



## LEGAL REFORM & ECONOMIC DEVELOPMENT

Each day seems to bring additional news confirming what we already know: New Jersey needs to restart its economic engine. The state took a tremendous hit during the recession, and has yet to fully recover. The state's unemployment rate remains high, and the budget gaps continues to widen as revenue collections miss their targets.

While the government does not and cannot create the jobs needed to buoy the economy in and of itself, it does have many tools at its disposal. Unfortunately, the government's most oft-used implements, tax policy and government spending, are not producing the results the state so desperately needs. If New Jersey wants to completely and quickly escape the recession, legal reform must become part of the state's economic development plan.

Why is legal reform key to spurring economic development?

- A state's litigation climate is one of the top factors business leaders consider when deciding where to locate their business or whether to expand. States with predictable legal systems that discourage abuse allow businesses to more accurately project what future legal expenses will be, allowing them to free up capital for business expansion and job creation. According to the U.S. Chamber's 2012 State Liability Systems Ranking Study, of our surrounding states, only Pennsylvania is viewed as having a worse legal climate than New Jersey.
- New Jersey also ranks poorly on the Kauffman Index of Entrepreneurial Activity, which measures new business creation across the United States. In the 2014 report, New Jersey is ranked 43. When businesses fear lawsuits, they must be overly cautious about launching new ventures and bringing innovative products to market. Improving the state's litigation climate would show entrepreneurs and inventors that New Jersey is open for business.
- Contrary to popular belief, most companies being sued are not "deep pockets." Lawsuits are frequently filed against small businesses, and thus the small business owners who are heavily invested, both emotionally and financially in those businesses. The fear of lawsuits increases the cost of doing business as insurance rates increase and unnecessary precautions eat up capital.
- Legal reform is a win-win when it comes to the state budget. In the short run, legal reform can provide an economic stimulus without loss of tax receipts or an increase in spending. In the long run, states with improved litigation climates see more economic activity, leading to increased revenue collections.