AMERICAN CONSTITUTIONALISM
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Supplementary Material

Chapter 10: The Reagan Era—Individual Rights/Property/Contracts

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General Motors Corp v. Romein, 503 U.S. 181 (1992)

Evert Romein suffered disabling injuries on December 5, 1977 while he was working for General Motors (GM). As required by contract and state workers' compensation law, both GM and Michigan began to pay Romein a weekly sum. In 1981, Michigan enacted a new workmen's compensation law. That statute permitted companies to reduce benefits to persons receiving compensation from other employee-funded sources. Although the law did not clearly state that companies could reduce benefits to persons injured on the job before 1981, GM in 1983 cut Romein's benefits by $132 a week. Two years later, the Michigan Supreme Court ruled that GM had correctly interpreted the state statute. The Michigan legislature in 1987 passed a law overturning the state decision and requiring employers to pay all the compensation they had withheld. GM refused to pay, claiming that the Michigan law violated the Contracts Clause. The Michigan Supreme Court sustained the state law. GM appealed to the Supreme Court of the United States.

The Supreme Court unanimously declared that the Michigan legislature could require employers to pay benefits they had withheld after passage of the 1981 workmen's compensation law. Justice O'Connor's unanimous opinion held that the 1981 Michigan law did not give Michigan employees a contractual right to withhold disability payments. Hence, the 1987 law did not impair the obligations of contract. When reading the excerpt below, consider why the decision in Romein *was unanimous. Did the seven Republican judicial appointees on the Supreme Court all agree that the pro-labor law passed by Michigan in 1987 was good public policy? Why was no conservative on the Supreme Court interested in giving the contracts clause a broad reading?*

JUSTICE O'CONNOR delivered the opinion of the Court.

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Article I, § 10, of the Constitution provides: "No State shall . . . pass any . . . Law impairing the Obligation of Contracts." Petitioners claim that the 1987 statute requiring reimbursement of benefits withheld in reliance on the 1981 coordination provisions substantially impaired the obligation of the contracts with their employees.

Generally, we first ask whether the change in state law has "operated as a substantial impairment of a contractual relationship." *Allied Structural Steel Co. v. Spannaus,* (1978). . . . This inquiry has three components: whether there is a contractual relationship, whether a change in law impairs that contractual relationship, and whether the impairment is substantial. Normally, the first two are unproblematic, and we need address only the third. In this case, however, we need not reach the questions of impairment, as we hold that there was no contractual agreement regarding the specific workers' compensation terms allegedly at issue.

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. . . [T]he contracting parties here in no way manifested assent to limiting disability payments in accordance with the 1981 law allowing coordination of benefits. The employment contracts at issue were formed before the 1981 law allowing coordination of benefits came into effect. Thus, there was no occasion for the parties to consider in bargaining the question raised here: whether an unanticipated reduction in benefits could later be restored after the "benefit period" had closed.

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Contrary to petitioners' suggestion, we have not held that all state regulations are implied terms of every contract entered into while they are effective, especially when the regulations themselves cannot be fairly interpreted to require such incorporation. For the most part, state laws are implied into private contracts regardless of the assent of the parties only when those laws affect the validity, construction, and enforcement of contracts. . . .

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The 1987 statute did not change the legal enforceability of the employment contracts here. The parties still have the same ability to enforce the bargained-for terms of the employment contracts that they did before the 1987 statute was enacted. Moreover, petitioners' suggestion that we should read every workplace regulation into the private contractual arrangements of employers and employees would expand the definition of contract so far that the constitutional provision would lose its anchoring purpose, *i.e.,* "enabl[ing] individuals to order their personal and business affairs according to their particular needs and interests." Instead, the Clause would protect against all changes in legislation, regardless of the effect of those changes on bargained-for agreements. The employment contract, in petitioners' view, could incorporate workplace safety regulations, employment tax obligations, and laws prohibiting workplace discrimination, even if these laws are not intended to affect private contracts and are not subject to bargaining between the employer and employees. Moreover, petitioners' construction would severely limit the ability of state legislatures to amend their regulatory legislation. Amendments could not take effect until all existing contracts expired, and parties could evade regulation by entering into long-term contracts. . . .

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In sum, petitioners knew they were taking a risk in reducing benefits to their workers, but they took their chances with their interpretation of the 1981 law. Having now lost the battle in the Michigan Legislature, petitioners wished to continue the war in court. Losing a political skirmish, however, in itself creates no ground for constitutional relief.