

# Econ **INSIDE** One

ECONOMIC THEORIES IN PRACTICE / FALL 2003

## THE VALUE OF A LIFE: ECONOMIC LOSS IN WRONGFUL DEATH CASES

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Plaintiffs in wrongful death cases have the right to be compensated for the economic loss of a family member. The economic loss in its broadest interpretation is the resulting net income that would have been expected had the decedent lived. Simply put, this is the net income that the decedent would have generated (from employment and household production) minus the expected consumption of the decedent.

While consumption is deducted off the income of the decedent, there is no assumption that the decedent would have consumed savings at a later date. It might be noted that therefore, plaintiff's calculation has an overriding (implicit) assumption that the behavior of the decedents would be to leave a bequest for their dependents. Further, as part of the calculation, there is no consideration of the life-cycle permanent income hypothesis for consumption. Under the permanent income hypothesis, an individual saves during the initial stages of life, then consumes these savings in retirement. Depending where in the life cycle the individual's life was wrongfully terminated, an individual's net economic loss (their "value of life") could be as low as zero.

Contention between experts comes principally from two areas. First is the disagreement regarding assumptions about the economic processes underlying the growth of income,

consumption, or any of the other principal components of the "value of life" sum. For example, the choice of tax rates, real interest rates, pension entitlements, or the growth in productivity for the economy as a whole. Second, little regard is shown for the wealth of economic theory and testing that has surrounded the "life-cycle consumption function." Most of the literature published in this field shows that individuals do not respond to transitory shocks in income by altering their consumption patterns, but instead continue to consume on their lifetime path. The lifetime path would continue into retirement.

However, with regard to the issue of assumptions on the principal components of the "value of life" sum, there are now a myriad of resources (on the internet in particular). These resources should remove some of the points of contention between experts. Obviously, there will remain decisions and assumptions on the part of the forensic economist that will alter the estimated amount. But, there should be less discrepancy over basic assumptions in the analysis. Factors such as the real interest rate, the growth of income, the growth of wages from general productivity growth, the percentage deductions for consumption and the deductions for taxes and social security should not differ by extensive amounts to make the estimates

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from two competing sides unrealistically different.

On the issue of the lifetime patterns for consumption, while the formula for computing the economic loss (value of life) is essentially easy, the order in which the sum is completed can make a difference. An estimate for total income should be arrived at, clearly delineating between the income from the decedent and income from other sources

(for example, property or other assets). An estimate of taxes owed on total income should then be calculated. This will give disposable income. Consumption is then calculated as part of disposable income. Income attributable to the decedent, taxes attributable to the decedent, and consumption attributable to the decedent are then discounted and summed. This is the measure of the economic loss from wrongful death.