U.S. Supreme Court Limits Punitive Damages Awards

Punitive damages, unlike compensatory damages, are not awarded to compensate the victim, but to punish the offender. Punitive damages are frequently sought in civil litigation; even though not often awarded, they are a threat to anyone charged with egregious behavior, such as knowing or intentional pollution of the environment.

The United States Supreme Court recently established a test for determining if an award of punitive damages is so excessive that it violates the United States Constitution. In the case of BMW of North America, Inc. v. Gore, the Court, in a 5-4 decision, confirmed that a punitive damages award that is "grossly excessive" violates the Due Process Clause of the Fourteenth Amendment. The decision was rendered in an Alabama case in which a car purchaser was awarded $2.0 million dollars in punitive damages against the manufacturer, even though the actual harm suffered was only $4,000.

The court announced a three part test to determine whether a punitive damages award imposed too much punishment. The first element is "the degree of reprehensibility" of the conduct. In other words, the court is to determine how offensive or undesirable the conduct was. The next element is the ratio between the punitive damages and the compensatory damages awarded to the plaintiff. For example, the award in the BMW case was five hundred times the amount of the actual harm. The third factor is the amount of civil or criminal penalties that could be imposed on a party for similar misconduct. The lesser the penalty, the lesser the ground for a large punitive damages award.

New Jersey state law now limits punitive damages, in most instances, to $350,000 or five times the actual harm, whichever is greater. N.J.S.A. 2A:15-5.9 et seq. While this state has the ability to limit the excessiveness of punitive damages, the Supreme Court's Constitutional interpretation will override any award of punitive damages otherwise allowable under state law.