Woodward on Legal Uncertainty and Aberrant Contracts

William J. Woodward Jr. (Santa Clara Law School) has posted Legal Uncertainty and Aberrant Contracts: The Choice of Law Clause on SSRN.

Legal uncertainty about the applicability of local consumer protection can destroy a consumer's claim or defense within the consumer arbitration environment. What is worse, because the consumer arbitration system cannot accommodate either legal complexity or legal uncertainty, the tendency will be to resolve cases in the way the consumer's form contract dictates, that is, in favor of the drafter. To demonstrate this effect and advocate statutory change, this article focuses on fee-shifting statutes in California and several other states. These statutes convert very common one-way fee-shifting terms (consumer pays business's attorneys fees if business wins but not the other way around) into two-way fee-shifting provisions (loser pays winner's fees in all cases). As written, these statutes level the lopsided playing field created by the drafter and, indeed, may give consumers access to lawyers in cases where their claims or defenses are strong. But choice of law provisions, found in the same consumer forms, introduce near-impenetrable uncertainty into the applicability of those same statutes, thereby reducing or eliminating the intended statutory benefits. Statutory change is needed to restore the intended benefits of the otherwise applicable fee-shifting statutes (and of other local consumer protection similarly degraded by drafters' choice of law clauses); the article concludes by presenting a roadmap for state statutory reform.