the adulterated food violation, leading to what was at that time the largest penalty that the FDA had ever levied in a criminal case involving food injuries.<sup>89</sup> The total penalty amount was \$1.5 million, of which \$250,000 took the form of contributions to a charitable organization and two food safety research centers.<sup>90</sup> As in the case of the cantaloupe contamination, the financial sanctions were seriously inadequate from the standpoint of optimal deterrence.<sup>91</sup>

The FDA levied smaller sanctions per fatality in a 2001 meat contamination case involving the Sara Lee Corporation.<sup>92</sup> After *listeria* contamination of hot dogs and cold cuts led to an estimated fifteen deaths and dozens of illnesses, the FDA sought misdemeanor charges against Sara Lee Corporation.<sup>93</sup> In addition to undertaking a national recall of the tainted meat, Sara Lee Corporation paid \$4.4 million in penalties, which has an average value of under \$300,000 per death, excluding any role for penalties other than the sanction per fatality, such as the illnesses or other regulatory violations.<sup>94</sup>

The most extreme sanctions ever levied in a food safety case involved criminal sentences for two former officials of the Peanut Corporation of America (PCA).<sup>95</sup> The Salmonella-tainted peanut butter from PCA led to 9 deaths and 22,000 illnesses.<sup>96</sup> In addition to charges relating to sales of contaminated food, the company was charged with wire fraud as well as fraud for claiming that peanuts

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BLOOMBERG L.: PROD. SAFETY & LIAB. REP. 722 (1998) [hereinafter *Juice Maker Fined*].

89. *See id.*

90. *See id.*

91. *See supra* note 86 and accompanying text.

92. *See* Helen V. Cantwell et al., *Food for Thought: Corporate Executives on Notice That DOJ Will Seek to Hold Them Criminally Liable for Contaminated Food Outbreaks and Product Failures*, 42 BLOOMBERG L.: PROD. SAFETY & LIAB. REP. 1377, 1378 (2014).

93. *See* David Barboza, *Sara Lee Corp. Pleads Guilty in Meat Case*, N.Y. TIMES (June 23, 2001), <https://www.nytimes.com/2001/06/23/us/sara-lee-corp-pleads-guilty-in-meat-case.html> [<https://perma.cc/AW9Q-QDPE>].

94. *See id.*

95. *See* Press Release, U.S. Dep't of Justice, *Former Peanut Company President Receives Largest Criminal Sentence in Food Safety Case; Two Others Also Sentenced in Their Roles in Salmonella-Tainted Peanut Product Outbreak* (Sept. 21, 2015), <https://www.justice.gov/opa/pr/former-peanut-company-president-receives-largest-criminal-sentence-food-safety-case-two> [<https://perma.cc/X9TP-C2LW>] [hereinafter *Former Peanut Company*]; *see also* Cantwell et al., *supra* note 92, at 1377.

96. *See Former Peanut Company, supra* note 95.

grown in Mexico were from the United States and for misrepresenting where the peanuts had been processed.<sup>97</sup> There has been no attempt by the U.S. Department of Justice to obtain a financial penalty from PCA, presumably because PCA had filed for Chapter 7 bankruptcy shortly after the peanut butter recall.<sup>98</sup> However, the former owner and president of the company received a prison term of 336 months, the business partner was sentenced to 240 months in prison, and a third official received a 60-month sentence.<sup>99</sup>

With the exception of the PCA criminal sanctions, the penalties have been relatively modest for companies that have marketed dangerous food products resulting in fatalities. The PCA situation was distinctive in that, since the company filed for bankruptcy shortly after the peanut butter recall, there would be little role for financial penalties.<sup>100</sup> In addition, the diversity of the violations which extended beyond only introducing adulterated food products, also distinguished the situation so that criminal sanctions of this type remain the exception rather than the norm for FDA violations.<sup>101</sup>

### *C. Department of Transportation: Motor-Vehicle Safety*

The National Highway Traffic Safety Administration (NHTSA) has responsibility for promulgating standards and enforcing regulations relating to motor-vehicle safety.<sup>102</sup> As in the case of OSHA and the FDA, the pertinent statute, the National Traffic and Motor Vehicle Safety Act, establishes limits on the amount of penalties that can be levied for violations.<sup>103</sup> The maximum penalty for a violation was originally set at \$5000,<sup>104</sup> which was also the maximum OSHA penalty level for serious violations, but the NHTSA maximum penalty level has since been increased to \$21,000.<sup>105</sup> Similarly,

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97. See Cantwell et al., *supra* note 92, at 1378-79.

98. See Jane Zhang, *Peanut Corp. Files for Bankruptcy*, WALL ST. J. (Feb. 14, 2009, 12:01 AM), <https://www.wsj.com/articles/SB123455479448785081> [<https://perma.cc/8TCJ-EXAK>].

99. See *Former Peanut Company*, *supra* note 95.

100. *Cf.* Zhang, *supra* note 98.

101. See *supra* note 97 and accompanying text.

102. See *About*, U.S. DEPT OF TRANSP., NAT'L HIGHWAY TRAFFIC SAFETY ADMIN., <https://www.nhtsa.gov/about-nhtsa> [<https://perma.cc/W74C-PCUX>].

103. See *infra* notes 104-07 and accompanying text.

104. 49 U.S.C. § 30165(a)(1) (2012), amended by 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

105. 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

the maximum penalty for a related series of violations was formerly \$35 million,<sup>106</sup> but was increased to \$105 million in 2016.<sup>107</sup> In each instance, there is no apparent methodological foundation for the maximum penalty level other than some adjustments to reflect the impact of inflation.<sup>108</sup>

The General Motors (GM) ignition switch recall regulatory experience provides a valuable case study of how these financial limits influence the penalties that can be imposed and the relation of these penalties to the sanctions that would be merited from the standpoint of efficient levels of deterrence.<sup>109</sup> Although penalty caps have since been updated, at the time of the NHTSA action pertaining to the GM ignition switch recall, the statutory cap on permissible damages was \$5000 for each violation and \$35 million for a related series of violations.<sup>110</sup> By imposing the maximum permissible penalty amount of \$35 million on GM, NHTSA levied the largest penalty that it had issued for delays in reporting defects that related to a safety recall.<sup>111</sup> While the maximum penalty amounts have since been raised to \$105 million as part of the recent update in regulatory penalty levels,<sup>112</sup> the discussion below will focus on the regulatory regime in place that was pertinent to GM.<sup>113</sup> Note that the permissible penalty levels continue to be dwarfed by the appropriate deterrence-based values even after accounting for the penalty updates.<sup>114</sup>

NHTSA levied the penalty of \$35 million on GM in 2014 because GM had failed to report the ignition switch failure to the agency.<sup>115</sup>

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106. 49 U.S.C. § 30165(a)(1) (Supp. I 2014), *amended by* 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

107. 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

108. *Cf. supra* note 28 and accompanying text.

109. *See infra* notes 110-15 and accompanying text.

110. 49 U.S.C. § 30165(a)(1) (Supp. 2013), *amended by* 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

111. *See* Jeff Plungis & Tim Higgins, *GM to Pay Record \$35M Fine Over Ignition-Switch Recall*, 42 BLOOMBERG L.: PROD. SAFETY & LIAB. REP. 534, 534 (2014).

112. *See supra* note 107 and accompanying text.

113. *See* 49 U.S.C. § 30165(a)(1) (Supp. I 2014), *amended by* 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

114. *Cf. supra* note 86.

115. *See* Memorandum, U.S. Dep't of Transp., Nat'l Highway Traffic Safety Admin., Consent Order ¶¶ 5, 10-11 (May 16, 2014), [www.nhtsa.gov/staticfiles/communications/pdf/May-16-2014-TQ14-001-Consent-Order.pdf](http://www.nhtsa.gov/staticfiles/communications/pdf/May-16-2014-TQ14-001-Consent-Order.pdf) [<https://perma.cc/9URK-D24L>] [hereinafter *Consent*].

Because the switch was designed with too low torque, it could move from the “run” position to the “off” position, causing a loss in power, which in turn resulted in a loss in power steering, loss of power breaks, and loss of function in the frontal airbags.<sup>116</sup> GM was aware of the defect; one GM engineer involved in trying to rectify the problem referred to it as “the switch from hell.”<sup>117</sup> The adverse safety consequences of the ignition switch failure led to a series of accidents, including 13 documented deaths at the time of the NHTSA penalty, and an ultimate total of 124 deaths and 275 injuries.<sup>118</sup> Property damage, including harm to the crashed vehicles, also resulted from the product defect.<sup>119</sup>

Setting aside the costs of the accidents other than the fatalities, the penalty amount that the NHTSA levied had an average value of \$2.7 million per fatality based on the early estimate of 13 fatalities due to the defect.<sup>120</sup> Based on the ultimate death toll of 124 deaths, the penalty per fatality was \$282,000.<sup>121</sup> The cap on the total damages amount that could be imposed led to inadequate levels of deterrence.<sup>122</sup> Note too that the procedure for calculating the penalties related to the duration of time in which GM failed to report the defect rather than the number of deaths, as the penalty amounts were still capped at \$5000 per violation.<sup>123</sup> Thus, NHTSA did not construct the penalties using a procedure based on an assessment of

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*Order*]; see also Plungis & Higgins, *supra* note 111, at 534.

116. Letter from Preet Bharara, U.S. Attorney, S. Dist. of N.Y., to Anton R. Valukas, Esq. et al., Jenner & Block LLP (Sept. 16, 2015), <https://www.justice.gov/usao-sdny/file/772311/download> [<https://perma.cc/PVJ3-2P5D>] (Exhibits A and B).

117. See *In re Motors Liquidation Co.*, 829 F.3d 135, 149 (2d Cir. 2016).

118. See Kirsten Korosec, *Ten Times More Deaths Linked to Faulty Switch than GM First Reported*, FORTUNE (Aug. 24, 2015, 5:38 PM), <http://fortune.com/2015/08/24/feinberg-gm-faulty-ignition-switch/> [<https://perma.cc/N5CB-WVF4>] (noting that 124 deaths and 275 injuries had been linked to GM’s recalled ignition switches—far more than the 13 originally reported by GM); see also ANTON R. VALUKAS, REPORT TO BOARD OF DIRECTORS OF GENERAL MOTORS COMPANY REGARDING IGNITION SWITCH RECALLS 1 (2014), <http://www.beasleyallen.com/webfiles/valukas-report-on-gm-redacted.pdf> [<https://perma.cc/8FW5-RH5G>] (noting that “[m]ore than a dozen” fatalities had been documented by GM).

119. See VALUKAS, *supra* note 118, at 5-6.

120. The value of \$35 million in penalties divided by 13 fatalities is \$35,000,000/13, which equals \$2,692,308, or about \$2.7 million.

121. The average penalty per death for 124 deaths is \$35,000,000/124, which equals \$282,258, or about \$282,000 per fatality.

122. See *supra* note 86.

123. 49 U.S.C. § 30165(a)(1) (2012), amended by 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

the penalty level adequate to deter the behavior that led to the number of fatalities, which it then could have multiplied by the value assigned to each fatality. The statutory structure governs the level at which penalties can be set and does not involve the assessment of a monetary sanction per fatality.<sup>124</sup>

Today, even penalties that could be levied based on the updated cap of \$105 million would be inadequate for a product defect leading to 124 deaths.<sup>125</sup> If the GM case had been undertaken in a regime governed by the new penalty structure, NHTSA could have easily justified penalties equal to the higher total penalty cap since both the penalty per violation and the maximum penalty for a series of violations each tripled.<sup>126</sup> Consequently, the same characterization of infractions that led to a combined penalty of \$35 million would now lead to a value of \$105 million given the tripling of the penalty levels.<sup>127</sup> Even with such an increase in sanctions, the average penalty amount per fatality, excluding from consideration the number of violations and the failure to report the defect, would only be \$847,000 per fatality, which is an order of magnitude below the optimal deterrence level associated with the VSL.<sup>128</sup>

The underpricing of fatality risks is also apparent in the case of the \$1 billion settlement that NHTSA reached with Takata Corporation for airbag-related defects.<sup>129</sup> The defective design of Takata airbags led to the explosion of the airbags and release of shrapnel that has led to eleven deaths in the United States.<sup>130</sup> The settlement that was negotiated by the U.S. Department of Justice provided for \$975 million in restitution to the carmakers and those who suffered losses due to the airbag, and a \$25 million payment to the United

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124. *Cf. id.*

125. For the current penalties, see 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

126. Compare 49 U.S.C. § 30165(a)(1) (2012), amended by 49 U.S.C. § 30165(a)(1) (Supp. IV 2017), with 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

127. See *supra* note 126.

128. Assuming a VSL of \$10 million, the value of \$10,000,000 divided by \$847,000 equals 11.8, which exceeds the value of 10 for the discrepancy to be an order of magnitude difference.

129. Margaret Cronin Fisk & Jamie Butters, *Takata to Pay \$1 Billion in U.S. Air Bag Probe; Execs Charged*, 45 BLOOMBERG L.: PROD. SAFETY & LIAB. REP. 89, 89 (2017).

130. See Press Release, U.S. Dep't of Transp., Nat'l Highway Traffic Safety Admin., NHTSA Confirms 11th U.S. Fatality Tied to Rupture of Takata Air Bag Inflator (Oct. 20, 2016), <https://www.nhtsa.gov/press-releases/nhtsa-confirms-11th-us-fatality-tied-rupture-takata-air-bag-inflator> [<https://perma.cc/6M2W-ZUHU>].

States.<sup>131</sup> This \$25 million payment was not a fine per fatality, but was the penalty for violations such as wire fraud as a result of providing misleading information to car manufacturers, consumers, and regulators about the safety of the air bags.<sup>132</sup> Setting aside all of these rationales for penalties other than the fatalities, the average penalty per fatality that is reflected in the U.S. sanction is \$2.3 million.<sup>133</sup> Thus, even if penalties were based solely on the fatalities that occurred, and there was no constraint on setting penalties linked to fatalities rather than to each separate violation as specified in the statute, the penalty levels would be inadequate from the standpoint of using the VSL to determine optimal levels of deterrence.<sup>134</sup>

#### *D. Environmental Protection Agency: Air Pollution Emissions and Pesticide Risk*

The EPA administers several statutes, each of which have different provisions relating to penalties that can be assessed. For example, the civil penalties that can be levied for emissions in violation of the Clean Air Act are capped at \$25,000 per day, with a maximum penalty of \$200,000.<sup>135</sup> However, for criminal penalties in the case of violations that are misdemeanors resulting in death, the fines cannot be more than \$250,000 for individuals<sup>136</sup> and \$500,000 for organizations.<sup>137</sup> Penalties for violations of the Clean Water Act are subject to a daily limit of \$25,000 per violation.<sup>138</sup> Civil penalties under the Toxic Substances Control Act are limited

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131. See Fisk & Butters, *supra* note 129, at 89.

132. See *id.*

133. If we treat \$25 million as the penalty related to the 11 fatalities, the penalty per fatality is \$25,000,000/11, which equals \$2,272,727, or about \$2.3 million per fatality.

134. See *supra* note 86.

135. 42 U.S.C. § 7413(d)(1) (2012) (“The Administrator’s authority under this paragraph shall be limited to matters where the total penalty sought does not exceed \$200,000 and the first alleged date of violation occurred no more than 12 months prior to the initiation of the administrative action, except where the Administrator and the Attorney General jointly determine that a matter involving a larger penalty amount or longer period of violation is appropriate for administrative penalty action. Any such determination by the Administrator and the Attorney General shall not be subject to judicial review.”).

136. 18 U.S.C. § 3571(b)(4) (2012).

137. 18 U.S.C. § 3571(c)(4).

138. See 33 U.S.C. § 1319(d) (2012).

to a penalty of \$37,500 per day.<sup>139</sup> These statutes also have provisions for penalties relating to criminal violations for hazards posing an imminent danger of death or serious bodily injury, such as the Toxic Substances Control Act's criminal penalty cap of \$250,000 per violation for an individual,<sup>140</sup> and \$1,000,000 per violation for an organization.<sup>141</sup>

The penalties that are imposed within this structure are conceptually unrelated to the VSL or other meaningful deterrence concepts and generally fall short of the levels that are needed to generate optimal levels of deterrence.<sup>142</sup> Let us begin with the penalties arising from the Clean Air Act violations associated with DuPont's release of dangerous substances into the Kanawha River.<sup>143</sup> The eight releases of dangerous chemicals posed hazards to the Kanawha River and affected populations, and the exposure to the toxic gas phosgene led to one DuPont worker death.<sup>144</sup> These activities allegedly violated the Clean Air Act, the Comprehensive Environmental Response, Compensation, and Liability Act, and the Emergency Planning and Community Right-to-Know Act.<sup>145</sup> EPA assessed \$1.275 million in penalties against DuPont for violations associated with one fatality as well as the associated environmental harms.<sup>146</sup>

Tyson Foods, Inc. also violated the Clean Air Act, including accidental chemical releases of anhydrous ammonia at facilities in four states, leading to personal injuries, property damage, and one fatality.<sup>147</sup> The company had a continuing pattern of regulatory

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139. 15 U.S.C. § 2615(a) (Supp. IV 2017).

140. *Id.* § 2615(b)(2)(A) ("Any person who knowingly and willfully violates any provision of section 2614 or 2689 of this title, and who knows at the time of the violation that the violation places an individual in imminent danger of death or serious bodily injury, shall be subject on conviction to a fine of not more than \$250,000, or imprisonment for not more than 15 years, or both.").

141. *Id.* § 2615(b)(2)(B).

142. *Cf. supra* notes 28, 108 and accompanying text.

143. *See* Press Release, U.S. Dep't of Justice, U.S. Settles with DuPont to Resolve Clean Air Act Violations and Protect Communities and Kanawha River near West Virginia Facility (Aug. 27, 2014), <https://www.justice.gov/opa/pr/us-settles-dupont-resolve-clean-air-act-violations-and-protect-communities-and-kanawha-river> [<https://perma.cc/6VFK-B4AW>].

144. *See id.*

145. *See id.*

146. *See id.*

147. *See* Press Release, U.S. Env'tl. Prot. Agency, Tyson Foods, Inc. Clean Air Act (CAA) Settlement (Apr. 5, 2013), <https://www.epa.gov/enforcement/tyson-foods-inc> [<https://perma.cc/M2R5-QJD8>].

violations involving anhydrous ammonia releases.<sup>148</sup> One release in October 2006 led to one fatality and one injury.<sup>149</sup> Another release in November 2006 caused three onsite injuries and \$125,000 in property damage.<sup>150</sup> A release in December 2006 caused ten injuries as well as toxic air emissions.<sup>151</sup> A subsequent release in December 2006 caused five on-site injuries and the evacuation of 475 employees.<sup>152</sup> Emissions in October 2007 and November 2009 caused injuries to the same employee in each instance.<sup>153</sup> A different October 2007 release led to one injury as well as air releases of toxic ammonia.<sup>154</sup> A November 2009 incident burned over 25 percent of an employee's body, requiring 45 days of hospitalization.<sup>155</sup> A December 2010 event led to both toxic air emissions as well as three injuries.<sup>156</sup> Even if we exclude the rather extensive and continuing list of physical and environmental harms and focus solely on the single fatality, the \$3.95 million penalty that Tyson was required to pay falls short of the optimal deterrence amount.<sup>157</sup> Moreover, the continued pattern of serious injuries related to toxic emissions suggests that whatever impact the sanctions have had has been insufficient to lead to an adequate level of safety.

The sanctions that the EPA imposes for criminal violations are often set at similar, sometimes modest, levels. Four Texas companies were fined a total of \$3.5 million under the Clean Air Act for criminal violations that produced an explosion at two oil and chemical processing facilities in Texas.<sup>158</sup> Of this amount, \$3.3 million consisted of criminal fines, and \$200,000 was a community service payment.<sup>159</sup> In this incident, one worker was killed, and two other

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148. *See id.*

149. *See id.*

150. *See id.*

151. *See id.*

152. *See id.*

153. *See id.*

154. *See id.*

155. *See id.*

156. *See id.*

157. *Cf. supra* note 86.

158. *See* Press Release, U.S. Dep't of Justice, Four Texas Companies Agree to Pay \$3.5 Million for Criminal Violations of the Clean Air Act at Two Oil and Chemical Processing Facilities (Oct. 12, 2016), <https://www.justice.gov/opa/pr/four-texas-companies-agree-pay-35-million-criminal-violations-clean-air-act-two-oil-and> [<https://perma.cc/2YMM-XVFG>].

159. *See id.*

workers were severely injured.<sup>160</sup> The company had also falsified records and reports, as well as failed to comply with both environmental and safety laws.<sup>161</sup> Once again, the total penalty associated with the fatality was below the optimal deterrence amount even if the role of penalties in deterring other harms and regulatory violations was not taken into account.<sup>162</sup>

Criminal prosecutions sometimes lead to far lower penalties in situations involving fatalities. The misapplication of a pesticide by an employee of Bugman Pest and Lawn, Inc. led to the death of two young children in Utah.<sup>163</sup> The U.S. Department of Justice brought criminal charges under the Federal Insecticide, Fungicide, and Rodenticide Act against the company, Bugman Pest and Lawn, Inc., and the pesticide applicator.<sup>164</sup> The EPA noted that the act “authorizes only the use of misdemeanor charges to combat the unlawful use of pesticides even when such unlawful use results in death.”<sup>165</sup> The EPA levied sanctions against both the pesticide applicator and the company.<sup>166</sup> The applicator was sentenced to “six months incarceration and six months of home confinement as well as a period of supervised release.”<sup>167</sup> The company incurred a \$3000 fine and thirty-six months probation during which time it could not engage in pesticide operations.<sup>168</sup> The financial stakes appear to be far below what would be warranted to provide efficient levels of deterrence to prevent two deaths.<sup>169</sup>

### *E. Implications for Assessment of the Adequacy of Penalty Levels*

Consideration of the penalty levels assessed for regulatory violations reveals a series of consistent patterns that are borne out

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160. *See id.*

161. *See id.*

162. *See supra* note 86.

163. *See* Press Release, U.S. Dep’t of Justice, Bugman Pest and Lawn, Inc. and Coleman Nocks Plead Guilty to Unlawful Use of Pesticide (Oct. 11, 2011), <https://www.justice.gov/archive/usao/ut/news/2011/bugman%20plea.pdf> [<https://perma.cc/R6SJ-3UET>].

164. *See id.*

165. *See id.*

166. *See id.*

167. *See id.*

168. *See id.*

169. *See supra* note 86.

across different regulatory agencies. First, agencies do not have complete discretion to set penalty levels in a manner that is appropriate in a particular instance. Rather, the maximum penalty amounts are stipulated by the statutes and regulations governing the particular regulatory area.<sup>170</sup> Second, the penalty levels are not tied to the VSL or any other methodological deterrence-related framework, but are set at numerical levels without any associated justification for their rationale.<sup>171</sup> Third, the statutes that established the penalty amounts date back almost a half century so that the penalty amounts are often based on a different economic environment as well as a situation in which the law and economics theories of regulations and optimal deterrence were less well developed than they are today.<sup>172</sup> Fourth, consideration of the civil violation penalty levels set by each of the agencies that this Article reviewed did not reveal any instances in which the penalty amounts were at the appropriate deterrence amounts, even if the penalties were designed to address only fatalities rather than other transgressions associated with the regulatory incident.<sup>173</sup> Because of the statutory guidance pertaining to limits on penalties, if all violations other than the fatality were excluded from consideration, the penalty levels would be reduced.<sup>174</sup> Fifth, imposing possible criminal sanctions does not necessarily lead to penalties that produce optimal levels of deterrence.<sup>175</sup> Such criminal sanctions can be quite stringent, as in the case of the Peanut Corporation of America,<sup>176</sup> but also may be very modest, as reflected by the sanctions imposed for the pesticide misuse that led to two deaths.<sup>177</sup>

All of the regulatory agencies considered in this Part were subject to statutory guidelines, most of which were first established during

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170. *See, e.g., supra* notes 27, 31, 33-35, 81, 105, 107, 135-41 and accompanying text.

171. *See, e.g., supra* notes 28, 108, 142 and accompanying text.

172. *See, e.g.,* 29 U.S.C. § 666 (2012).

173. *See supra* Parts I A-D.

174. As the review of the case studies indicated, some penalties were for illnesses or for regulatory violations that did not necessarily lead to deaths. Excluding the portion of the penalties related to matters other than fatality risks would necessarily reduce the amount of penalties specifically targeted at the fatalities. *See supra* notes 158-62 and accompanying text.

175. Assuming that a VSL of \$10 million per fatality is the appropriate deterrence measure, the level of penalties per fatality generally falls short of that amount.

176. *See supra* text accompanying notes 95-99.

177. *See supra* notes 163-69.

the initial wave of health, safety, and environmental regulations about a half century ago.<sup>178</sup> There is no reason to believe that the chosen penalty maximum values were pertinent deterrence amounts then or would be now, even after accounting for the impact of inflation.<sup>179</sup> As indicated above, for decades the sanctions were unchanged since the initial legislation, as evidenced by the penalty of \$5000 per violation for the GM ignition switch defect, and the company's failure to report the problem.<sup>180</sup> During that time, there has been a major shift in how federal agencies value risks to life when designing and evaluating proposed government regulations.<sup>181</sup> Valuations that were formerly based on the financial losses associated with a fatality have now been supplanted by estimates of the VSL.<sup>182</sup> In addition, the levels of these estimates have risen over time and converged to the amounts estimated in the economics literature.<sup>183</sup> In terms of regulatory design, government agencies have adopted appropriate deterrence-based measures for reducing the risk of fatalities.<sup>184</sup> However, for these regulations to establish appropriate incentives for behavior, the level of regulatory penalties associated with violations should be aligned with the values that are pertinent when setting regulatory stringency.

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178. See, e.g., Occupational Safety and Health Act of 1970, Pub. L. No. 91-596, 84 Stat. 1590 (codified at 29 U.S.C. §§ 651-678 (2012)) (creating the Occupational Safety and Health Administration and granting it authority to regulate and promote worker safety); National Traffic and Motor Vehicle Safety Act of 1966, Pub. L. No. 89-563, 80 Stat. 718 (creating the National Highway Traffic Safety Administration and empowering it with promoting car and traffic safety); Reorganization Plan No. 3 of 1970, 35 Fed. Reg. 15623 (Oct. 6, 1970) (creating the Environmental Protection Agency and authorizing it to enforce environmental protection laws). Earlier guidelines were provided for the FDA in 1938. See Federal Food, Drug, and Cosmetic Act, Pub. L. No. 75-717, 52 Stat. 1040 (1938) (codified as amended at 21 U.S.C. §§ 301-399 (2012)) (authorizing the FDA to regulate food, drugs, and cosmetics).

179. Using the inflation adjustment based on the BLS inflation calculator, the value of \$10 million in 2017 dollars would have been \$1.6 million in 1970, which is a figure that still exceeds the maximum penalty levels throughout the period since 1970. See *supra* note 32.

180. See *Consent Order*, *supra* note 115, ¶¶ 5, 10-11; *supra* notes 109-19 and accompanying text.

181. See Viscusi, *supra* note 9, at 436-41, tbls.7.2 & 7.3.

182. See VISCUSI, *supra* note 8, at 4-6.

183. *Id.* at 33-34.

184. See *id.* at 23-44.

## II. ESTABLISHING THE OPTIMAL DETERRENCE REFERENCE POINT

The ultimate objective of risk and environmental regulations is to have an impact on health, safety, and environmental outcomes.<sup>185</sup> If these policies were public expenditure efforts then matters would be different. The government could undertake the projects needed to generate acceptable levels of risk. However, if the governmental mechanism is through regulatory policies, these regulations must alter the behavior of other economic actors to have an effect, such as firms, consumers, and workers.<sup>186</sup> Influencing behavior in a manner that creates efficient levels of safety will correspond to what this Article will refer to as the optimal deterrence reference point.<sup>187</sup> Setting the penalty levels per fatality will establish the incentives to promote efficient levels of safety.

### A. *Promoting Optimal Levels of Deterrence*

In situations involving risk, policies have two principal objectives—creating optimal levels of deterrence and providing optimal levels of insurance.<sup>188</sup> For financial risks, matters are straightforward, as it is possible for a single policy mechanism to achieve both objectives.<sup>189</sup> Social institutions such as tort liability that provide full compensation for the financial harm that has occurred both compensate the victim for the value of the harm and provide the appropriate financial incentive for the injurer to take efficient levels of care.<sup>190</sup> For physical harms, such as fatalities, matters become more complicated because financial transfers after a person's death do not restore their well-being to the pre-injury situation.<sup>191</sup> Providing coverage for the financial loss suffered by the decedent's family addresses the financial loss, but does not address the welfare

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185. See, e.g., BREYER, *supra* note 3, at 24-27 tbl.5.

186. See *infra* Part II.D.

187. See *infra* Part II.A.

188. See STEVEN SHAVELL, FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW 257 (2004).

189. See generally *id.*

190. See *id.* at 267-69.

191. Cf. *id.* at 270.

loss of the deceased or provide adequate incentives for deterrence.<sup>192</sup> In general, it is not feasible for a single policy mechanism to achieve both optimal deterrence and optimal insurance in situations involving fatality risks.<sup>193</sup> Addressing only the insurance aspects provides inadequate deterrence, and payments sufficient to provide optimal deterrence provide excessive levels of insurance.<sup>194</sup> Whether there is any payment or financial incentive at all also assumes that there is a party that has been found to be responsible for the injury.<sup>195</sup> The coverage of tort liability is incomplete, as firms or other parties are not liable for every accident, illness, or injury that occurs.<sup>196</sup> As a consequence, government regulations often have a critical role to play in fostering appropriate levels of safety and environmental quality.<sup>197</sup>

Whereas tort liability is concerned with both the insurance and deterrence objectives, risk and environmental regulations have a narrower focus.<sup>198</sup> These governmental efforts do not transfer funds to injured parties or their survivors and consequently are not engaged in any insurance-related functions.<sup>199</sup> Rather, they create incentives to generate sufficiently protective levels of safety that in theory could address the optimal deterrence function.<sup>200</sup> Other social institutions such as tort liability, workers' compensation, social insurance policies, and private insurance could serve the insurance role.<sup>201</sup>

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192. *See id.* at 243.

193. *Cf.* Michael Spence, *Consumer Misperceptions, Product Failure and Producer Liability*, 44 *REV. ECON. STUD.* 561, 567 (1977).

194. *See id.*

195. *See* SHAVELL, *supra* note 188, at 244.

196. *See id.* at 180.

197. *See id.* at 232.

198. *See, e.g.*, Clean Air Act, 42 U.S.C. § 7401 (2012) (stating that the purpose of the Clean Air Act is to promote "pollution prevention," and making no mention of insurance); National Traffic and Motor Vehicle Safety Act of 1966, Pub. L. No. 89-563, 80 Stat. 718 (providing that the purpose of the Act is to promote vehicle safety and reduce deaths, and making no mention of insurance).

199. *See supra* note 198.

200. *See, e.g.*, 18 U.S.C. § 3571 (2012) (outlining a schedule of fines under the Clean Air Act that encourages polluters and other bad actors to reduce their pollution).

201. *See, e.g.*, *Workers' Compensation*, U.S. DEPT OF LABOR, <https://www.dol.gov/general/topic/workcomp> [<https://perma.cc/D72S-3EKK>] (explaining that workers compensation provides injured workers with wage replacement benefits and medical treatment).

From the standpoint of creating economically efficient levels of deterrence of risk, how should regulatory agencies value risk reduction, and what is the magnitude of these figures? When assessing the desirability of regulations or setting their stringency, the standard procedure throughout the federal government is to use the VSL to monetize the fatality risks reduced by the policy.<sup>202</sup> The VSL is the money-fatality risk tradeoff reflected in the decisions by workers and consumers in their risk-taking activities.<sup>203</sup> Consider an example in which a worker faces a 1/10,000 risk of death and receives additional wage compensation of \$900.<sup>204</sup> Then the value per unit risk is  $\$900/(1/10,000)$ , or \$9 million.<sup>205</sup> Put somewhat differently, if 10,000 workers faced similar risks and were each paid \$900 in wage compensation to bear the risk, then collectively they would experience one expected fatality and would be compensated a total of \$9 million for this single expected fatality.<sup>206</sup> This thought experiment gives rise to the terminology of the “value of a statistical life” to characterize the risk-dollar tradeoff by dividing the amount of wage compensation for risk by the size of the risk reduction.<sup>207</sup>

### *B. Empirical Evidence and Policy Practices*

There are many sources of empirical evidence on the VSL.<sup>208</sup> It is possible to use interview techniques known as stated preference studies to elicit how much people are willing to pay for greater safety.<sup>209</sup> Such approaches assume that people can process hypothetical risk information and give thoughtful and honest answers to how they value hypothetical risk changes.<sup>210</sup> Alternatively, one could rely on revealed preference studies that assess the wage

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202. See OFFICE OF MGMT. & BUDGET, OFFICE OF INFO. & REGULATORY AFFAIRS, CIRCULAR A-4, at 29-31 (2003), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf> [<https://perma.cc/CA6P-PNUY>] [hereinafter CIRCULAR A-4].

203. See *id.* at 29.

204. Joni Hersch & W. Kip Viscusi, *Saving Lives Through Punitive Damages*, 83 S. CAL. L. REV. 229, 234 (2010).

205. *Id.*

206. *Id.*

207. See *id.*

208. See, e.g., *id.*

209. See CIRCULAR A-4, *supra* note 202, at 22-24, 29-30.

210. See *id.* at 24.

premiums workers are paid for risky jobs or the price premiums that are commanded by safer products, such as cars with a better safety record.<sup>211</sup> Each of these approaches can generate a monetary premium associated with a particular change in the fatality risk.<sup>212</sup> United States government agencies have relied on both stated preference studies and revealed preference evidence.<sup>213</sup> Most of the emphasis has been on labor market studies that determine the extra pay that is commanded by hazardous jobs.<sup>214</sup> Since workers' employment agreements seldom specify the occupational risk and the associated hazard pay, economists have employed statistical methods to isolate the extra premium workers are paid for dangerous jobs, taking into account a variety of personal and job characteristics that might affect the wage rate.<sup>215</sup>

Whereas formerly, agencies valued fatality risks based on the compensation amounts in wrongful death cases, or what agencies termed the "cost of death," this practice changed in the 1980s.<sup>216</sup> The U.S. Office of Management and Budget rejected a proposed OSHA regulation that would have introduced requirements that dangerous chemicals be labelled, because in its view the costs of the regulation exceeded the benefits.<sup>217</sup> After appealing the regulatory decision to then Vice-President George H.W. Bush, I was asked to settle the dispute between the two agencies.<sup>218</sup> Monetizing the fatality risk benefits using the VSL led to an increase in the assessed benefits of the regulation by an order of magnitude, and led to the issuance of the regulation.<sup>219</sup> Although some agencies were slow to adjust the

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211. See *id.* at 20-21.

212. See *id.* at 20-24.

213. See W. Kip Viscusi, *The Role of Publication Selection Bias in Estimates of the Value of a Statistical Life*, 1 AM. J. HEALTH ECON. 27, 28 (2015). In some cases, agencies have used both revealed preference and stated preference evidence. See, e.g., U.S. ENVTL. PROT. AGENCY, *supra* note 9, at 36.

214. See Viscusi, *supra* note 213, at 28.

215. See, e.g., U.S. ENVTL. PROT. AGENCY, *supra* note 9, at 62-64; Viscusi, *supra* note 213, at 44.

216. See VISCUSI, *supra* note 8, at 4; W. KIP VISCUSI, FATAL TRADEOFFS: PUBLIC AND PRIVATE RESPONSIBILITIES FOR RISK 7 (1992); see also Pete Earley, *What's a Life Worth? Under the Reagan Administration, It May Be Less Than You Thought*, WASH. POST, June 9, 1985, at 11.

217. See Earley, *supra* note 216, at 3.

218. See *id.*

219. Cf. *id.*

monetized value that they placed on fatality risks, there has been increasing convergence of these estimates to figures similar to the VSL estimates in the literature.<sup>220</sup> As a consequence, the value that government agencies place on fatality risks for purposes of regulatory impact analyses and regulatory design is in line with the VSL, or what is considered the appropriate economic deterrence value for fatality risks.<sup>221</sup>

The current result of this effort is that agencies have reviewed the pertinent literature and now use VSL estimates that are often over \$9 million per expected life saved by the policy.<sup>222</sup> The official guidance values are \$9.4 for the DOT,<sup>223</sup> \$9.7 million (2013 dollars) for the EPA,<sup>224</sup> and \$9.6 million (2014 dollars) for the Department of Health and Human Services.<sup>225</sup> For example, the DOT bases its figure on a review of fifteen labor market estimates of the VSL, using Bureau of Labor Statistics occupational fatality rate data that it considers to be the most reliable.<sup>226</sup> Other agencies have also increased their VSL estimates over time, so agencies no longer use much lower values to monetize fatality risks, such as the amounts that are more in line with the value of wrongful death awards.<sup>227</sup> Recent estimates in the literature have concluded that a value of \$10 million per statistical life is in line with the estimates based on the most reliable labor market data, which is also very similar to the inflation-adjusted values used by many federal agencies.<sup>228</sup> For concreteness, this Article uses the \$10 million figure for expositional purposes as the appropriate economics deterrence value in the discussion below.<sup>229</sup>

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220. See Viscusi, *supra* note 9, at 436-41 tbls.7.2 & 7.3 (reviewing about one hundred regulatory analyses and their associated VSL).

221. See VISCUSI, *supra* note 8, at 33-34.

222. See *id.* at 28.

223. See *id.* at 35.

224. See *id.* at 36.

225. See *id.* at 37.

226. See U.S. DEP'T OF TRANSP., *supra* note 9, at 3, 5.

227. See Viscusi, *supra* note 9, at 443-44.

228. See VISCUSI, *supra* note 8, at 28.

229. The \$10 million figure is also used in VISCUSI, *supra* note 8, at 28.

*C. How the Values Influence Regulatory Criteria*

If government agencies use the VSL in setting the stringency of government regulations, it will lead to an economically efficient level of risk that would be consistent with legal theories of the optimal levels of deterrence.<sup>230</sup> First, to be efficient, the benefits of the regulation must exceed the costs.<sup>231</sup> Using the VSL to monetize the fatality risk reduction benefits provides the appropriate basis for calculating the benefits provided by risk and environmental regulations.<sup>232</sup> However, there may be multiple regulatory policies at different levels of stringency for which the benefits exceed the costs.<sup>233</sup> The benefits may exceed costs by a greater extent for some regulations than they do others.<sup>234</sup> As a result, there is a second requirement for the most efficient regulatory policies, which is that the optimal regulatory policy will generate the greatest possible spread between benefits and costs, or the highest net benefits less costs.<sup>235</sup> In many situations, this occurs by tightening regulatory standards until the incremental cost of saving an additional expected life increases to the point where the cost equals the VSL.<sup>236</sup> Thus, the VSL serves as the cutoff for setting the maximum price that should be paid for additional levels of safety if regulatory agencies set their regulatory standards based on benefit-cost principles.<sup>237</sup>

In some situations, agencies may go beyond this requirement in terms of the level of stringency of the regulatory requirements. Restrictive legislative mandates may require that agencies set regulatory policies to promote safety or environmental quality to ensure a safer level than might result from benefit-cost balancing.<sup>238</sup>

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230. See *supra* Part II.A. More specifically, it sets the marginal costs equal to the VSL, as suggested by CIRCULAR A-4, *supra* note 202, at 29.

231. See CIRCULAR A-4, *supra* note 202, at 1-3; see also VISCUSI ET AL., *supra* note 1, at 10.

232. See VISCUSI, *supra* note 8, at 9-11.

233. See *id.*; CIRCULAR A-4, *supra* note 202, at 8.

234. See *supra* note 233 and accompanying text.

235. See CIRCULAR A-4, *supra* note 202, at 1-3, 29.

236. See *id.* at 29 (noting that the VSL is the appropriate means to measure a regulation's benefits); VISCUSI ET AL., *supra* note 1, at 34-36 (describing how setting marginal cost equal to marginal benefit maximizes the gains to society from a regulatory policy).

237. See *supra* note 236 and accompanying text.

238. See *Am. Textile Mfrs. Inst. v. Donovan*, 452 U.S. 490, 512 (1981); *Indus. Union Dep't v. Am. Petroleum Inst.*, 448 U.S. 607, 644 (1980).

For that reason, executive branch guidance includes a provision that exempts agencies from being bound by a benefit-cost requirement when this approach conflicts with their statutory mandate.<sup>239</sup> The result is that in some situations regulations would be more stringent than would result based on benefit-cost balancing using the VSL, resulting in regulations with a higher cost-per-life saved than the VSL.<sup>240</sup>

That there might be such a disparity bolsters the implicit price that regulatory agencies place on fatality risks.<sup>241</sup> The VSL consequently serves as the floor rather than the upper bound of the value placed on fatality risks by the regulations promulgated by the agency.<sup>242</sup> The result that the VSL is a lower bound on the amount that regulators assign to fatality risks is important to the analysis of regulatory sanctions for regulatory violations that have led to deaths.<sup>243</sup> This Article's review of regulatory sanctions involving product-related deaths and job-related deaths in Part I found that these sanctions are well below the magnitude of the VSL.<sup>244</sup> As a consequence, these regulatory sanctions are even further below the implicit price that agencies assign to the expected lives saved when setting regulations that are even more stringent than is warranted based on benefit-cost criteria.

#### *D. Setting the Price for Corporate Decisions*

Just as the VSL serves as the reference point for how agencies should structure regulations to provide economically efficient levels of safety,<sup>245</sup> the VSL also serves as the appropriate price for valuing additional levels of safety provided by companies and other economic agents.<sup>246</sup> The selection of safety levels incorporated in products, and the workplace safety conditions provided by firms, all can

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239. See Exec. Order No. 12866, 58 Fed. Reg. 51735 (Oct. 4, 1993).

240. See, e.g., BREYER, *supra* note 3, at 24-27 tbl.5 (providing examples of these regulations); VISCUSI, *supra* note 8, at 41-43.

241. Cf. CIRCULAR A-4, *supra* note 202, at 19-20.

242. See *supra* notes 238-40 and accompanying text.

243. See *supra* notes 238-41 and accompanying text.

244. See *supra* notes 28, 108, 142, 171 and accompanying text; see also *supra* Part I.

245. See *supra* Parts II.A-B.

246. See VISCUSI, *supra* note 8, at 221-22.

be assessed using the same type of approach that government agencies use in setting regulatory standards.<sup>247</sup> In particular, it is desirable for companies to design products that provide additional levels of safety, so long as the incremental cost of safety per statistical life that is saved is below the price that the company assigns to each statistical death.<sup>248</sup> The key determinant of how the firm will select their valuation of the fatality risks prevented by safer products will be the price signal that the firm receives with respect to the value of safety.<sup>249</sup> These financial incentives can come from market forces or through incentives created by government regulations.<sup>250</sup> If markets functioned perfectly so that consumers and workers were fully cognizant of the risk, then the VSL would be transmitted to the firm in terms of how much consumers were willing to pay for safer products, and how much workers require to work on hazardous jobs.<sup>251</sup> Thus, the appropriate financial signals will be sent to the firm automatically if markets functioned perfectly.<sup>252</sup> But this favorable result is unlikely to be the case in situations where the government has chosen to intervene since the inadequacy of market performance is typically an important determinant of whether government regulation is warranted.<sup>253</sup> Based on Office of Management and Budget guidelines, a key component of the rationale for any regulatory intervention is that the agency demonstrate that there is a market failure.<sup>254</sup> Otherwise, the assumption is that there is no shortcoming that needs to be addressed by the regulation.<sup>255</sup> Consequently, it is reasonable to assume that market forces are not setting the appropriate price for risk when agencies have enacted regulations.<sup>256</sup> The failure of market forces to be functioning perfectly is particularly likely to be the case for environmental risks.<sup>257</sup>

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247. *See id.*

248. *See, e.g.,* VISCUSI, *supra* note 216, at 11 (noting that firms will decide to comply with safety regulations if the expected cost of compliance is less than the cost of noncompliance).

249. *See id.* at 12.

250. *See id.* at 11-12.

251. For an analysis of this underlying economic theory, see, e.g., *id.* at 10, 51.

252. *Cf. id.* at 51.

253. *See infra* notes 254-55 and accompanying text.

254. *See* CIRCULAR A-4, *supra* note 202, at 3-6.

255. *See id.* at 6-7.

256. *See id.* at 6.

257. *See, e.g.,* R.H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 41-42 (1960).

Risks of air pollution, water pollution, and hazardous wastes are among the many environmental risks that are spread across broad populations without any market transaction in which those affected by the risk accept the risk voluntarily and are compensated for the harm that is imposed by the risk.<sup>258</sup>

If government regulations are in place and firms fail to comply with these regulations, what should be the appropriate regulatory sanction to create effective incentives for safety? Given that the focus here is on fatalities, let us consider a situation in which a consumer has been killed by a product risk that arose because the firm failed to manufacture the product in line with regulatory standards. If the penalty the regulatory agency levies for the fatality-related violation equals the VSL, it will be setting an appropriate price on greater safety that will encourage firms to adopt an economically efficient level of product safety.<sup>259</sup> Viewed somewhat differently, when firms are producing products that are in violation of the regulation, they will know that this violation will lead to a penalty equal to the VSL in the event of a fatality, thus leading to the internalization of the appropriate economic value for fatality risks.<sup>260</sup> In much the same way that government agencies can set efficient levels of safety by tightening the regulatory standards until the incremental cost of greater levels of safety equals the VSL,<sup>261</sup> the firm likewise will have an incentive to internalize the appropriate economic valuation fatality risks.<sup>262</sup>

This scenario assumes, however, that the regulatory agency can determine that there has been a fatality and can be certain that the fatality can be linked to a violation of regulatory standards.<sup>263</sup> Some fatality risk events might be quite evident, as in the case of a major explosion that leads to a series of worker fatalities.<sup>264</sup> However, major catastrophes are often a best case for being able to identify that

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258. For a discussion of the limitations to private bargains for environmental externalities, see *id.*

259. See Hersch & Viscusi, *supra* note 204, at 237.

260. See *id.* at 236 ("Viewed from the standpoint of a firm, the VSL defines the amount of money that the firm should be willing to spend to reduce the risk.")

261. See, e.g., *id.* at 233-35 (describing how agencies calculate the VSL).

262. See *supra* notes 259-60 and accompanying text.

263. See VISCUSI, *supra* note 8, at 29.

264. See AFL-CIO, *supra* note 38, at 5; see also VISCUSI, *supra* note 8, at 29.

harm has occurred.<sup>265</sup> In much the same way that there is a chance of a failure of the judicial system to detect behaviors that should lead to tort awards,<sup>266</sup> there also are circumstances in which there is a chance that not all fatalities associated with regulatory violations will be known to the regulatory agency.<sup>267</sup> For example, a firm might fail to disclose a regulatory violation to the regulatory agency or might enter into confidential settlements with those who are injured by the product.<sup>268</sup> Thus, firms potentially could engage in behavior that decreases the ability of the regulatory agency to identify the regulatory violation and the resulting harm.

Suppose that there is some probability ( $p$ ) that the regulatory violation leading to the fatality is known by the regulatory agency. Then, if the penalty for a fatality associated with a regulatory violation is set at a value equal to the  $VSL/p$ , it will create the appropriate incentives for safety for the firm.<sup>269</sup> The reasoning behind this formula is that if the firm multiplies this penalty amount by the chance that the penalty will be levied, the expected penalty amount associated with each fatality will be the  $VSL$ .<sup>270</sup> The analytic rationale for this approach is identical to that for setting punitive damages in situations in which the probability of detection is below 1.0.<sup>271</sup>

### *E. The Role of Other Financial Incentives*

Establishing appropriate incentives for safety is straightforward when the regulatory sanctions constitute the total penalty that the

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265. See VISCUSI, *supra* note 8, at 29; *supra* notes 21-22 and accompanying text.

266. See, e.g., Posner & Sunstein, *supra* note 29, at 543-44 (noting variation in the awarding of tort damages).

267. See, e.g., AFL-CIO, *supra* note 38, at 5.

268. See, e.g., *supra* note 115 and accompanying text (noting GM's failure to report violations to the regulatory agency).

269. See Hersch & Viscusi, *supra* note 204, at 242-44; cf. A. Mitchell Polinsky & Steven Shavell, *Punitive Damages: An Economic Analysis*, 111 HARV. L. REV. 869, 881 n.24 (1998). This result assumes that the firm is risk-neutral. See *id.* at 886-87.

270. To be concrete, suppose the probability of detection is 0.1 and that there is one fatality. The appropriate penalty would then be \$10 million divided by 0.1, which equals \$100 million.

271. See Polinsky & Shavell, *supra* note 269, at 887-96 (presenting this analysis in detail, including tracing its historical roots to writers such as Jeremy Bentham); see also Hersch & Viscusi, *supra* note 204, at 242-44 (developing the analog of this argument in situations involving the VSL and fatality risks).

firm must pay. In that instance, a penalty equal to the VSL will suffice to create the appropriate financial incentives for safety.<sup>272</sup> However, the company may incur other kinds of costs as well. Wrongful death awards may provide financial compensation to the estate of the deceased.<sup>273</sup> If the company self-insures, then the company will pay the cost directly. If the liability costs are covered by insurance and if the insurance policy is experience-rated, then there will be a linkage of the value of future payments to the firm's liability history.<sup>274</sup> In the situation of job-related accidents, state workers' compensation programs cover medical costs and earnings loss.<sup>275</sup> As in the case of general liability insurance coverage, one would expect that the firm's accident record will affect future premiums so that the insurance payments are not costless to the firm.<sup>276</sup>

How then should the regulatory sanctions incorporate the influence of these additional financial incentives, if at all? Should there be a downward adjustment in the regulatory penalty to account for the payments that the company will make in other venues? If so, how should such an adjustment be made given that wrongful death cases are not resolved at the time of the fatality, and there may be a considerable time period before any insurance or workers' compensation rates can be altered to reflect the firm's risk history?<sup>277</sup> Since the prospect of tort liability awards or insurance adjustments is often uncertain,<sup>278</sup> should the regulatory penalties be put on hold until these are resolved? Another possibility is to eliminate the possibility of such liability or workers' compensation payments if the firm is going to be penalized by the regulatory agency. Doing so would, of course, eliminate the possibility of having total damages in excess of the VSL. While such an approach would create efficient incentives for safety through penalties equal to the

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272. See Hersch & Viscusi, *supra* note 204, at 238.

273. See Posner & Sunstein, *supra* note 29, at 543-44.

274. See John W. Ruser, *Workers' Compensation Insurance, Experience-Rating, and Occupational Injuries*, 16 RAND J. ECON. 487, 487 (1985).

275. See, e.g., VISCUSI, *supra* note 216, at 11-12, 77 (discussing the social insurance role of workers' compensation); Ruser, *supra* note 274, at 487.

276. See Ruser, *supra* note 274, at 487.

277. See, e.g., *Grimshaw v. Ford Motor Co.*, 174 Cal. Rptr. 348, 348 (Ct. App. 1981) (noting a six-month jury trial).

278. See Posner & Sunstein, *supra* note 29, at 543-44 (noting the discretion afforded juries in setting damages).

VSL,<sup>279</sup> it would not serve the insurance role of meeting the income and medical expense needs of those who are injured or the families of the deceased.<sup>280</sup> These social institutions play a vital, constructive role in ameliorating the financial harms associated with risks.<sup>281</sup> Failing to provide such compensation will lead to a welfare loss attributable to the financial burdens resulting from fatalities.<sup>282</sup> Even if regulatory sanctions are set at a level that will establish efficient incentives for safety when there are regulatory infractions, there remains the additional task of ameliorating harms to those affected by the fatality.<sup>283</sup>

Alternatively, one might devote part of the regulatory sanction to providing payment for the financial harms that have occurred.<sup>284</sup> That would convert regulatory agencies into social insurance agencies, which is currently outside of the purview of their responsibilities.<sup>285</sup> Practical problems of implementation would also arise. In the case of wrongful death litigation, the firm would not have a financial incentive to defend against a claim for compensation that is less than the regulatory sanction. If the regulatory agency wanted to increase the portion of the sanction that went to the government, it would be in the odd position of defending corporate conduct that it found to be in violation of its regulatory standards. As a result, shifting the burden of providing coverage for financial losses to the regulatory agency is likely to be both unworkable as well as inconsistent with the agencies' role as regulators of health, safety, and environmental quality,<sup>286</sup> rather than assuming a more broadly based insurance function.

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279. See Hersch & Viscusi, *supra* note 204, at 237.

280. See *id.* at 238-39.

281. See, e.g., *supra* note 190 and accompanying text.

282. Cf. *supra* notes 190-92 and accompanying text.

283. See *supra* notes 280-82 and accompanying text.

284. See, e.g., *supra* notes 85, 131 and accompanying text.

285. See Posner & Sunstein, *supra* note 29, at 539-40 (highlighting the role of regulatory agencies by detailing differences from tort law).

286. See, e.g., OCCUPATIONAL SAFETY & HEALTH ADMIN., EMPLOYER RIGHTS AND RESPONSIBILITIES FOLLOWING AN OSHA INSPECTION, OSHA 3000-O4R (2018), <https://www.osha.gov/Publications/osha3000.pdf> [<https://perma.cc/A9TK-7EZG>] (noting OSHA's role as a promoter of health and safety) [hereinafter EMPLOYER RIGHTS AND RESPONSIBILITIES]; *supra* note 185 and accompanying text.

One possibility is to ignore the potential additional payment amounts and simply impose regulatory sanctions equal to the VSL.<sup>287</sup> Thus, the financial penalty would equal the VSL plus the cost to the firm of whatever additional compensation that is required to provide income support for those affected by the tragedy.<sup>288</sup> Although this approach represents a departure from setting the penalty precisely at the level of the VSL,<sup>289</sup> it may not involve a great departure. Suppose, for example, that the penalty level is set at \$10 million and the wrongful death award is \$1 million. Then the departure from the efficient penalty amount would only be an additional 10 percent of financial sanctions above the efficient level for promoting safety.

In addition to being only a modest premium above the VSL, there are several reasons why such a penalty premium might be warranted. First, it is not always feasible to identify all regulatory violations so that the *ex ante* probability of determining that a fatality occurred and was due to a regulatory violation may be less than 1.0, particularly if the company does not report product defects to the government.<sup>290</sup> A prominent example of such behavior is that of the GM ignition switch failure for which the company failed to report the defect to the NHTSA.<sup>291</sup> At the time the agency imposed regulatory sanctions, the company had reported 13 switch-related deaths, which the agency thought was a low estimate, with the ultimate death toll being 124 deaths.<sup>292</sup> Based on theories of optimal deterrence, the penalty should exceed the efficient deterrence amount with perfect information about the harm.<sup>293</sup> Second, penalizing the company based solely on the VSL only replicates what the company should have done based on setting an efficient level of safety.<sup>294</sup> But the company has incurred a regulatory violation for which some might suggest that there be an additional punishment

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287. See Hersch & Viscusi, *supra* note 204, at 238.

288. *Cf. id.*

289. See *supra* notes 259-61 and accompanying text.

290. See *supra* notes 264-68 and accompanying text.

291. See *Consent Order*, *supra* note 115, at ¶¶ 5, 10-11.

292. See *supra* note 118 and accompanying text.

293. See *supra* notes 269-71 and accompanying text.

294. See *supra* note 259 and accompanying text.

amount.<sup>295</sup> Third, the regulatory sanction affects prospective behavior and the appropriate future levels of safety.<sup>296</sup> But if the company is guilty of a regulatory violation that has led to fatalities, there still remains the welfare loss to the survivors of the deceased, which will also generate an efficiency loss from the standpoint of not meeting their legitimate insurance needs.<sup>297</sup> Setting an additional cost above the VSL serves the additional constructive objective of providing compensation.<sup>298</sup> Finally, given the importance of both promoting safety and providing compensation, some legal scholars such as Judge Richard Posner and Cass Sunstein have advocated payments for wrongful death cases that include compensation for financial losses as well as the VSL in order to provide adequate insurance and deterrence.<sup>299</sup> This proposal is more limited in that it introduces the VSL in addition to conventional tort remedies only in instances in which there are regulatory violations.<sup>300</sup>

#### *F. Implications for Setting the Deterrence-Based Penalty Levels*

Basing the penalties for regulatory violations that lead to fatalities on the VSL will send the appropriate price signals to firms with respect to providing adequate control of risks.<sup>301</sup> Government agencies have adopted this approach for the design of regulations.<sup>302</sup> As the review of the penalties assessed by OSHA, FDA, NHTSA, and EPA indicated, the current magnitude of the penalties levied for fatalities is quite low, and far below the VSL.<sup>303</sup> The statutory caps on fines may limit the sanctions to levels that may now be just over one thousandth of the VSL.<sup>304</sup> As a result, even

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295. See, e.g., Polinsky & Shavell, *supra* note 269, at 957-962 (noting that there is often a similar provision for the role of punishment in determining punitive damages, but whether and how such punishment should enter remains controversial).

296. See Hersch & Viscusi, *supra* note 204, at 237.

297. See *supra* notes 280-83 and accompanying text.

298. See *supra* notes 280-83 and accompanying text.

299. See Posner & Sunstein, *supra* note 29, at 537-41, 554.

300. See *id.*

301. See Hersch & Viscusi, *supra* note 204, at 237; *supra* Part II.D.

302. See Hersch & Viscusi, *supra* note 204, at 237.

303. See *supra* Part I.

304. Assuming a VSL of \$10 million, then the aforementioned OSHA penalty caps of \$7,000 and other penalty figures below \$10,000 would be less than 1/1,000th of the optimal deterrence amount. For the updated value of the OSHA penalty cap of \$12,934, the VSL would be

if regulatory agencies fully exploited the leeway that they have in setting penalties, the sanctions would be far too low to send meaningful financial signals to firms regarding the importance of reducing health risks.<sup>305</sup> Implementing the use of the VSL for regulatory enforcement would make the economic incentives created by the enforcement of regulatory policies consistent with the economic principles on which regulations are designed.<sup>306</sup> On a decentralized basis, firms then would be making the calculations of the costs and benefits of safety that parallel the assessments that comprise regulatory impact analyses by government agencies.<sup>307</sup>

### III. RECTIFYING THE PENALTY STRUCTURE

Altering the penalty structure to accommodate a more deterrence-based penalty approach does not require that all such limits be abolished. However, it is essential to raise these limits to make it possible both to reflect the VSL level in setting the penalty and to make allowances for the number of deaths that have occurred.<sup>308</sup> Thus, there often must be a revision in the penalty amount, because this amount is determined by factors such as the number of violations, or whether it can also be altered based on the number of fatalities. Consideration of different prominent statutes for the regulatory agencies discussed above illustrates the range of modifications that are required.<sup>309</sup>

#### *A. Occupational Safety and Health Administration*

Analysis of the revisions for OSHA is relatively straightforward since the agency's statutory guidelines are derived from a single law, the Occupational Safety and Health Act of 1970.<sup>310</sup> The law has provisions for sanctions for a variety of different types of violations—serious violations, other than serious violations, posting

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773 times greater than \$12,934.

305. *See supra* Part I.

306. *See* Hersch & Viscusi, *supra* note 204, at 237.

307. *See id.*

308. *See supra* Part I.

309. *See supra* Part I.

310. *See* 29 U.S.C. §§ 651-678 (2012); 29 C.F.R. § 1903.1 (2017).

requirements, failure to abate violations, and willful or repeated violations.<sup>311</sup> Raising the penalty limits would be desirable in each instance.<sup>312</sup>

The most pertinent violation category for risks of fatality are serious violations. “A serious violation exists when the workplace hazard could cause an accident or illness that would most likely result in death or serious physical harm, unless the employer did not know or could not have known of the violation.”<sup>313</sup> For this class of violations, the original cap on penalties was set at \$7000:

Any employer who has received a citation for a serious violation of the requirements of section 654 of this title, or any standard, rule, or order promulgated pursuant to section 655 of this title, or of any regulations prescribed pursuant to this chapter, shall be assessed a civil penalty of up to \$7,000 for each such violation.<sup>314</sup>

A subsequent update of the penalty amount raised the upper limit on penalties to \$12,934 per violation.<sup>315</sup>

Modifying the statutory language to generate optimal levels of deterrence requires replacing the \$12,934 limit with an upper limit of \$10 million,<sup>316</sup> leading to the following proposed changed language in § 666(b):

Any employer who has received a citation for a serious violation of the requirements of section 654 of this title, or any standard, rule, or order promulgated pursuant to section 655 of this title, or of any regulations prescribed pursuant to this chapter, shall be assessed a civil penalty of up to [\$12,934] for each such violation [unless such a violation results in a person’s death, in which case the employer shall be assessed a penalty up to \$10,000,000 per death caused by the violation].<sup>317</sup>

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311. See EMPLOYER RIGHTS AND RESPONSIBILITIES, *supra* note 286, at 2, 5-6; *supra* notes 25-26, 33 and accompanying text.

312. See text accompanying notes 70-71.

313. *Federal Employer Rights*, *supra* note 25.

314. 29 U.S.C. § 666(b) (2012).

315. 29 C.F.R. § 1903.15(d)(3) (2018).

316. See *supra* notes 228-29 and accompanying text.

317. 29 U.S.C. § 666(b).

It would also be appropriate to lift the cap for other kinds of violations; however, other-than-serious may be less likely to involve fatalities than serious violations.<sup>318</sup> Other-than-serious violations are directly related to job safety and health, but do not qualify as serious.<sup>319</sup> One might think that given the categorization of such violations, penalties appropriate for deterring risks of fatalities would never be warranted. As in the case of serious violations, the statutory cap of \$7000 per violation was raised to \$12,934 per violation.<sup>320</sup> Raising the cap to \$10 million if the violation involved fatalities, with language following that used for serious violations could nevertheless come into play if the violation did not merit the serious designation because there was the risk of a fatality, but the probability of death was not so great that the violation “would most likely result in death or serious physical harm.”<sup>321</sup> However, even if the probability of death was not sufficiently high to qualify as being categorized as “most likely” to cause death, the VSL provides the pertinent sanction conditional on a death occurring.<sup>322</sup> Suppose, for example, that the risk of death is only 1/10 and, for simplicity, assume that there is only a risk of a single death. Then with a regulatory sanction of \$10 million for each fatality that has occurred, the company will undertake the safety improvement to eliminate the violation so long as the cost is under \$1 million.<sup>323</sup> The VSL-based penalty structure establishes the appropriate, effective financial incentives for safety.<sup>324</sup>

Posting requirements are the requirements that employers must post notices of violations near the place where the violation occurred.<sup>325</sup> Posting requirements can play an important role with respect to safety if they serve to alert workers to dangerous conditions that pose the risk of fatality. Alerting workers to these conditions may lead them to be more cautious in avoiding exposure to the risk that led to the violation, or it could prompt them to identify related

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318. See *Federal Employer Rights*, *supra* note 25.

319. See *id.*

320. Compare 29 U.S.C. § 666(c), with 29 C.F.R. § 1903.15(d)(4).

321. *Federal Employer Rights*, *supra* note 25.

322. See generally Hersch & Viscusi, *supra* note 204, at 233-34 (noting that the VSL considers small risks of death).

323. See generally *supra* notes 259-62 and accompanying text.

324. See *supra* note 259 and accompanying text.

325. 29 C.F.R. § 1903.16(a) (2017).

violations pertinent to their safety. Revision of the statutory cap of \$7000 to \$12,934 when fatalities are not involved,<sup>326</sup> and \$10 million per fatality when the failure to post results in a person's death<sup>327</sup> would establish the appropriate deterrence-based incentives.<sup>328</sup>

Suppose that a company has been found guilty of a violation but has not remedied the safety infraction.<sup>329</sup> OSHA has two classifications for violations related to that behavior. The less severe situation is that of a "failure to abate" violation: "A failure to abate violation exists when a previously cited hazardous condition, practice or non-complying equipment has not been brought into compliance since the prior inspection ... and is discovered at a later inspection."<sup>330</sup> However, the penalty for this classification of violations is not in terms of the penalty per violation, but the penalty per day where there is a statutory cap of \$7000<sup>331</sup> that has since been raised to \$12,934 per day.<sup>332</sup> As a result, this Article's proposed revision to § 666(d) of the statute is a bit different in that it will be in terms of penalty per day, not per violation:

Any employer who fails to correct a violation for which a citation has been issued under section 658(a) of this title within the period permitted for its correction (which period shall not begin to run until the date of the final order of the Commission in the case of any review proceeding under section 659 of this title initiated by the employer in good faith and not solely for delay or avoidance of penalties), may be assessed a civil penalty of not more than [\$12,934] for each day during which such failure or violation continues. [If the failure to abate results in death, the

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326. 29 C.F.R. § 1903.15(d)(6).

327. See *supra* notes 228-29 and accompanying text.

328. See *supra* note 259 and accompanying text.

329. See, e.g., *supra* notes 42-56 and accompanying text.

330. EMPLOYER RIGHTS AND RESPONSIBILITIES, *supra* note 286, at 6; see also 29 U.S.C. § 666(d) ("Any employer who fails to correct a violation for which a citation has been issued under section 658(a) of this title within the period permitted for its correction (which period shall not begin to run until the date of the final order of the Commission in the case of any review proceeding under section 659 of this title initiated by the employer in good faith and not solely for delay or avoidance of penalties), may be assessed a civil penalty of not more than \$7,000 for each day during which such failure or violation continues.>").

331. 29 U.S.C. § 666(d).

332. 29 C.F.R. § 1903.15(d)(6) (2018).

employer shall be assessed a penalty up to \$10,000,000 per additional death caused by the failure to abate.]<sup>333</sup>

As a result, my proposed penalty structure retains a daily penalty amount for failing to post the notice that follows the current penalty structure, but adds the possibility of having a penalty amount of up to \$10 million per fatality that has resulted from this particular violation. It would not be appropriate to mimic the current daily penalty structure by adding a \$10 million penalty per day of failure to abate violations since that would lead to excessive levels of deterrence.<sup>334</sup>

Willful and repeated violations of regulatory standards have significantly greater caps than do other violation categories.<sup>335</sup> "A willful violation is defined as a violation in which the employer either knowingly failed to comply with a legal requirement (purposeful disregard) or acted with plain indifference to employee safety."<sup>336</sup> The criteria are somewhat different than that of failure to abate violations for whether a violation is repeated: "An employer may be cited for a repeated violation if that employer has been cited previously, within the last five years, for the same or a substantially similar condition or hazard and the citation has become a final order."<sup>337</sup> The penalty structure for these violations includes a penalty ceiling that is ten times greater than that for other violation categories, as the upper limit is \$70,000 in the statute and \$129,336 based on the penalty update.<sup>338</sup> From a deterrence standpoint, a higher penalty level may be warranted from the standpoint of a probability of detecting a willful or repeated violation that is less than 1.0.<sup>339</sup> In addition, the statute specifies a penalty floor of \$5000

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333. Cf. 29 U.S.C. § 666(d).

334. Cf. SHAVELL, *supra* note 188, at 244.

335. See 29 C.F.R. § 1903.15(d)(1)-(2).

336. *Federal Employer Rights*, *supra* note 25.

337. EMPLOYER RIGHTS AND RESPONSIBILITIES, *supra* note 286, at 6; see also 29 U.S.C. § 666(a) ("Any employer who willfully or repeatedly violates the requirements of section 654 of this title, any standard, rule, or order promulgated pursuant to section 655 of this title, or regulations prescribed pursuant to this chapter may be assessed a civil penalty of not more than \$70,000 for each violation, but not less than \$5,000 for each willful violation.").

338. Compare 29 U.S.C. § 666(a), with 29 C.F.R. § 1903.15(d)(1)-(2).

339. See Polinsky & Shavell, *supra* note 269, at 960-62; *supra* notes 269-71 and accompanying text.

for each willful violation.<sup>340</sup> This Article's proposed revision to § 666(a) of the statute is that:

Any employer who willfully or repeatedly violates the requirements of section 654 of this title, any standard, rule, or order promulgated pursuant to § 655, of this title, or regulations prescribed pursuant to this chapter may be assessed a civil penalty of not more than [\$129,336] for each violation, but not less than [\$9239] for each willful violation. [In addition, any additional death caused by the willful or repeated violation assessed under this section shall result in an additional penalty of at least \$10,000,000 for each death, but not to exceed \$100,000,000 for each death.]<sup>341</sup>

Unless OSHA has reason to believe that the firm engaged in willful or repeated behavior that had a low probability of detection, a penalty cap of \$10 million would be pertinent.<sup>342</sup> But if the company was guilty of stealthy behavior and sought to prevent OSHA from learning about its violations, then a penalty in line with optimal deterrence theory would be warranted.<sup>343</sup> To date, neither the courts nor federal agencies have embraced linking the regulatory sanctions to the probability of detection.<sup>344</sup> But the proposed penalty structure in this Article does not preclude the imposition of additional penalties such as those that are related to failure to report motor-vehicle defects to NHTSA or drug-related fatalities to the FDA, where such behaviors may affect the ability of regulators to identify regulatory violations.

### *B. Food and Drug Administration*

The FDA has a variety of regulatory responsibilities, but the focus of the examples provided in Part I.B was on food safety, which will

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340. See 29 U.S.C. § 666(a).

341. *Id.*

342. See Polinsky & Shavell, *supra* note 269, at 960-62.

343. See *id.*

344. The natural context in which this deterrence value would arise would be with respect to punitive damages. See *id.* However, in setting guidance for punitive damages, the Supreme Court has provided no indication of embracing this formula but instead has opted for a suggested usual cap of punitive damages not exceeding compensatory damages by more than a single digit ratio. *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 429 (2003).

be the emphasis here as well. As in the case of OSHA, there are legislative caps on the penalty amounts, but the specified levels are greater than for OSHA, with caps sometimes as great as \$500,000.<sup>345</sup> Nevertheless, it is essential to raise the statutory caps so that penalties can be in line with the optimal deterrence amounts.<sup>346</sup> Adding a clause indicating the penalty caps in situations involving fatalities is sufficient to accomplish this change for a wide range of FDA regulations. Thus, the statutory language can remain unchanged except for the addition of a provision to permit sanctions of up to \$10 million per fatality.<sup>347</sup> In the case of adulterated food, this Article's proposed statutory language in § 333(f)(2)(A) is the following:

Any person who introduces into interstate commerce or delivers for introduction into interstate commerce an article of food that is adulterated within the meaning of section 342(a)(2)(B) of this title or any person who does not comply with a recall order under section 350l of this title shall be subject to a civil money penalty of not more than \$50,000 in the case of an individual and \$250,000 in the case of any other person for such introduction or delivery, not to exceed \$500,000 for all such violations adjudicated in a single proceeding[, unless the violation results in death, in which case the person will be fined not more than \$10,000,000 per death.]<sup>348</sup>

Adding the clause "unless the violation results in death, in which case the person will be fined not more than \$10,000,000 per death" suffices to make the cap no longer overly restrictive.

Similar changes can rectify the structure of other FDA statutory provisions, such as those pertaining to medical devices. In the case of medical device violations, the statutory cap was set at "\$1,000,000 for all such violations adjudicated in a single proceeding."<sup>349</sup> This cap has since increased to approximately \$1.8 million.<sup>350</sup> Once again,

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345. *See, e.g.*, 21 U.S.C. §§ 333(f)(2)(A), (g)(1) (2012).

346. *See supra* notes 228-29 and accompanying text.

347. *See supra* notes 228-29 and accompanying text.

348. § 333(f)(2)(A). This proposed text is identical to that in the statute except for the addendum regarding \$10 million.

349. *Id.* § 333(f)(1)(A).

350. *See* 45 C.F.R. § 102.3 (2017).

there should be an exception for a violation that results in a death, in which case the cap should not be more than \$10 million per death.<sup>351</sup>

However, to align the penalty structure with optimal deterrence amounts, additional changes may be required. The damages caps for post-market studies and clinical trials might appear to be mostly in line with the optimal deterrence amounts because they include a statutory cap of \$10,000,000.<sup>352</sup> The statute specifies that penalties for violations are “not to exceed \$10,000,000 for all such violations adjudicated in a single proceeding.”<sup>353</sup> However, this cap is also insufficient as it does not accommodate the possibility of multiple deaths that may be involved in large scale uses of a drug. Moreover, because the statutory penalties also include additional sanctions for certain matters (for example, doubling penalties for each thirty-day period, or any portion thereof, that the party is in violation) the penalties are not tied to the adverse health outcomes alone.<sup>354</sup> I would advocate the \$10 million penalty cap per fatality and also propose eliminating any upper bound on the total civil penalty.<sup>355</sup> Thus, this Article’s proposed statute would include the following addition to § 333: “If the violation results in a death, the person will be fined not more than \$10,000,000 per death without a cap on the civil monetary penalty amount.”

### *C. Department of Transportation*

The statutory guidance for motor-vehicle safety violations is well-defined and has an implausibly small cap given the large number of people who could be affected by a mass marketed consumer product.<sup>356</sup> As was discussed in connection with the GM ignition switch defect, NHTSA had a statutory cap of \$35 million on a related series of violations.<sup>357</sup> While this cap has since been increased to \$105

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351. See *supra* notes 228-29 and accompanying text.

352. 21 U.S.C. § 333(f)(4)(A)(i)-(ii) (2012).

353. See *id.*

354. See *id.* § 333(f)(4)(A)(ii).

355. See *supra* notes 228-29 and accompanying text.

356. See 49 U.S.C. § 30165(a)(1) (Supp. IV 2017).

357. See 49 U.S.C. § 30165(a)(1) (2012), amended by 49 U.S.C. § 30165(a)(1) (Supp. I 2014); see also Plungis & Higgins, *supra* note 111, at 534.

million,<sup>358</sup> that amount would be too low if there were more than ten fatalities related to the violation.<sup>359</sup> Violations for transgressions other than the fatalities also may affect the total penalty amount so that it would be inappropriate to cap the penalty at the optimal penalty value for the fatalities alone.<sup>360</sup> To rectify this situation, this Article proposes the following statutory language to section 30165(a)(1):

A person that violates any of section 30112, 30115, 30117 through 30122, 30123(a), 30125(c), 30127, 30141 through 30147, or 301137, or a regulation prescribed thereunder, [that results in death,] is liable to the United States Government for a civil penalty of not more than [\$10,000,000 for each death. A separate violation occurs for each death caused by a defect in a motor vehicle or item of motor-vehicle equipment. There is no maximum penalty under this subsection for any related series of violations.]<sup>361</sup>

Because the penalties pertain not only to fatalities but also to matters such as the failure to report the defect to NHTSA in a timely manner, the overall penalty cap is not constrained to the fatality-related amounts alone, but can exceed the \$10 million per fatality amount.

#### *D. Environmental Protection Agency*

Amending the statutory guidance of the EPA requires similar kinds of changes in that there are statutory caps on penalties that prevent the penalty structure from being aligned with optimal deterrence amounts.<sup>362</sup> Typically, the changes involve specifying that penalties of up to \$10 million per fatality be allowed.<sup>363</sup> If there are also rationales for sanctions other than for fatalities related to

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358. See § 30165(a)(1) (Supp. IV 2017).

359. See *supra* notes 228-29 and accompanying text.

360. See *supra* notes 123-24 and accompanying text.

361. See § 30165(a)(1) (Supp. IV 2017).

362. See, e.g., 15 U.S.C. § 2615(b) (Supp. IV 2017); 33 U.S.C. § 1319(d) (2012); 42 U.S.C. § 7413(d)(1) (2012); *supra* notes 135-41 and accompanying text; see also *supra* notes 228-29 and accompanying text.

363. See *supra* notes 228-29 and accompanying text.

regulatory violations, then a provision for a higher total penalty amount may be appropriate.<sup>364</sup> Because of the strong parallels in the nature of the statutory revisions across different areas of agency responsibility, the focus here is on three representative policy areas: (1) the regulation of toxic substances, (2) the regulation of water quality, and (3) the regulation of air quality.

In the case of the Toxic Substances Control Act, the fines are limited to an upper limit of \$250,000 for an individual and \$1,000,000 for an organization, though there is also the possibility of criminal sanctions.<sup>365</sup> While the statute specifically provided penalties for placing “an individual in imminent danger of death or serious bodily injury,” it did not establish a penalty structure commensurate with these harms.<sup>366</sup> To address the shortcoming, this Article proposes the following language in § 2615(b)(2)(A) for individuals to incorporate the \$10 million optimal deterrence value<sup>367</sup> in the specification of the penalty structure:

Any person who knowingly and willfully violates any provision of section 2614 or 2689 of this title, and who knows at the time of the violation that the violation places an individual in imminent danger of death or serious bodily injury, shall be subject on conviction to a fine of not more than \$250,000, or imprisonment for not more than 15 years, or both, [unless the violation results in a death, in which case the person will be fined not more than \$10,000,000 per death].<sup>368</sup>

The counterpart provision for organizations would include a per violation penalty cap of \$1 million when the sanctions are for violations other than those involving fatalities.<sup>369</sup>

Fatalities can also result from violations of the Clean Water Act. However, this penalty structure is not linked to the health outcomes per se, but is set in terms of a daily penalty rate of \$25,000 per day for each violation.<sup>370</sup> Thus, if the EPA identifies a violation that led

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364. See, e.g., *supra* notes 158-62 and accompanying text.

365. See 15 U.S.C. § 2615(b)(2)(A)-(B) (Supp. IV 2017).

366. *Id.*

367. See *supra* notes 228-29 and accompanying text.

368. See § 2615(b)(2)(A).

369. *Cf. id.* § 2615(b)(2)(B).

370. See 33 U.S.C. § 1319(d) (2012).

to a fatality, but occurred for under 400 days, the resulting maximum penalty would be under the appropriate optimal deterrence amount for a fatality.<sup>371</sup> Inserting the following statutory language in § 1319(d) would rectify the situation:

Any person who violates section 1311, 1312, 1316, 1317, 1318, 1328, or 1345 of this title, or any permit condition or limitation implementing any of such sections in a permit issued under section 1342 of this title by the Administrator, or by a State, or in a permit issued under section 1344 of this title by a State, or any requirement imposed in a pretreatment program approved under section 1342(a)(3) or 1342(b)(8) of this title, and any person who violates any order issued by the Administrator under subsection (a) of this section, shall be subject to a civil penalty not to exceed \$25,000 per day for each violation. [If a person's violations of this statute cause the death of another person, the violator shall be subject to a civil penalty not to exceed \$10,000,000 per death for each death.]<sup>372</sup>

The penalties under the Clean Air Act are similar to those for other environmental violations, but there are also provisions for criminal penalties linked to fatalities. The civil penalties for Clean Air Act violations are set as follows: "The Administrator may issue an administrative order against any person assessing a civil administrative penalty of up to \$25,000, per day of violation.... The Administrator's authority under this paragraph shall be limited to matters where the total penalty sought does not exceed \$200,000."<sup>373</sup> Once again, it is straightforward to revise the language for civil penalties outlined in § 7413(d)(1) as follows:

The Administrator may issue an administrative order against any person assessing a civil administrative penalty of up to \$25,000, per day of violation, [unless the violation results in death, in which case the Administrator shall assess a civil administrative penalty of not more than \$10,000,000 per death.] The Administrator's authority under this paragraph shall be limited to matters where the total penalty sought does not

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371. See *supra* notes 228-29 and accompanying text.

372. § 1319(d).

373. 42 U.S.C. § 7413(d)(1) (2012).

exceed \$200,000, [unless the civil administrative penalties are assessed for deaths, in which case there shall be no cap on the penalty amount.]<sup>374</sup>

The criminal penalty fines under the Clean Air Act make specific reference to fatalities in terms of a “misdemeanor resulting in death.”<sup>375</sup> The current upper limits of such penalties, \$250,000 for individuals<sup>376</sup> and \$500,000 for organizations,<sup>377</sup> can be replaced by penalties that should not be more than \$10,000,000 per death. Recognition of the VSL and permitting the penalties to incorporate the total number of deaths will rectify the principal shortcomings of the current penalty structure.

### *E. Implications for Regulatory Enforcement*

Revising the statutes to permit regulatory sanctions that will provide optimal levels of deterrence has many commonalities across the different regulatory agencies. The principal change needed is allowing penalties of up to \$10 million per fatality to establish deterrence-based penalty levels.<sup>378</sup> In addition, there also may be situations in which it is desirable to eliminate the cap on overall penalty levels if it is important to provide leeway to take into account the role of other sanctions.<sup>379</sup>

Raising the statutory cap does not, however, ensure that regulatory agencies will levy penalties that are in line with the cap.<sup>380</sup> One possibility is to not give agencies leeway, but instead specify that, when regulatory violations result in a fatality, the penalty per fatality must equal \$10 million. Doing so would be a major departure from the current statutory approach, which gives the agency discretion in setting penalty amounts up to some maximum value.<sup>381</sup>

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374. *Id.*

375. *Id.* § 7413(c). The Clean Air Act refers to 18 U.S.C. § 3571 (2012) for the schedule of fines. *See id.*

376. 18 U.S.C. § 3571(b)(4) (2012).

377. *See id.* § 3571 (c)(4).

378. *See supra* notes 228-29 and accompanying text.

379. *See, e.g., supra* notes 344, 353-55, 361, and accompanying text.

380. As discussed in Part I, many agencies levy penalties that are below the statutory caps. For example, the median penalty levied by OSHA for fatal violations in Fiscal Year 2016 was \$6500—less than the \$7000 cap. *See supra* note 38 and accompanying text.

381. *See supra* Parts III.A-D.

Even without making the \$10 million penalty amount a requirement, the establishment of a cap that is significantly greater than the current caps will conceivably have an anchoring effect, signaling to regulators that fines in this general range are warranted and appropriate for creating meaningful safety incentives. If regulators were concerned about setting penalties to create optimal levels of deterrence, they also might value retaining some leeway in setting sanctions to account for the role of other financial sanctions that may be operative, such as workers' compensation premium amounts or settlement funds for accident victims.<sup>382</sup> The regulators might wish to also take these costs into account when determining the total penalty level.<sup>383</sup> Providing regulators with an understanding of the principles of optimal deterrence,<sup>384</sup> rather than simply highlighting the potential for setting the penalty at a new, higher level than before, may assist them in formulating an effective enforcement approach.

#### IV. PENALTIES AND CORPORATE RISK ANALYSES

The ultimate objective of imposing penalties is not simply to shift money from companies to the government, but rather it is to create incentives that will incentivize regulatory compliance and lead to greater levels of health, safety, and environmental quality.<sup>385</sup> In making their risk decisions, companies should take into account the various financial incentives for safety that are generated through regulations, tort liability, and the market.<sup>386</sup> The review that is presented below of corporate risk analyses indicates that the damages amounts that firms pay in tort liability often play an instrumental role in establishing the financial incentives that companies take into account.<sup>387</sup> However, the incentives created by tort liability, which are based largely on the financial loss suffered by the decedents and their families, rather than the VSL, fall short of those needed to

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382. For a discussion of the ways that a regulatory agency could incorporate the influence of other financial incentives, see generally *supra* Part II.E.

383. See *infra* note 384 and accompanying text.

384. See *supra* Part II.A.

385. See EMPLOYER'S RIGHTS AND RESPONSIBILITIES, *supra* note 286; *supra* Part II.D.

386. See VISCUSI, *supra* note 216, at 12; *supra* notes 249-58 and accompanying text.

387. See *infra* Parts IV.A-C.

create efficient levels of deterrence.<sup>388</sup> This shortfall is especially likely to be great for fatalities resulting from occupational exposures, since companies are not subject to the usual tort liability remedies when workers' compensation coverage is provided.<sup>389</sup> This Part provides a review of some of the examples of corporate risk analyses and their failure to incorporate the VSL in their monetization of the costs of fatalities. Changing the penalty structure for regulatory violations by eliminating the current penalty caps and having government agencies base their penalties on the VSL, as outlined in the previous Part, would transform the valuations that companies assign to the prevention of fatalities through their product safety decisions.<sup>390</sup> However, undertaking a risk analysis of safety-related matters is not innocuous, as it may have adverse ramifications for the company's liability and whether usual criteria for the award of punitive damages are met.<sup>391</sup> Thus, this Article proposes coupling the shift to the VSL-based approach with additional legal protections for companies undertaking responsible risk analyses.<sup>392</sup>

### A. *The Ford Pinto Experience*

A particularly prominent example of a corporate risk assessment related to product-safety decisions is the risk analysis undertaken by Ford with respect to the Ford Pinto. The company's analysis pertained to the location of the gas tank, the costs associated with the gas tank's placement, the injuries and fatalities associated with different placements, and the economic value of the accident-related costs.<sup>393</sup> The main matter of concern was whether incurring an additional cost to move the gas tank from the rear of the vehicle to

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388. See Posner & Sunstein, *supra* note 29, at 539-40; W. Kip Viscusi, *Misuses and Proper Uses of Hedonic Values of Life in Legal Contexts*, 13 J. FORENSIC ECON. 111, 124 (2000).

389. RESTATEMENT OF EMP'T LAW § 4.01, cmt. B (AM. LAW INST. 2018) ("Workers'-compensation law provides an exclusive remedy for the workplace harm. Exclusivity provisions preclude other causes of action against the employer, its employees, or its agents for the harms these laws cover.")

390. See *supra* Parts III.A-D; see also *supra* Part II.D.

391. See *infra* Parts IV.A-D.

392. See *infra* Part IV.E.

393. See Gary T. Schwartz, *The Myth of the Ford Pinto Case*, 43 RUTGERS L. REV. 1013, 1020-25 (1991).

reduce the risk of fire-related injuries upon rear impact warranted the additional expense.<sup>394</sup> Based on the risk analysis, Ford concluded that the placement of the gas tank in a position that made it vulnerable to rear impacts was desirable from the standpoint of corporate profitability.<sup>395</sup> The safer gas tank design imposed an additional cost of \$137.5 million, which greatly exceeded what Ford considered to be the safety benefit from moving the tank, which it estimated to be approximately \$50 million.<sup>396</sup> Ford used a \$200,000 value to monetize each fatality that would be reduced by changing the risky gas tank placement, which was in line with wrongful death awards at that time.<sup>397</sup>

After a Ford Pinto was rear-ended, the driver was killed and Richard Grimshaw, the thirteen-year-old passenger, was injured.<sup>398</sup> In the subsequent case, *Grimshaw v. Ford Motor Co.*,<sup>399</sup> the plaintiffs attributed the injuries to the defective product design for the fuel filler pipe and the placement of the gas tank behind the rear axle, leading the jury to make a punitive damages award of \$125 million, a compensatory damages award of \$2.5 million to Grimshaw, and a \$560,000 award to the driver's estate.<sup>400</sup> Although the rationale for the particular punitive damages amount is not known, the relatively minor cost of the design change of \$11 per vehicle may have appeared to have been inconsequential in relation to a fatality and a serious personal injury.<sup>401</sup> The vantage point for the jury's retrospective assessment was a comparison of the unit cost of the design change and the value of the harms caused by the accident.<sup>402</sup> The punitive damages award was later reduced to \$3.5 million.<sup>403</sup> In addition to the very high financial penalties, Ford was also pilloried by the media for its analysis of the financial costs and benefits of the design change.<sup>404</sup>

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394. *See id.* at 1020.

395. *See id.*

396. *See id.*; *see also* W. KIP VISCUSI, REFORMING PRODUCTS LIABILITY 111-13 (1991).

397. *See* VISCUSI, *supra* note 396, at 111.

398. *See* Schwartz, *supra* note 393, at 1016-17.

399. 174 Cal. Rptr. 348 (Ct. App. 1981):

400. *See id.* at 358.

401. *See* VISCUSI, *supra* note 396, at 111.

402. *See* W. Kip Viscusi, *Punitive Damages: How Jurors Fail to Promote Efficiency*, 39 HARV. J. LEGIS. 139, 146-47 (2002).

403. *See* Schwartz, *supra* note 393, at 1017.

404. *See, e.g.*, Mark Dowie, *Pinto Madness*, MOTHER JONES (Sept.-Oct. 1977), <http://www>.

### B. GM's Risk Analysis Efforts

GM similarly used comparable litigation cost estimates to value fatalities in its analysis of the injury costs associated with fires resulting from accident-related impacts on side-saddle fuel tanks.<sup>405</sup> Placement of the fuel tanks outside the frame of a vehicle made them vulnerable to crash impacts, but alternative placement of the tanks would entail additional costs.<sup>406</sup> The engineer assessed the value of the fatalities that would result from the proposed vehicle design and monetized the fatalities using a value of \$200,000, as in the case of the Ford Pinto analysis.<sup>407</sup> With an estimated maximum number of deaths between 550 to 1000 from fuel-fed fires, the analysis concluded that the cost of the safety enhancement was too great to warrant the additional expenditures to avoid the injuries that would be prevented.<sup>408</sup> The driver of a GM pickup truck that had this risky gas tank placement was injured and subsequently died when the gas tank of his GM truck caught fire after having been broadsided by a drunk driver.<sup>409</sup> The GM analysis, in which the company assessed the costs and benefits of a safer design and chose not to incur the additional cost, led to a “constant refrain among the jurors interviewed” that “they knew” about the risk.<sup>410</sup> The jury award in this case was \$101 million in punitive damages, \$4 million in compensatory damages, and \$1 in pain and suffering damages.<sup>411</sup> There was no apparent sound methodological basis that the jury used in setting the punitive damages award, such as a VSL. Rather, the jury constructed the figure by engaging in the arbitrary exercise of multiplying \$20 per vehicle by the five million GM trucks on the road, and then adding an extra \$1 million “exclamation point.”<sup>412</sup>

The same GM risk analysis memo also played a pivotal role in a subsequent case involving a rear-end crash of a Chevrolet Malibu

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motherjones.com/politics/1977/09/pinto-madness [https://perma.cc/GDE7-36FD].

405. See *Gen. Motors Corp. v. Moseley*, 447 S.E.2d 302, 311-12 (Ga. Ct. App. 1994).

406. See *id.*

407. See *The 'Ivey Memo'*, CNN (Sept. 10, 1999, 11:49 AM), <http://www.cnn.com/US/9909/10/ivey.memo/> [https://perma.cc/EQD7-Z34S].

408. See *id.*

409. See *Gen. Motors Corp.*, 447 S.E.2d at 305.

410. Terence Moran, *GM Burns Itself*, AM. LAW., Apr. 1993, at 68, 69.

411. See *Gen. Motors Corp.*, 447 S.E.2d at 305.

412. See Moran, *supra* note 410, at 69, 82.

that caused burn injuries for all of the occupants.<sup>413</sup> Whereas the GM memo compared the design costs and the monetized health benefits based on the average costs of wrongful death cases, one plaintiff attorney asserted that the jurors believed that the company should have had a different perspective: "The jurors wanted to send a message to General Motors that human life is more important than profits."<sup>414</sup> In setting their punitive damages amount, the jury used the long term trajectory of GM's advertising expenses<sup>415</sup> as its seemingly arbitrary reference point for the appropriate damages amount, which amounted to two-thirds of GM's profit in 1998.<sup>416</sup> The result of basing the punitive damages value on these anchors was a compensatory damages award of \$107.6 million, and a punitive damages award of \$4.8 billion.<sup>417</sup>

To the extent that punitive damages serve a deterrence function, constructing the punitive damages value based on the VSL would have provided an appropriate deterrence-based reference point, as opposed to the multibillion-dollar award level.<sup>418</sup> If one uses the VSL as the maximum value for preventing the risk of nonfatal injuries, then adoption of the VSL as the upper bound value of each individual's loss as the regulatory sanction would provide adequate deterrence, with no additional punitive damages needed to establish the efficient level of care.<sup>419</sup> Thus, in instances such as these in which juries may impose inordinately large awards, the VSL could potentially play a restraining role, in addition to aligning penalties with the appropriate deterrence amounts.

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413. See *GM Hit by \$4.9B Verdict*, CNN MONEY (July 9, 1999, 5:54 PM), [http://money.cnn.com/1999/07/09/home\\_auto/gm\\_verdict/](http://money.cnn.com/1999/07/09/home_auto/gm_verdict/) [<https://perma.cc/2XEE-R6AS>]; Andrew Pollack, *\$4.9 Billion Jury Verdict in G.M. Fuel Tank Case*, N.Y. TIMES (July 10, 1999), <https://www.nytimes.com/1999/07/10/us/4.9-billion-jury-verdict-in-gm-fuel-tank-case.html> [<https://perma.cc/ZX45-B92A>].

414. Pollack, *supra* note 413.

415. See Michael White, *Record \$4.9 Billion Award in GM Trial*, DESERET NEWS (July 10, 1999, 12:00 AM), <https://www.deseretnews.com/article/706711/Record-49-billion-award-in-GM-trial.html> [<https://perma.cc/F4DT-4M3G>].

416. See Frank Swoboda & Caroline E. Mayer, *Jury Hits GM with Historic Crash Verdict*, WASH. POST (July 10, 1999), <http://www.washingtonpost.com/wp-srv/national/longterm/supcourt/stories/jury071099.htm> [<https://perma.cc/SUB3-ZNQS>].

417. See Pollack, *supra* note 413.

418. See Hersch & Viscusi, *supra* note 204, at 238, 240.

419. See *id.*

*C. Controversial Risk Analyses by Ford and Chrysler*

There are other examples of companies that have been subject to criticism for undertaking similar efforts to balance costs and benefits. Ford came under such criticism in *Miles v. Ford Motor Co.*<sup>420</sup> for its risk analysis involving a “tension eliminator” for the shoulder harness on a seatbelt.<sup>421</sup>

Syson[, the plaintiff’s accident reconstruction expert,] testified that when Ford identified what it believed was a defective product it would first run a “cost benefit” analysis to see what the cost would be to fix or repair the defect. Next, Ford would assign arbitrary values to each death or serious injury and would predict the number of occurrences which would involve either death or serious injury. Finally, Ford would determine the cost to litigate such deaths and injuries. Syson testified that if the cost to repair the defect exceeded the other costs, Ford would not correct the defect.<sup>422</sup>

In this case, Ford incurred both compensatory and punitive damage awards, where its transgressions included running a cost-benefit analysis and assigning a monetary value on the deaths and serious injuries based on the litigation costs associated with these adverse health outcomes.<sup>423</sup>

Chrysler Corporation likewise was punished with \$250 million punitive damages in *Jimenez v. Chrysler Corp.*<sup>424</sup> because it undertook a similar analysis of the risks and costs which in this case pertained to a door latch design.<sup>425</sup> As in the earlier examples, the company calculated the costs of an alternative, safer design and compared those costs to the economic value or the reduction in fatalities.<sup>426</sup> The monetization of the health effects did not focus on the

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420. 922 S.W.2d 572 (Tex. App. 1996), *aff’d in part, rev’d in part*, 967 S.W.2d 377 (Tex. 1998).

421. *Id.* at 579.

422. *Id.* at 588-89.

423. *See id.* at 588-89, 598-99.

424. 74 F. Supp. 2d 548, 553 (D.S.C. 1999), *rev’d in part, vacated in part sub nom.* *Jimenez v. DaimlerChrysler Corp.*, 269 F.3d 439 (4th Cir. 2001).

425. *See id.* at 557-61.

426. *See* Donald C. Dilworth, *Jurors Punish Chrysler for Hiding Deadly Defect*, FREE LIBR. BY FARLEX (Feb. 1, 1998), <http://www.thefreelibrary.com/Jurors+punish+Chrysler+for+hiding>

VSL or government sanctions for safety defects, but instead relied on the value that the companies would pay in wrongful death suits: “Chrysler officials at the highest level cold-bloodedly calculated that acknowledging the problem and fixing it would be more expensive, in terms of bad publicity and lost sales, than concealing the defect and litigating the wrongful death suits that inevitably would result.”<sup>427</sup> Once again, a company analysis focused on the litigation damages payments rather than regulatory sanctions or the use of measures such as the VSL to monetize the fatality risks.

#### *D. The Decline in Corporate Risk Analysis Efforts*

Perhaps as a result of these adverse experiences with risk analyses, there appears to be few recent examples of motor-vehicle companies undertaking benefit-cost analyses of product safety measures. The GM experience with respect to the defective ignition switch is particularly noteworthy.<sup>428</sup> If monetized assessments of the benefits and costs of safety measures continued to play an instrumental role, one would expect that, for higher-stakes defect cases, the company would undertake a comprehensive evaluation of the merits of enhancing product safety. After the GM ignition switch controversy emerged, GM commissioned an independent analysis to assess the controversy.<sup>429</sup> The detailed report that GM commissioned to examine the decision-making that led to the ignition switch defect problems did not mention any systematic attempt to balance benefits and costs.<sup>430</sup>

The conclusion of the report was that GM appeared to have initially suppressed all such discussion by prohibiting frank assessments of safety-related matters.<sup>431</sup> Two measures undertaken by the company are particularly telling. First, the company admonished employees not to use particular safety-related words.<sup>432</sup> GM officials were counseled not to use controversial judgment words in any

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+deadly+defect.-a020379898 [https://perma.cc/9USQ-EPE9].

427. *Id.* (quoting the plaintiff attorneys in a post-trial memorandum).

428. See Plungis & Higgins, *supra* note 111, at 534.

429. See VALUKAS, *supra* note 118.

430. See generally *id.*

431. See *Consent Order*, *supra* note 115, Exhibit B at 38-42.

432. See *id.* at 39-40.

reports or presentations.<sup>433</sup> Some of the words were seemingly innocuous, or certainly might be the kind of language one would expect to see in a corporate risk analysis, such as “always,” “safety,” “safety-related,” “bad,” “critical,” “flawed,” “dangerous,” “defect,” “defective,” “failed,” “failure,” “never,” “problem,” “serious,” and “unstable.”<sup>434</sup> Other words might be more inflammatory.<sup>435</sup> One wonders if some of the examples of “judgment words” had been used in internal discussions or documents: “Corvair-like,” “decapitating,” “disemboweling,” “genocide,” “ghastly,” “grisly,” “Kervorkianesque,” “powder keg,” “rolling sarcophagus (tomb or coffin),” “suicidal,” “Titanic,” “you’re toast.”<sup>436</sup> Second, a GM memo instructed employees who drove GM vehicles to avoid potentially harmful characterizations of any problems they encountered, such as statements such as: “Dangerous ... almost caused accident”; “This is a lawsuit waiting to happen”; “This is a safety and security issue”; and “This is a very dangerous thing to happen. My family refuses to ride in the vehicle now.”<sup>437</sup> Perhaps as a consequence of these admonitions, GM officials characterized the ignition switch defect as a problem of “convenience” rather than a matter of “safety.”<sup>438</sup>

Given the controversial history of corporate risk analyses, it is not surprising that companies on their own initiative have not adopted the VSL as the technique for monetizing the fatalities prevented by safer designs.<sup>439</sup> If companies were to introduce the use of damages values based on the VSL in their corporate risk analyses, there might be the problem of jurors operating in hindsight and comparing the identified victim’s loss with the modest cost-per-product unit of enhancing safety.<sup>440</sup> Rather than considering the company’s prospective decision in which the company assesses the costs and benefits across an entire product line, there is a tendency by jurors to compare the incremental cost of the safety improvement with the

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433. See *id.* at 41-42.

434. See *id.* at 41.

435. See *id.* at 40.

436. See *id.* at 41.

437. *Id.* at 39.

438. See VALUKAS, *supra* note 118, at 70.

439. See, e.g., *Miles v. Ford Motor Co.*, 922 S.W.2d 572, 588-89 (Tex. App. 1996), *aff'd in part, rev'd in part*, 967 S.W.2d 377 (Tex. 1998).

440. See W. Kip Viscusi, *Corporate Risk Analysis: A Reckless Act?*, 52 STAN. L. REV. 547, 557-58 (2000).

identified fatality, creating an imbalance that will be to the disadvantage of the company.<sup>441</sup> That type of thinking was apparent in the aforementioned examples of corporate risk analyses in which the unit cost of the safety improvements that were identified in the internal company analyses led the jurors to conclude that the company merited a substantial punitive damages award.<sup>442</sup>

As Seventh Circuit Judge Eschbach observed in a case involving the safety of escalator design:

The *ex post* perspective of litigation exerts a hydraulic force that distorts judgment. Engineers design escalators to minimize the sum of construction, operation, and injury costs. Department stores, which have nothing to gain from maiming their customers and employees, willingly pay for cost-effective precautions....

Come the lawsuit, however, the passenger injured by a stop presents himself as a person, not a probability. Jurors see today's injury; persons who would be injured if buttons were harder to find and use are invisible. Although witnesses may talk about them, they are spectral figures, insubstantial compared to the injured plaintiff, who appears in the flesh.<sup>443</sup>

#### *E. Establishing a Supportive Legal Environment for Corporate Risk Analysis*

If government agencies adopted the VSL as the metric for monetizing fatality risks in their regulatory enforcement efforts, then they would be establishing the appropriate deterrence values for the reduction of fatality risks.<sup>444</sup> Doing so sends companies the pertinent financial signal for the importance of reducing fatalities.<sup>445</sup> When assessing the financial return from product risks, companies would consider not only potential wrongful death awards but also the possibility of substantial regulatory sanctions.<sup>446</sup> There would not be the need for companies to undertake the initiative

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441. *See id.*

442. *See Jimenez v. DaimlerChrysler Corp.*, 269 F.3d 439 (4th Cir. 2001); *Miles*, 922 S.W.2d at 572; *supra* notes 414-30 and accompanying text.

443. *Carroll v. Otis Elevator Co.*, 896 F.2d 210, 215-16 (7th Cir. 1990).

444. *See supra* Parts II.A-B.

445. *See supra* notes 245-50 and accompanying text.

446. *See supra* Part III (discussing regulatory penalty structures).

to introduce the VSL into their calculations, as anticipation of appropriately established government penalty levels would achieve that objective.<sup>447</sup> This cost level for monetizing the fatality risks would be pertinent whether corporations undertook formal or informal analyses<sup>448</sup> of the consequences of marketing unsafe products.

The integration of the VSL into the regulatory penalty structure would enable companies to set a price on fatalities by alluding to the government penalty structure.<sup>449</sup> Thus, rather than indicating that the company was going to establish its own value on regulatory fatalities, the company could instead use a figure based on the maximum regulatory sanction for such outcomes.<sup>450</sup> Positioning this sensitive valuation as implementing guidance provided by government regulators, rather than the company's own valuation, may frame the valuation task in a manner that is less likely to generate criticism of the company's efforts to assess the costs and benefits of safety measures.<sup>451</sup>

Nevertheless, there could be risks that the companies might face if they formalized their assessments of the benefits and costs of the safety measure. If companies incorporated the value of these monetary sanctions for fatalities in their risk analyses, the companies' undertaking of such assessments would still be subject to the vagaries of hindsight bias, to the extent that juries regard monetization of fatality risks as evidence of corporate behavior that serves as a trigger for a punitive damages award.<sup>452</sup> Experimental studies involving hundreds of mock jurors suggest that this possibility is quite real, as jurors are likely to view the VSL as a valuation amount that should serve as a floor for possible penalties that juries should levy in order to convey to the company that lives should be more highly valued.<sup>453</sup> Using high dollar values for fatality risks has a counterproductive effect in boosting awards, which can be muted to some extent by conveying to jurors the important

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447. *Cf. supra* notes 245-50 and accompanying text.

448. *See, e.g., supra* Parts IV.A-D.

449. *Cf. supra* notes 245-50 and accompanying text.

450. *Cf. supra* notes 245-50 and accompanying text.

451. *See Dilworth, supra* note 426 (noting the criticism faced by Chrysler for its officials' "cold-blooded[]" calculations); *supra* notes 246-52 and accompanying text.

452. *See Viscusi, supra* note 440, at 557-58; *supra* notes 442-46 and accompanying text.

453. *See Viscusi, supra* note 440, at 557-58; Viscusi, *supra* note 402, at 157-58.

role such valuations have in fostering safety in other contexts.<sup>454</sup> Nevertheless, if there is a tendency of jurors to award punitive damages when companies undertake risk analyses that monetize risks, and if jurors set the damages amount above whatever value the company used in its analysis, there will be a strong disincentive for using the VSL in explicit corporate risk analyses.<sup>455</sup>

Given the impediments that corporations face with respect to such monetization, which may involve very large punitive damage awards,<sup>456</sup> it is likely that additional legal protections for such analyses could play a constructive role in protecting companies from jurors misinterpreting the function of responsible corporate risk analyses. In particular, suppose that undertaking such analyses and the content of those analyses could not be introduced as evidence in personal injury cases. Such a legal protection is analogous to the role of apology laws in medical malpractice contexts.<sup>457</sup> In the thirty-eight states that have adopted apology laws, if the physician has apologized to the patient for a medical error or an unfavorable treatment outcome, the plaintiff cannot introduce the apology as evidence in the trial.<sup>458</sup> Typical of such laws is the apology law in Virginia, which includes the following provision: “[T]he portion of statements, writings, affirmations, benevolent conduct, or benevolent gestures expressing sympathy, commiseration, condolence, compassion, or a general sense of benevolence, together with apologies that are made by a health care provider ... to the patient ... shall be inadmissible as evidence of an admission of liability.”<sup>459</sup> One could easily formulate similar statutory protections for corporate risk analyses. A less broad extension of the apology law concept for corporate risk analyses would be to prohibit the introduction of such evidence if the risk analysis indicated that additional safety measures were not warranted, but to permit plaintiffs to introduce the

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454. See Viscusi, *supra* note 402, at 155-56.

455. See *supra* notes 442-46 and accompanying text.

456. See, e.g., *Jimenez v. DaimlerChrysler Corp.*, 269 F.3d 439 (4th Cir. 2001); *Miles v. Ford Motor Co.*, 922 S.W. 572 (Tex. App. 1996), *aff'd in part, rev'd in part*, 967 S.W.2d 377 (Tex. 1998); *supra* notes 403, 414, 420, 427 and accompanying text.

457. See Benjamin J. McMichael et al., “Sorry” Is Never Enough: How State Apology Laws Fail to Reduce Medical Malpractice Liability Risk, 71 STAN. L. REV. (forthcoming 2018).

458. See, e.g., VA. CODE ANN. § 8.01-581.20:1 (West 2018); see also McMichael et al., *supra* note 457 (manuscript at 1, 11-12).

459. § 8.01-581.20:1.

apology if the benefits of the additional safety measure did not outweigh the costs.

### CONCLUSION

There is currently a fatal mismatch between the value that regulatory agencies place on lives when designing regulations, and the values that they levy as sanctions for violations that lead to fatalities. This imbalance in turn diminishes the economic incentives for safety that will be provided to the regulated firms. As a consequence, regulatory policies are less protective than they would be if the safety incentives were bolstered.

Unfortunately, simply recognizing the existence of a mismatch is not sufficient to enable regulatory agencies to remedy the problem. So long as regulatory agencies have statutory caps that establish inordinately low upper bounds on the penalty levels that can be assessed, it will not be feasible for agencies to set penalties at the optimal deterrence levels. Restructuring the statutory guidelines to permit penalties in line with the VSL will enable agencies to set sufficiently large penalties to promote safety. This Article provided detailed guidance on how these statutes can be revised to permit agencies to set penalties in an effective range.

However, having the leeway to levy sufficiently large penalties does not ensure that agencies will implement a penalty structure at this higher level. Indeed, current penalties are often not even at the allowable caps, which are considerably below the levels needed to create optimal deterrence. Having appropriate penalty caps in the revised statutory guidance can serve as a signal to regulatory agencies regarding the magnitude of penalties that should be appropriate. But there is also a need for agencies to better understand the principles underlying the law and economic theories of optimal deterrence, which are quite straightforward, but nevertheless would assist officials in understanding that the particular penalty amounts are not random numbers from an arbitrary penalty schedule, but have meaningful economic effects in establishing appropriate incentives to save lives.

This overhaul of regulatory enforcement efforts in turn will have fundamental ramifications for how firms assess the economic merits of improvements in job safety and product safety. With

weak regulatory enforcement, the main matters of concern in situations where market influences are inadequate and regulations are needed may be the financial costs, such as the liability costs resulting from product-related fatalities or the workers' compensation costs linked to job injuries. Establishing meaningful economic sanctions for violations that result in fatalities will lead firms to place a greater weight on improvements in product safety. If given additional legal protections, firms may also undertake explicit assessments of the benefits and costs of safety improvements in their corporate risk assessments of alternative safety-related measures. A principal dividend from bolstering the economic incentives generated by agencies' enforcement efforts is that companies will also become more vigilant in promoting safety.

Adoption of a \$10 million penalty cap per fatality is in line with current economic estimates of the value of preventing an expected death, but it may be appropriate to increase the upper limit in future years.<sup>460</sup> Inflation over time will tend to erode the purchasing power associated with this penalty cap.<sup>461</sup> Similarly, if there are continued increases in societal income levels over time, those changes too will boost the appropriate deterrence value.<sup>462</sup> However, such updates are much more modest in scale than, for example, boosting the maximum OSHA penalty for serious violations that pose fatality risks from \$12,934 to \$10 million.<sup>463</sup> The updates of the VSL for inflation and related changes are now addressed in the routine practices of federal agencies.<sup>464</sup> Maintaining a penalty structure that is in line with providing effective incentives for controlling risk will be quite feasible once there is the appropriate restructuring of the penalty approach to generate optimal levels of deterrence. The critical task is to overhaul a penalty structure that was established almost a half century ago and has undergone only minimal changes since then for increases in the cost of living.<sup>465</sup> Regulatory agencies

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460. See generally Viscusi, *supra* note 9, at 436-41 tbls.7.2 & 7.3 (reviewing about 100 regulatory analyses and their associated VSL).

461. See U.S. DEP'T OF TRANSP., *supra* note 9, at 8-9 (describing the routine practice of accounting for inflation in updating VSL values).

462. See W. Kip Viscusi & Clayton J. Masterman, *Income Elasticities and Global Values of a Statistical Life*, 8 J. BENEFIT-COST ANALYSIS 226, 227, 248 (2017).

463. See 29 C.F.R. § 1903.15(d)(3) (2018).

464. See, e.g., U.S. DEP'T OF TRANSP., *supra* note 9, at 8-9.

465. See, e.g., § 1903.15(d)(3).

should rectify the current inconsistent policy approach in which prospective hypothetical lives are highly valued but actual lives are not.

